HM Treasury

Annual Report and Accounts 2018-19

HC 2495

July 2019

HM Treasury

Annual Report and Accounts 2018-19

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Annual Report presented to the House of Commons by Command of Her Majesty

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This is part of a series of departmental publications which, along with the Main Estimates 2019-20 and the document Public Expenditure: Statistical Analysis 2019, present the government's outturn for 2018-19 and planned expenditure for 2019-20.

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CORRECTION SLIP

Title: HM Treasury Annual Report and Accounts 2018-19: This document provides a comprehensive account of the Treasury Group's use of resources and information about the Treasury's core activities. It also describes the Treasury's performance and achievements against the departmental business plan.

This correction slip replaces two typographical and one formatting error in the document. Namely:

1) *Voted Outturn compared with Voted Estimate Saving/ (Excess): Total Resource on page 91;*
2) *Overview of my audit approach – on page 114; and*
3) *Group 2018-19: Net gains recognised in year on page 152*

Session: 2017/2019

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ISBN: 978-1-5286-1474-0

Correction 1:

Text currently reads (page 91):

In £000	Note	2018-19 Estimate Voted	Estimate Non-Voted	Estimate Total	Outturn Voted	Outturn Non-Voted	Outturn Total	Voted Outturn compared with Voted Estimate Saving/ (Excess)	2017-18 Outturn Total
Departmental Expenditure Limit									
Resource	SoPS 1.1	254,540	7,300	**261,840**	238,999	6,998	**245,997**	15,541	**225,841**
Capital	SoPS 1.2	181,190	-	**181,190**	167,136	-	**167,136**	14,054	**(78,311)**
Annually Managed Expenditure									
Resource	SoPS 1.1	11,218,718	3,859	**11,222,577**	(15,282,536)	4,267	**(15,278,269)**	26,501,254	**(678,666)**
Capital	SoPS 1.2	(8,527,050)	-	**(8,527,050)**	(12,998,111)	-	**(12,998,111)**	4,471,061	**(3,696,566)**
Total Budget		**3,127,398**	**11,159**	**3,138,557**	**(27,874,512)**	**11,265**	**(27,863,247)**	**31,001,910**	**(4,227,702)**
Total Resource		11,473,258	11,159	**11,484,417**	(15,043,537)	11,265	**(15,032,272)**	26,516,757	**(452,825)**
Total Capital		(8,345,860)	-	**(8,345,860)**	(12,830,975)	-	**(12,830,975)**	4,485,115	**(3,774,877)**
Total		**3,127,398**	**11,159**	**3,138,557**	**(27,874,512)**	**11,265**	**(27,863,247)**	**31,001,910**	**(4,227,702)**
Net Cash Requirement	SoPS3			**(6,261,473)**			**(9,447,596)**	3,186,123	**(16,060,448)**
Administration costs				**190,142**			**186,114**	4,028	**165,236**

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Date of correction: 4 July 2019

Correction 2

Text currently reads (page 114):

The areas of focus were discussed with the Audit and Risk Committee; their statement on matters that they considered to be significant to the financial statements is set out in the Governance Statement.

- In this year's report the following changes have been made compared to my prior year's report to the significant risks identified under ISA (UK) 315: The key audit matter and significant risk on loan loss impairment provision assumptions in 2017-18 related to the measurement of loan loss impairment under IAS 39. I have identified a similar key audit matter for 2018-19 within the key audit matter, Valuation of UK Asset Resolution (UKAR) assets. This covers the measurement of the expected credit loss allowance on loans as a result of the implementation of IFRS 9, and the measurement of Fair Value due to Loans to Banking Customers meeting the criteria to be held at Fair Value through Other Comprehensive Income (FVtOCI);

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Date of correction: 4 July 2019

Correction 3:

Text currently reads (page 152):

9. Gain on disposal of assets in the SoCNE

	Core Treasury and Agencies		Group	
In £m	2018-19	2017-18	2018-19	2017-18
Net transfer from reserves and recognised as income in year	-	(414)	(96)	(414)
Net gains recognised in year	-	(13)	(346)	(44)
Total gains on disposal of assets	**-**	**(427)**	**(452)**	**(458)**

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Preface

About this Annual Report and Accounts

This document integrates performance and financial data with analysis to help readers gain a better understanding of the work of the Treasury and how it spends taxpayers' money to deliver the government's economic and fiscal policies. It covers the activities of the Treasury from April 2018 to March 2019 (inclusive), and is split into 4 main sections:

- the **Performance Report** includes a summary of progress and key milestones achieved during 2018-19 (the Performance Overview), followed by a deeper dive into the department's achievements over the year against each of the 3 policy objectives and the Treasury's own corporate objective (the Performance Analysis)
- the **Accountability Report** is further split into 3 sub sections and includes: a Corporate Governance Report where the Treasury's Directors report on the operating structure of the department and important transparency matters such as conflicts of interest and whistle blowing. It also includes a statement of the Accounting Officer's responsibilities, and a Governance Statement on how the Treasury manages risk; a Remuneration and Staff Report setting out an open account of the pay and benefits received by ministers, executive and non-executive members of the Board, disclosures on Treasury's pay and pensions policies, and details of staff numbers and costs; and a Parliamentary Accountability and Audit Report allowing readers to understand the department's expenditure against the money provided to it by Parliament by examining the Statement of Parliamentary Supply. A copy of the audit certificate and report made to Parliament by the head of the National Audit Office setting out his opinion on the financial statements is also included in this section
- the **Financial Statements** show the Treasury Group's income and expenditure for the financial year, the financial position of the department as of 31 March 2019, and additional information designed to enable readers to understand these results
- the **Trust Statement** provides a record of fine income collected by Treasury on behalf of government during the financial year.

Contents

Foreword by the Exchequer Secretary to the Treasury

This is my second foreword to the Treasury's annual report and accounts and it is my pleasure to highlight some of the achievements of the last year. And those achievements should be set in the context of significant uncertainty. The UK is embarking on a technological revolution that will transform the way we live and work, and the organisation of our society and our economy, whilst simultaneously preparing for life outside the European Union. It is the duty of this Government to ensure the prosperity of the UK through the market economy and prudent management of our public finances.

We build on strong foundations. Our economy is fundamentally sound; employment is at a record high; investment spending, goods exports and, at last, real wages are all rising. But we are not complacent. We continue to invest in infrastructure, which is not just an investment in bricks and mortar but in productivity and growth. The National Infrastructure Committee (NIC) was established in 2015 to provide the government with impartial, expert advice on major long-term infrastructure challenges. The NIC published the first National Infrastructure Assessment in July 2018, which made over 50 recommendations to government following extensive consultation. At Spring Statement, the Chancellor confirmed that the Government will respond in full to the NIA in the National Infrastructure Strategy later in 2019.

The infrastructure we develop needs to be adaptable to fast growing technological change; from autonomous vehicles, to electric cars, to new forms of broadband. We must be nimble as well as far sighted. That is why the Chancellor increased the National Productivity Investment Fund to £37 billion at Budget 2018. The increase will be used to unlock more new homes in high demand areas; boost funding for local travel, announcing a further £770 million for the Transforming Cities Fund, creating a £90 million Future Mobility Zones fund and providing £675 million for a Future High Streets Fund; and to ensure no area is left behind in the transition to full fibre broadband. To support new technologies, the Budget announced the allocation of £1.6 billion to support the development of cutting edge technologies which back the Government's Industrial Strategy such as quantum computing, Artificial Intelligence, digital manufacturing and nuclear fusion. And we continue to create an environment that encourages further investment, by keeping corporation tax low and extending tax reliefs for knowledge intensive firms.

Ten years on from the financial crisis, we have come a long way in fixing the public finances. Our programme of returning financial sector assets to the private sector is well advanced. In 2018-19 UK Asset Resolution (UKAR) completed a £5.3 billion sale of B&B loans, the second of two sales that enabled B&B to repay its £15.65 billion debt to the Financial Services Compensation Scheme (FSCS) and, in turn, the corresponding loan from the Treasury. UKAR also completed two further sales in

2018-19: the first an c.£940 million sale of NRAM and B&B equity release mortgages, completed in October 2018; and the second a c.£61 million sale of NRAM and B&B commercial loans, completed in March 2019. Finally, UKAR executed a £4.9 billion sale of NRAM mortgages and loans in March 2019. Financial completion took place in April 2019.

The Treasury has grown to approximately 1,450 staff in the past year to meet the challenge of leaving the EU while continuing to deliver on the four objectives of its Single Departmental Plan. Within this it is important to note its continuing progress on diversity and inclusion, and the sustained levels of positive engagement of staff during a time of significant change is something that it should be very proud of.

As we prepare for the UK's exit from the EU, and the upcoming Spending Review the role of the Treasury is crucial. I am confident that the Treasury will continue to build on its proud history of providing excellent support to Ministers as we move into 2019-20. And as we look to the future, we will continue to deliver for an open and outward-looking Britain, where the market economy has evolved and adapted to deliver prosperity for all and the innovators, the entrepreneurs and the self-starters are able to thrive.

Robert Jenrick
Exchequer Secretary to the Treasury

27 June 2019

Chapter 1
Performance Report

Performance overview

The Treasury is the government's economics and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

The department has a very broad remit, and its work touches every UK citizen as it covers public spending policy (including departmental spending, public sector pay and pensions, annually managed expenditure and welfare policy, and capital investment); financial services policy (including banking and financial services regulation, financial stability, and ensuring competitiveness in the City); strategic oversight of the UK tax system (including direct, indirect, business, property, personal tax and corporation tax); and ensuring the economy is growing sustainably.

Led by The Rt Hon Philip Hammond MP, Chancellor of the Exchequer, the Treasury is committed to taking a balanced approach, reducing the deficit and getting debt to fall while investing in Britain's future; spending taxpayers' money responsibly while creating a simpler, fairer tax system; and creating stronger and safer banks while improving regulation of the financial sector and making it easier for people to access and use financial services.

The Chancellor of the Exchequer is supported by his ministerial team: Rt Hon Elizabeth Truss MP (Chief Secretary), Jesse Norman MP (Financial Secretary[1]), Robert Jenrick MP (Exchequer Secretary) and John Glen MP (Economic Secretary).

In order to achieve these goals, the Chancellor set the department 3 objectives for 2018-19:

- placing the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services
- ensuring the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU
- increasing employment and productivity, and ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU.

An engaged workforce of around 1,500 people enable the Treasury to operate as a high-performing organisation. As part of their commitment to continued corporate

[1] Jesse Norman MP was appointed as Financial Secretary to the Treasury on 23 May 2019. Mel Stride MP was Financial Secretary to the Treasury for the period 12 June 2017 to 22 May 2019.

progress, the department's Executive Management Board has set a corporate objective: building a great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence.

Key issues and risks

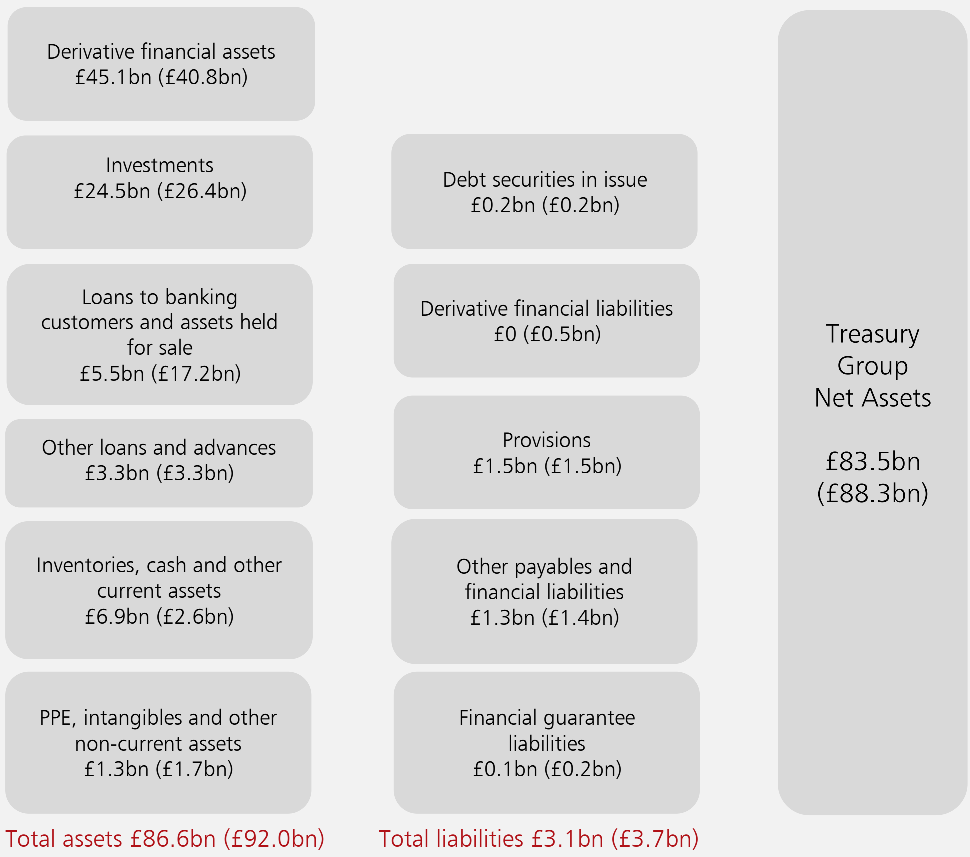
The Treasury faces a range of risks in its dual role as the UK's economics and finance ministry and a central government department and employer. The risks faced are diverse in nature and severity, and will sometimes be determined by external forces over which the department may have influence but no control.

As the government's economics and finance ministry, the department must react to events in the global and UK economy, and ensure the sustainability of the public finances. As a central government department and employer, the department must ensure its budget is allocated appropriately in order to meet its objectives and must act to ensure value for money and to deliver on its duty of care to staff and others.

Over the course of the year, the Executive Management Board and directors have actively considered such risks as part of the Treasury's Risk Management Framework. This Framework enables the identification and management of risks to the department's four strategic objectives, as set annually in the Single Departmental Plan (SDP) and set out in the Performance Analysis. The Key Performance Indicators used to assess performance against these objectives are set out below. The Governance Statement provides further detail.

The Treasury's finances

Treasury Group Financial Position as at 31 March 2019 (31 March 2018)[2]

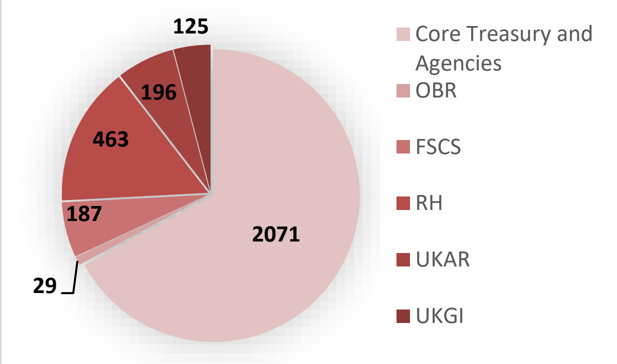


Treasury Group financial performance in 2018-19

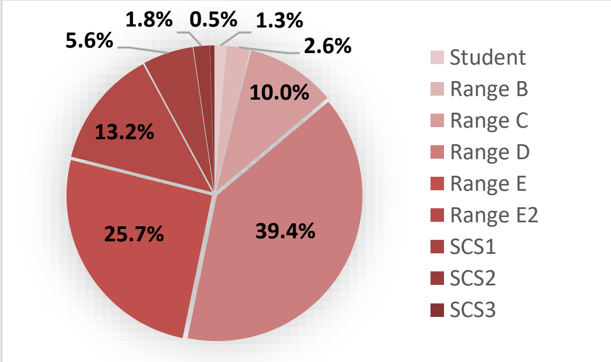
In £m	2018-19 Estimate	2018-19 Outturn
Resource DEL	262	246
Resource AME	11,223	(15,278)
Capital DEL	181	167
Capital AME	(8,527)	(12,998)

2 Further information on the Treasury Group's Consolidated Statement of Financial Position can be found in the Financial Statements in Chapter 3. Prior year (2017-18) comparatives are shown in brackets.

Treasury Group average number of persons employed 2018-19[3]



Core Treasury grade split at 31 March 2019



Treasury key performance indicators April 2018 – March 2019

Public sector net debt (PSND) as a percentage of GDP

This is a stock measure of the public sector's net liability position i.e. its liabilities minus its liquid assets. It is broadly the stock equivalent of public sector net borrowing, but measured on a cash rather than an accrued basis. It is also the fiscal measure used for the government's supplementary fiscal target. PSND is the key measure of the country's overall debt.	The government's fiscal mandate is supplemented by a target for PSND as a percentage of GDP to be falling in 2020-21. The government met this target in 2017-18, three years early. Public sector net debt peaked at 85.1% of GDP in 2016-17 and fell in both 2017-18 and 2018-19. The latest Office for Budget Responsibility (OBR) Economic and Fiscal Outlook shows that debt is forecast to fall continuously, to 73.0% of GDP in 2023-24. *Source*: Office for National Statistics Public Sector Finances and Office for Budget Responsibility

Cyclically-adjusted Public Sector Net Borrowing (CAPSNB) as a percentage of GDP

Cyclically adjusted PSNB is a measure of the level of borrowing if the economy was operating at full capacity (e.g.	The government's fiscal mandate is to reduce cyclically adjusted borrowing to below 2% of GDP by 2020-21.

[3] Throughout this document the term 'Core Treasury and Agencies' includes the following Agencies: the UK Debt Management Office (DMO), the Government Internal Audit Agency (GIAA) and the National Infrastructure Commission (NIC).

adjusting for the current position in the economic cycle).	This target was met in 2018-19, two years early. In March the OBR forecast that CAPSNB would be reduced to 0.5% of GDP in 2023-24. *Source:* Office for Budget Responsibility

Public sector net borrowing (PSNB) as a percentage of GDP	
The difference between total public sector receipts and expenditure on an accrued basis each year. As the widest measure of borrowing it is a key indicator of the fiscal position. PSNB is the headline measure of 'the deficit'.	The government's fiscal objective is to return the public finances to balance in the middle of the next decade. Since 2010, the government has reduced PSNB by more than four-fifths. It has fallen from 9.9% of GDP in 2009-10 to 1.2% of GDP in 2018-19, and is forecast by the OBR to fall to 0.5% of GDP in 2023-24. *Source*: Office for National Statistics and Office for Budget Responsibility

Gross Domestic Product (GDP)	
GDP shows the total value of all goods and services an economy produces. GDP growth is the main indicator of economic activity	GDP grew by 1.4% in 2018. At the 2019 Spring Statement the OBR forecast the UK's economy to grow by 1.2% in 2019 and 1.4% in 2020. *Source:* Office for National Statistics and Office for Budget Responsibility

CPI inflation	
The rate of inflation shows the average change in the prices of goods and services bought by households.	CPI inflation was 2.5% in 2018, down from 2.7% in 2017. The OBR forecasts that CPI inflation will gradually move to the 2% target through 2019, and remain around target across the remainder of the forecast period. *Source:* Office for National Statistics and Office for Budget Responsibility

UK employment rate	
This shows the headline measure of progress on employment.	In the 3 months to the end of February, the UK employment rate (16-64) remained at a record high of 76.1%. As of the latest comparable data (Q4 2018) the UK has the third highest employment rate (15-64) in the G7 (74.9%) after Germany (76.0%) and Japan (77.3%). *Source:* Office for National Statistics and OECD

Business investment as a share of GDP	
Business investment as a share of GDP affects the UK's productivity and the long-term sustainable growth rate.	Business investment totalled £189.0 billion in 2018. This was 9.3% of GDP. In 2018, business investment decreased by 0.9per cent. The OBR have revised down their 2019 forecast for business investment to -1.0%. They forecast it to recover however, and rise to 2.3% in 2020. *Source:* Office for National Statistics

Growth in output per hour	
Growth in output per hour is the main indicator of productivity growth.	Productivity growth has slowed globally since the financial crisis, but in the UK the slowdown has been more acute: slowing from an average rate of 2.2% a year in the decade before the crisis to just 0.5% since the crisis. *Source:* Office for National Statistics

Snapshot of Treasury activity in 2018-19

April

- 69,000 first-time buyers have benefited from the abolition of stamp duty land tax on properties under £300,000 since introduction
- £5.3 billion sale of Bradford & Bingley mortgages authorised
- Chancellor speech at the Commonwealth Heads of Government Meeting 2018
- Changes to tax comes into effect, such as the Soft Drinks Industry Levy and changes to income tax and the National Living Wage

May

- Treasury's Single Departmental Plan 2018-19 published
- Professor Jonathan Haskel appointed to the Monetary Policy Committee
- Chancellor speech at the European Business Summit 2018
- Chancellor speech at the CBI Annual Dinner 2018
- Cryptoassets Taskforce meets for the time

June

- Transaction to sell £2.5bn worth of RBS shares
- Prime Minister sets out the 5-year NHS funding plan where the NHS will receive increased funding of £20.5 billion per year by the end of 5 years which will support a 10-year long-term plan
- Chancellor's Mansion House speech
- Chancellor visit to Mumbai to showcase London as the best place for investors to raise funding
- UK ratifies global treaty to tackle illegal tobacco trade
- Professor Julia Black and Jill May appointed to the Prudential Regulation Committee
- Andy King and Bronwyn Curtis OBE appointed to the Office for Budget Responsibility
- Chancellor approves a new financial relationship between the Treasury and the Bank of England

July

- Funding from EU programmes guaranteed until end of 2020
- Chancellor visit to Saudi Arabia to promote the Vision 2030 Reform Plan
- HM Treasury response to the 2017 Fiscal Risk Report
- Economic Secretary speech at the Green Finance Summit

August

- 3rd UK-Brazil Economic and Financial Dialogue
- Government announcement that 420,000 got on the housing ladder with the Help to Buy scheme
- Additional £780 million funding for world-leading researchers and entrepreneurs to be delivered through Government departments

September

- Sale of £860 million equity release mortgage portfolio owned by Bradford & Bingley and NRAM Limited authorised
- Treasury launch review into barriers for women in business

October

- 2018 Budget

- Chancellor announced package of measures to support business to boost skills, growth and prosperity in the new economy
- Chancellor announces alcohol duty freeze for another year
- New £50 note unveiled

December

- Financial Action Task Force report ranks UK top spot in fight against illicit finance
- £1.4 billion rescue plan announced for Crossrail
- More than £2 billion funding awarded to departments for Brexit preparation
- Graham Lowe appointed as Non-Executive Chair of the Royal Mint
- Chancellor's speech at the Bloomberg Global Regulatory on emerging and growth markets

February

- Kathryn Cearns OBE appointed as new Chair of the Office of Tax Simplification
- Almost half a million completions taken place since 2013 using one or more of the government's Help to Buy schemes
- Finance Bill 2018-19 receives Royal Assent
- Jill Lucas appointed as a NS&I Non-Executive Director
- Economic Secretary speaks at the PIMFA Wealth of Diversity Conference 2019

November

- Government publish 2018 National Infrastructure and Construction Pipeline

January

- Chancellor signs the UK-Swiss Direct Insurance Agreement
- Chancellor's speech to CBI business leaders in Davos, announcing £100 million investment for research and technology
- New government taskforce to tackle economic crime
- Pensions cold-calling ban comes into effect
- New pound coin roll-out to British overseas nations
- Dame Colette Bowe and Dame Jayne-Anne Gadhia appointed to the Financial Policy Committee

March

- 2019 Spring Statement
- £100 million funding for police to tackle violent crime
- £260 million announced for the Borderlands Growth Deal
- Chief Secretary Onward speech on the Spending Review
- Temporary tariff regime for no deal Brexit published
- 'Unlocking Digital Competition' (Furman Review) published
- Biggest ever increase to National Living Wage comes into effect from 1 April 2019
- Treasury provides £1.2 billion capital injection to the Bank of England's balance sheet
- Sale of £4.9 billion of Northern Rock Asset Management mortgage assets

Performance analysis

Objective 1: Place the public finances on a sustainable footing

Lead minister:	**The Rt Hon Philip Hammond MP**, Chancellor of the Exchequer
Lead officials:	**James Bowler**, Director General, Public Spending **Clare Lombardelli**, Director General, Chief Economic Advisor **Beth Russell**, Director General, Tax and Welfare
KPIs:	PSND as a percentage of GDP CAPSNB as a percentage of GDP PSNB as a percentage of GDP
Arm's length bodies that support Objective 1:	
UK Government Investments (UKGI) UKGI began operating on 1 April 2016 as a government company and is wholly owned by HM Treasury. UKGI is responsible for managing the government's financial interest in a range of state-owned businesses.	Government Internal Audit Agency (GIAA) GIAA was officially launched on 1 April 2015, and provides assurance to Accounting Officers that financial management practices meet required standards.
Office for Budget Responsibility (OBR) Created in 2010 to provide independent and authoritative analysis of the UK's public finances, the OBR is an Executive Non-Departmental Public Body (NDPB) sponsored by the Treasury.	UK Asset Resolution (UKAR) UKAR is the holding company established in October 2010 to bring together the businesses of Bradford & Bingley plc (B&B) and NRAM Limited (formerly part of Northern Rock).
Debt Management Office (DMO) Established as an Executive Agency of the Treasury in 1998, the DMO's responsibilities include debt and cash management for the UK government,	

lending to local authorities and managing certain public sector funds.	

Delivering the government's fiscal mandate

The government is committed to the fiscal rules set out in the Autumn Statement 2016. These rules include an overall objective to return the public finances to balance by the middle of the next decade, as well as two interim targets: i) to reduce the cyclically adjusted deficit to below 2% of gross domestic product (GDP) by 2020-21, and ii) to ensure that public sector net debt is falling as a share of GDP in 2020-21.

These fiscal rules, set out in the Charter for Budget Responsibility in the 2016 Autumn Statement, strike the right balance between reducing the deficit to return the public finances to a sustainable position, preserving flexibility to support the economy if necessary in the near term and investing in the future of the UK. By targeting a cyclically adjusted deficit this policy allows the automatic stabilisers to operate in the short-term to support the economy if necessary, while providing greater certainty for tax and spending policies.

It is important that the government begins reducing debt to more sustainable levels in order to ensure that the public finances remain robust and build resilience to future shocks. To this end, during 2018-19 the department continued prioritising spending control within the public sector, providing oversight of major public service expenditure, delivering the 2015 Spending Review and working with the devolved administrations on tax and spending issues.

The Office for Budget Responsibility's (OBR) March 2019 fiscal forecast showed that the government is expected to meet its two interim targets early. Borrowing is forecast to reach a two decade low by the end of the forecast period and debt as a share of GDP is set to fall to 73% by the end of the forecast period.

In 2018-19[4] the government made further progress in reducing the deficit as a percentage of GDP. Between 2017-18 and 2018-19 it has fallen from 2.0% to 1.2%. This means that the government has reduced the deficit by more than four fifths, from 9.9% in 2009-10.

Fiscal transparency and risk management

The Treasury remains committed to improving the UK's already high levels of fiscal transparency. The OBR has now been producing independent economic and fiscal forecasts for nine years, while also producing a number of reports that fulfil its duty to examine and report on the sustainability of the public finances. In 2016 the Prime Minister asked the International Monetary Fund (IMF) to conduct a Fiscal Transparency Evaluation of the UK. The IMF stated that the UK "scores very highly when compared to other countries that have, to date, undergone the assessment" including meeting "an unprecedented 23 principles at the advanced level".

The OBR published its first Fiscal Risks Report (FRR) on 13 July 2017 in accordance with the 2015 revisions to the Charter of Budget Responsibility. The report

[4] Office for National Statistics, March 2019 Public Finances bulletin, published 24 April 2019

highlights the key risks to the public finances over a medium (five year) and long-term (50 year) horizon. It includes chapters on risks from the macroeconomy, financial sector, receipts and spending, the balance sheet and debt interest, as well as a fiscal stress test showing the combined impact of several risks materialising at once.

Its publication in July 2017 put the UK at the forefront of international practice in fiscal risk disclosure and management. The IMF said that the FRR "raises the bar on the assessment and quantification of fiscal risks to a new level that other countries should look to meet".

In response to the FRR 'Managing fiscal risks' (MFR) was published in July 2018. MFR provides a comprehensive account of the actions the government is taking to address the risks identified by the OBR.

This report provides a mechanism for Parliament and the public to assess the adequacy of the government's strategies for managing these risks and hold it to account for their implementation. With the publication of this report, the UK set a new global standard not only for the disclosure of fiscal risks but also for their active management.

Government Finance Function

HM Treasury plays a critical role in leading the work of the Government Finance Function, building on the success of the Financial Management Reform (FMR) programme. The functional vision that "We put finance at the heart of decision making. Driving the agenda, not just keeping score" is supported by six functional objectives:

1) Getting the basics right: Standards & policies, guidance and best practice e.g. good forecasting, reporting, robust data, efficient transaction processing, management of risk

2) People & capability: A high performing and diverse function, with great people in the right roles with the right skills

3) Operating model: A modern, collaborative finance function that delivers quality services more effectively and efficiently

4) Insight: An informed function, with a clear understanding of what we get for our money, using insight to drive value for money

5) Trusted advisor: The 'go-to' advisor for colleagues to provide expert advice and informed decision making

6) Planning, risk & performance: Driving a strong culture of planning, risk & performance with integrated financial and business planning, aligned with robust risk and assurance

These objectives incorporate the aims of the FMR programme and align to the Cabinet Office led Functional Leadership Agenda.

The specialist financial expertise provided by the Function is primarily concentrated within departments, with a Treasury led functional centre driving consistency and improvements to the way the function operates. The functional centre works alongside spending teams and other finance teams in HMT to support the Head of the Government Finance Function and the DG for Public Spending in the joint leadership of the function.

The Function facilitates regular dialogue between HMT public spending and departments through the Finance Leadership Group (FLG) co-chaired by the Head of the Government Finance Function and the DG for Public Spending. In addition, a sub-group of finance directors from FLG has been established to work closely with HMT in the run-up to the Spending Review to ensure alignment and a joined-up approach.

HMT has taken steps to formalise and strengthen the centre for the Government Finance Function to ensure there are dedicated resources to deliver the objectives. This progress has enabled the Function to deliver tangible value in a number of areas:

- Standing teams in HMT continue to deliver data driven insights in cross-cutting areas of public spending that help build capability across Whitehall
- The People & Capability team lead on talent management, recruitment and professional development through the Government Finance Academy (GFA)
- The Function continues to work closely with the Cabinet Office on embedding and developing Single Departmental Plans to support improved financial planning across government. This is interlinked with the planning maturity model, which helps departments self-assess their planning capability and identify areas for development.

Objective 2: Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable growth

Lead minister:	**The Rt Hon Philip Hammond MP**, Chancellor of the Exchequer
Lead officials:	**Mark Bowman**, Director General International and EU **Katharine Braddick,** Director General Financial Services **Clare Lombardelli**, Chief Economic Adviser
KPIs:	GDP CPI inflation
Arm's length bodies that support Objective 2:	
The Bank of England The Bank of England has specific statutory responsibilities for setting monetary policy, protecting and enhancing financial stability, and subject to those, to support the economic policy of the Government, including its objectives for growth and employment. It is operationally independent from the Treasury.	Financial Services Compensation Scheme (FSCS) The FSCS is a single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it. It is operationally independent from the Treasury.

Macroeconomic stability

In line with the Bank of England Act 1998 (as amended by the Financial Services Act 2012), the Chancellor published the Financial Policy Committee (FPC) remit and recommendations, and the Monetary Policy Committee (MPC) remit in the 2018 Autumn Budget. Alongside the publication of the FPC remit and recommendations, recommendations were made to the Prudential Regulation Committee (PRC) and the Financial Conduct Authority (FCA), while continuing to respect the independence of these key institutions. The government is legally required to set out its economic policy within each of the published remits. The Chancellor stated at the 2018 Autumn Budget, within the MPC's remit and FPC's remit and recommendations, the government's economic objective continued to be strong, sustainable and balanced growth.

The Chancellor re-confirmed the inflation target within the MPC remit as 2 per cent as measured by the 12-month increase in the Consumer Prices Index (CPI). He also set out the priorities for the FPC, whose primary objective is to monitor and remove systemic risks to protect and enhance financial stability, working with the PRA and FCA where needed. He asked that the FPC have regard to the impact of their policies on the government's economic strategy and to seek to support the relevant elements where appropriate. The letters to the PRC and FCA set out the government's priorities for financial services (e.g. competitiveness and innovation) and asked that the PRC and FCA consider the impacts on these priorities as part of their assessment of the costs, burdens and benefits of potential rules or policies.

As part of the move to a single fiscal event each year, the annual remits for the Bank's Financial Policy Committee and Monetary Policy Committee will be reaffirmed in Autumn Budgets.

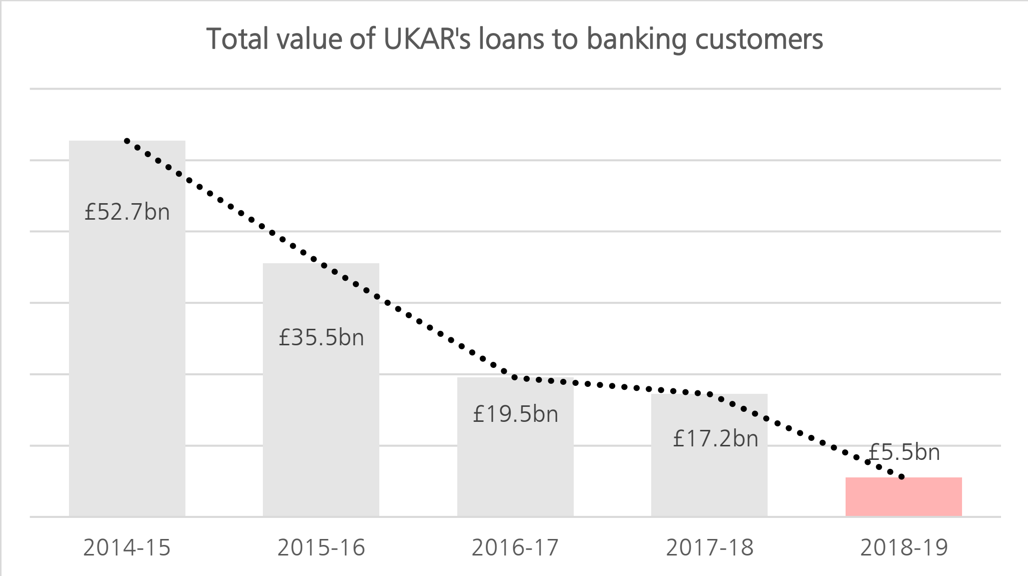
Financial stability and structural reform

During 2018–19, the Treasury continued its work with the PRA and FCA to ensure that UK banks became ring-fencing compliant. All banks within scope largely completed the necessary restructuring of their operations by summer 2018 and the regime came into force on 1st January 2019. Ring-fencing requires the largest UK banks to separate into a ring-fenced (retail) bank and a non-ring-fenced (investment) bank. It will increase financial stability by insulating core banking services from shocks originating elsewhere in the global financial system, and by ensuring that a ring-fenced bank can keep running even if the non-ring-fenced bank cannot. It will also make banks that provide these essential services simpler, making it easier for the Bank of England to take action to restructure them if they do fail, without the costs of failing banks falling on taxpayers.

On 21 June 2018, the Treasury published a new Memorandum of Understanding, setting out the financial relationship between the Treasury and the Bank of England, including a new capital and income framework under which the Bank will now operate. This agreement reinforces the Bank's independence and resilience, provides greater transparency concerning the Bank's finances, and reinforces the stability of the UK's financial system.

Sale of financial sector assets from the government's interventions in the 2008-09 financial crisis

During 2018-19 the Treasury made further progress in returning financial sector assets acquired in 2008-09 to the private sector. In the 2018 Autumn Budget, the government announced that it expects to divest the remaining Bradford & Bingley (B&B) and NRAM (formerly part of Northern Rock) assets by March 2020, subject to achieving value for money and market conditions remaining supportive. In 2018-19 UK Asset Resolution (UKAR) completed a £5.3 billion sale of B&B loans, the second of two sales that enabled B&B to repay its £15.65 billion debt to the Financial Services Compensation Scheme (FSCS) and, in turn, the corresponding loan from the Treasury. UKAR also completed two further sales in 2018-19: the first an c.£940 million sale of NRAM and B&B equity release mortgages, completed in October 2018; and the second a c.£61 million sale of NRAM and B&B commercial loans, completed in March 2019. Finally, UKAR executed a £4.9 billion sale of NRAM mortgages and loans in March 2019. Financial completion took place in April 2019.



*Includes assets held for sale

Following further progress made by Royal Bank of Scotland (RBS) in resolving its legacy issues, the government undertook a second sale of RBS shares in June 2018. 925 million shares were sold, which raised over £2.5bn for the taxpayer and reduced the government's shareholding to 62.1% by the end of March 2019. At Autumn Budget 2018, the government set out its intention to undertake a full disposal of the RBS shareholding by 2023-24, subject to market conditions and achieving value for money.

On 12 October 2018, RBS paid a dividend of 2p per share (its first dividend following recapitalisation by the government in 2008-09) resulting in a £150m payment to the government. In February 2019, at its full year results, RBS announced dividends of 3.5p (Ordinary) and 7.5p (Special) per share. A dividend of £826m was paid to HM Treasury in April 2019, which was based on the government's shareholding as of 22 March 2019.

Europe

During 2018-19 the Treasury continued to work closely with the Department for Exiting the European Union (DExEU) and other departments across government on preparing for the UK's exit from the EU and to support the government's objective of building a deep and special partnership with the EU after the UK has left.

In November 2018, UK and EU negotiators successfully agreed commitments for working towards a future framework in financial services, as set out in the draft Political Declaration. These commitments touch on the full spectrum of the UK's White Paper position, published on 12 July 2018. Both parties intend to take decisions on granting equivalence before the end of June 2020. The joint position also includes establishing processes to ensure close cooperation on regulatory and supervisory matters. This will help to preserve financial stability, market integrity and investor protection.

The department has also progressed appropriate and proportional no deal contingency plans.

The Treasury worked closely with the Department for International Trade to develop a no deal tariff policy in case the UK does not ratify the withdrawal agreement with the EU. This involved developing an independent trade policy for the first time in over forty years. The temporary tariff policy was published on 13 March 2019 and would last for up to 12 months in the event of a no deal exit. The policy strikes a balance between the impacts on consumers and producers.

HM Treasury has laid a package of 52 Financial Services EU Exit SIs, ensuring that necessary financial services legislation was in place in the event of a no deal exit on 29th March. HMT has laid and made two further SIs; the first of which legislates for the counter-terrorism sanctions regime in a no deal scenario, and the second of which legislates for the EU Budget, and Economic and Monetary policy.

The Sanctions and Anti-Money Laundering Act 2018 (SAMLA) will enable sanctions to continue uninterrupted when the UK leaves the EU by transferring existing EU sanctions into UK law. This will be done through secondary legislation under SAMLA. The majority of necessary 'no deal' Statutory Instruments have been laid in Parliament, and the remainder will be laid before the UK leaves the European Union. On exit day, any sanctions regimes that remain to be addressed through regulations under the Sanctions Act would continue as retained EU law under the EU (Withdrawal) Act 2018 for a short time until the remaining UK legislation can be taken through Parliament.

The Office of Financial Sanctions Implementation (OFSI) currently issues updates and guidance to help businesses and individuals understand and comply with UK financial sanctions. This will continue after the UK leaves the European Union.

HMT also supported the cross-Whitehall effort to ensure that the public had the information needed in order to prepare for a no deal exit. This involved issuing a series of no deal technical notices in the summer and further guidance as part of the public information campaign. HMT published content relating to financial services, sanctions, the European Investment Bank (EIB) and the funding guarantee.

In addition, the Treasury has continued to support ministers and other government stakeholders in the conduct of economic and financial business within the EU, and in ongoing bilateral engagement with European countries. This has included discharging the UK's obligations as an EU Member State in relation to the EU Semester; and governance of the UK's bilateral loan to Ireland, including overseeing the first principal repayment in April.

HM Treasury has also allocated several rounds of funding to help departments and the devolved administrations to prepare for the UK's exit from the EU. The Autumn Budget 2017 committed an additional £3bn over 2018-19 and 2019-20. In addition, in the 2018 Budget, the Chancellor made available an additional £500m for 2019-20. The allocations for 2018-19 and 2019-20 were set out in the Chief Secretary to the Treasury's Written Ministerial Statements of 13 March 2018 and 18 December 2018, respectively.

EU withdrawal: the financial settlement

The financial settlement represents a settlement of the UK's financial commitments to the EU and the EU's financial commitments to the UK, which result from the UK's participation in the EU budget, and other commitments relating to our EU membership. The details of the financial settlement were set out in the Joint Report from the Negotiators of the EU and the UK Government that was published in December 2017. The Joint Report sets out the scope of the EU obligations covered by the settlement and the methodology for calculating the UK's share and a payment schedule.

The Withdrawal Agreement put the financial settlement into legal form, in the context of an overall agreement under Article 50 and the framework for the Future Relationship. It was agreed by the EU member states at the special European Council on Sunday 25 November 2018. Although a definitive value on the financial settlement in relation to the UK's withdrawal from the EU will, by its nature, be dependent on future uncertain events, the Government has set out a reasonable central estimate of the settlement of £35-39 billion.

The National Audit Office (NAO) produced a report (Exiting the EU: The financial settlement) in April 2018 concluding that this was a reasonable estimate. Their report in November 2018 (Exiting the EU: The financial settlement – follow up report) reviewed the revised estimate based on new information that was available, and found it to still be within Government's estimated range. However, both reports contained qualifications about the level of uncertainty over the final amount.

Further information on the financial impact of EU withdrawal is included in Annex E of "European Union Finances 2018: statement on the 2018 EU Budget and measures to counter fraud and financial mismanagement".

International

The government also continued to protect and promote the UK's global interests through engagement with bilateral and multilateral partners.

The Treasury furthered UK international priorities through its influence at the G20, G7 and international financial institutions. This included:

- building on UK expertise to develop the G20 Principles for the Infrastructure Project Preparation Phase – based on the UK's Five Case Model - which support countries in developing financeable infrastructure projects
- hosting a meeting of G20 finance ministries and central banks to discuss how to deliver a strong, sustainable, balanced and inclusive global economy, as part of the Japan's presidency of the G20
- using relevant forums, such as the IMF, G20, G7, World Bank and Paris Club to encourage international action on key challenges facing the global community, such as debt sustainability in low-income countries, digital taxation and financial market fragmentation
- championing global economic benefits of liberalising trade in services at the G20 and IMF
- working with international financial institutions such as the IMF, AIIB and EBRD to take forward UK international economic goals

- defending the multilateral order through agreeing a new capital package for the World Bank and engaging in discussions on the IMF's 15th General Review of Quotas.

The government remains committed to enhancing economic relationships with high-growth emerging markets such as China, India and Brazil.

The Chancellor met his Chinese counterpart, Vice Premier Hu Chunhua in Beijing in June 2018. Through this visit the UK and China deepened cooperation on financial services and trade and investment issues. The government welcomed Vice Premier Hu for the 10th Economic and Financial Dialogue which was held in London in June 2019.

We are looking to hold the tenth UK-India Economic and Financial Dialogue in 2019. The Chancellor travelled to Mumbai for the AIIB Annual Meeting in June 2018 and met his counterpart, interim Minister of Finance of India, Piyush Goyal.

The third UK-Brazil Economic and Financial Dialogue was held in August 2018 in London, between the Chancellor and Finance Minister Guardia. Through the EFD, the UK deepened co-operation with Brazil on financial services, green finance, infrastructure, future trade, and tax, including by progressing discussions over a potential Double Taxation Agreement between the two countries.

Senior officials also engaged in a series of dialogues focusing on co-operation in financial services in key markets, and in the case of Japan, this also included wide-ranging economic talks to build the UK-Japan relationship. The fifth UK-Korea Financial Forum took place in London in June 2018, and focused on policy discussions covering Cryptoassets, financial inclusion, and financial benchmarks. The fourth UK-Singapore Financial Dialogue was held in London in September 2018, and included discussions on Brexit continuity and future regulatory co-operation. The second UK-Japan Financial Dialogue took place in London in December 2018, and included talks focused on multilateral cooperation, domestic and international issues and several financial services areas: Brexit continuity, global regulatory coherence, future regulatory co-operation and Women in Finance. A UK-US Financial Regulatory Working Group was formed in September 2018 to deepen bilateral regulatory cooperation in the financial services sector. The inaugural meeting focused on Brexit continuity and areas for future collaboration, including FinTech.

The Financial Services Trade and Investment Board (FSTIB) published its 2018 Annual Report in February 2019. Chaired by HM Treasury, the FSTIB is tasked with informing the government's financial services trade and investment priorities, and supporting UK firms to export abroad and attract inward investment from overseas. The Annual Report details progress made in 2018 across the Board's seven work streams: the UK-US, UK-China, and UK-India financial partnerships, as well Capital Markets, Fintech, Investment Management, and Insurance.

Following the successful signing of the UK-Australia FinTech Bridge last year, the first UK-Australia policy working groups were held in July and December 2018. Attended by policy advisers from governments, regulators, trade departments and key figures from industry, this enabled the sharing of FinTech experience in areas including Open Banking, Cryptoassets and banking partnerships. Australia is an important market for UK fintechs seeking to export services to international markets. The sharing of information and policy supports the development of an international response to emerging fintech market trends and regulatory issues, enabling firms to scale and deliver recent technological developments at pace.

The inaugural UK-India joint working group on FinTech was held in February 2019. Announced during Prime Minister Modi's visit to the UK in April 2018, this was attended by policy advisers from UK and Indian governments and regulators. The dialogue focused on Open Banking, the regulatory Sandbox, and India's Payment Stack, and provided valuable insight into the approach to emerging FinTech sector trends in both markets. The discussion identified key objectives that will be addressed through the next India-UK Economic and Financial Dialogue in 2019.

The Financial Action Task Force (FATF) – which is the standards setter for anti money-laundering, counter terrorist financing and other associated threats – has assessed the UK's compliance with the international standards. The UK's report was published in December 2018. The report concluded that the UK has the strongest overall regime of over 60 countries assessed to date (including the many other global financial centres). This marks the culmination of a two-year process led by the Treasury with wide involvement from other departments and agencies. The report makes a number of recommendations on how the UK can strengthen its regime, which will be taken forward through the HM Treasury and Home Office-led economic crime reform programme.

The report identifies key strengths for the UK as: understanding of money laundering and terrorist financing (ML/TF) risks; cooperation domestically and internationally to address these risks; investigation and prosecution of ML/TF; confiscation of illicit proceeds; prevention of misuse of companies and trusts; protection of the non-profit sector from terrorist financing; and implementation of counter-terrorism and counter-proliferation financial sanctions. The report makes recommendations in relation to strengthening supervision by the FCA, HMRC and professional body supervisors' risk-based approach to AML/CTF supervision, and enhancing the use of financial intelligence (such as suspicious activity reports) by the UK Financial Intelligence Unit.

Objective 3: Increase employment and productivity, and ensure strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms

Lead minister:	**The Rt Hon Philip Hammond MP**, Chancellor of the Exchequer
Lead officials:	**Charles Roxburgh,** Second Permanent Secretary **Clare Lombardelli**, Chief Economic Adviser **Beth Russell,** Director General Tax and Welfare
KPIs:	UK employment rate Business investment as a share of GDP Growth in output per hour
Arm's length bodies that support Objective 3:	
National Infrastructure Commission (NIC) The NIC provides the government with impartial, expert advice on major long-term infrastructure challenges. It was established as part of the Treasury in 2015, and became an Executive Agency of the Treasury on 24 January 2017.	Office for Tax Simplification (OTS) Created in 2010 to provide the government with independent advice on simplifying the UK tax system, the OTS is an independent office of the Treasury.

Encouraging long term investment

The 2018 Autumn Budget announced:

- changes to our capital allowances regime to support firms to invest and grow, and strengthen our international competitiveness
- an increase in the National Productivity Investment Fund (NPIF) from £31 billion to £37 billion, supporting investment in key infrastructure and housing supply

- the UK's biggest ever investment in roads, with £28.8bn being spent on the National Roads Fund, which will fund vital improvements to our road network from 2020-21
- £100m to deliver the first phase of the National Retraining Scheme, to give workers and businesses the skills they need in the new economy
- a pensions investment package that aims to better enable defined contribution (DC) pension schemes to invest in patient capital.

The National Infrastructure Commission (NIC) was established in 2015 to provide the government with impartial, expert advice on major long-term infrastructure challenges. The NIC published their first National Infrastructure Assessment (NIA) in July 2018, which set out their assessment of the UK's long-term infrastructure needs. The NIA made over 50 recommendations to the government following extensive consultation.

As announced in the 2018 Budget, the Government will respond in full to the NIA through a National Infrastructure Strategy. In the Spring Statement, the Chancellor confirmed that the Strategy will be published later in 2019, alongside the Spending Review and Autumn Budget.

Supporting a dynamic economy

Dynamic, competitive markets are central to the government's objectives of boosting growth and productivity and ensuring that consumers get a good deal. The Competition and Markets Authority (CMA) is the UK's competition authority, and has a duty to promote competition for the benefit of consumers. The CMA is an independent non-ministerial government department, which is funded directly by HM Treasury and sponsored by the Department for Business, Energy and Industrial Strategy (BEIS). The CMA's most recent impact assessment found that they delivered £17 in direct financial benefits for consumers for every £1 they spend. In Summer 2018, the CMA was allocated additional funding for its move to Canary Wharf, due to complete in September 2019. In January 2019 the CMA was allocated an additional £20m for 2019-20 to cover essential spending on preparations for the CMA's expanded role after EU exit. In Summer 2018 the Chancellor commissioned an independent review into improving competition in the digital economy, which was published at the 2019 Spring Statement.

To support competition and engage with innovative technologies in the Financial Services sector, HM Treasury has focused on delivering the announcements made in the Fintech Sector Strategy, launched by the Chancellor in March 2018. By the end of the reporting year, HM Treasury has worked with key partners to ensure delivery against the announcements made in the strategy, including two Digital Regulatory Reporting pilots aimed at making compliance more efficient and effective, a set of Guidelines to facilitate partnerships between Fintech firms and incumbents, and a report delivered by the Cryptoassets Task Force, which was composed of representatives from HM Treasury, the Financial Conduct Authority and the Bank of England.

HM Treasury, alongside the Competition and Markets Authority and Financial Conduct Authority, has also continued to oversee the roll-out of Open Banking, which is being delivered by the Open Banking Implementation Entity. Open Banking empowers consumers to safely and securely share information with third parties who offer them better, cheaper products, including financial advice and loans. The first Open Banking services went live in January 2018; the programme and additional services are being rolled out through to September 2019.

The UK is home to the world's most international financial centre. Ensuring the UK continues to form strong capital market ties with the world's fastest growing economies is vital to building closer and richer financial relationships with key partners of the future. International bond issuances through London's capital markets are an important channel for achieving this and there have been a number of sovereign issuers choosing London for the first time to list this year.

Recognising the opportunities presented by the global transition to a low carbon economy, the Economic Secretary established and co-convened the Green Finance Taskforce with BEIS minister Claire Perry MP. The taskforce's report, 'Accelerating Green Finance', sets out recommendations to government and industry on scaling up investments in the UK's green economy and ensuring the UK remains the world's leading centre for green finance.

As part of the government's aim to support growing businesses, in response to the Patient Capital Review, the government launched a 10-year action plan in the 2017 Autumn Budget to unlock over £20 billion to finance growth in innovative firms. In 2018, HM Treasury, alongside the British Business Bank, made substantial progress implementing measures, including establishing British Patient Capital – a £2.5bn investment programme - and doubling the Enterprise Investment Scheme (EIS) annual investment limit for knowledge intensive companies and their investors. To build on the action plan's success, at Budget 2018, HM Treasury announced a pensions investment package to better enable Defined Contribution pension schemes to invest in patient capital. Alongside a number of regulatory and other measures, a number of pension schemes will work with the British Business Bank to undertake a feasibility study aimed at developing a blueprint for pooled investment in patient capital.

Government is also backing business by introducing tax incentives to invest, lowering transport costs, supporting our High Streets with a mixture of tax cuts and funding for local improvements, and investing in the fundamental infrastructure and skilled people that businesses need to thrive. At Autumn Budget 2018, the Chancellor announced tax changes to reduce the cost of doing business, and help firms invest, including increasing the Annual Investment Allowance from £200k to £1m, for 2 years, and introducing a permanent Structures and Buildings Allowance to support firms investing in new buildings. We are also increasing the National Productivity Investment Fund from £31bn to £37bn, providing more money for the investment projects with the biggest impacts on growth. And at Spring Statement, the Chancellor took steps to ensure an open and competitive economy, making it easier to recruit and retain overseas researchers and scientists by abolishing the limit on PhD-qualified migrants, and publishing the findings of Professor Jason Furman's ground-breaking independent report to Government on boosting competition in the digital economy.

Boosting the economy in the nations and regions

Over the reporting year HM Treasury, working with others, has continued to deliver on the government's objectives to strengthen the Union and to deliver shared growth and prosperity across the UK.

Scotland

As a result of UK government decisions at Budget 2018, Scotland benefitted from a £950 million boost to the Scottish government's budget alongside further targeted support. This included supporting Scotch Whisky producers by freezing spirits duty for the second Budget in a row, establishing a £10 million UK-wide Fisheries Technology Fund that supports the nearly 5,000 people working in the Scottish fishing sector, and continuing support for the oil and gas sector, through introducing a transferable tax history mechanism, which will remove tax barriers to new investment for oil and gas companies in the North Sea. At Spring Statement 2019, Scotland also benefitted from £79 million for a new "ARCHER 2" supercomputer facility in Edinburgh and the accelerated rollout of full fibre broadband, with the Shetland Islands successfully bidding for £2 million from the Local Full Fibre Networks Challenge Fund.

The UK government has also made progress on city deals in Scotland. This included committing £150 million to allow a Tay Cities Deal to be agreed, £65 million earmarked for Scotland as part of the £260 million investment in the Borderlands Growth Deal, opening negotiations for a Moray Growth Deal, and continuing to support the Ayrshire Growth Deal. In total, the UK government has announced over £1.3 billion of funding for the delivery of city deals in Scotland.

Once the Scotland Act 2016 is fully implemented, more than 50% of the Scottish government's funding will come from revenues raised in Scotland, making the Scottish government more accountable to the people it serves.

Wales

As a result of UK government decisions at Budget 2018, the Welsh government benefitted from a £550 million increase to its budget. This included over £25 million of additional spending power in recognition of relative funding needs in Wales. At Spring Statement 2019, Wales also benefitted from the accelerated rollout of full fibre broadband, with North Wales successfully bidding for £8m from the Local Full Fibre Networks Challenge Fund.

The UK government is continuing to support growth deals in Wales. This included committing £120 million to allow a North Wales Growth Deal to be agreed, and continuing to support the Mid Wales Growth Deal by working with the Welsh government and local partners. This builds on the £615 million UK government has already committed for deals in Wales.

The UK government also continues to support transport infrastructure in Wales. This includes removing tolls on the Severn Crossings from 17 December 2018, supporting the delivery of a new M4 relief road through a review of the Welsh Government's capital borrowing powers at the 2015 Spending Review, and continuing to develop proposals for a number of potential rail schemes within Wales.

From 2019-20, the Welsh government will take on responsibility for Welsh Rates of Income Tax (WRIT). OBR's forecasts at Budget 18 indicated that this will be worth £2bn. The Welsh government's block grant funding will be adjusted to account for the retention of revenues from WRIT.

Northern Ireland

As a result of UK government decisions at Budget 2018, Northern Ireland benefited from a £320 million funding boost to its budget as well as further targeted support. This included providing £2 million for the recovery and regeneration of Belfast city centre following a fire at the Bank Buildings in August, progressing projects worth £300 million for shared and integrated education as part of the government's commitment in the Fresh Start Agreement, and publishing a summary of responses on the impact of VAT and Air Passenger Duty on tourism in Northern Ireland. At Spring Statement 2019, Northern Ireland also benefitted from the accelerated rollout of full fibre broadband by successfully bidding for £15 million from the Local Full Fibre Networks Challenge Fund.

To recognise the lack of opportunity to reform public services over the last 2 years due to the absence of an Executive, Northern Ireland has also received £140 million additional funding and further budgeting flexibilities to support their 2019-20 budget.

The UK government has also made progress on city deals in Northern Ireland. This included committing £350 million for a Belfast City Region Deal, and opening formal negotiations for a Derry/Londonderry and Strabane City Region Deal.

EU Exit

The UK government is making additional funding available so that departments and the devolved administrations can prepare effectively for EU Exit. The devolved administrations are receiving their full share of funding in devolved areas through the Barnett Formula, with Scotland receiving over £37 million, Wales receiving over £21 million and Northern Ireland receiving over £15 million in 2018-19.

Objective 4: Build a great Treasury where staff are professional and expert in the way they work with ministers, stakeholders and with each other, and all staff are valued

Lead minister:	**The Rt Hon Philip Hammond MP,** Chancellor of the Exchequer
Lead official:	**Tom Scholar,** Permanent Secretary

The Treasury's corporate reform programme, Building a great Treasury

Building a great Treasury is the department's change programme which seeks to implement continuous improvement across the department. At the heart of the change programme is an ambition to create a more open, inclusive and diverse department. Informed by staff feedback, the Executive Management Board refresh the priorities and strategic direction of the programme on an annual basis. The work is brigaded under five director-led work streams.

Diversity and inclusion

'Building an organisation that is open to and supports and celebrates people from different backgrounds with different views and different ways of working, in order to become better policy makers and increase the engagement of our staff'

- The Treasury provided inclusive leadership training to all senior staff and support on handling casework, and increased director accountability for diversity through objective setting and business planning
- The department also continued its talent offer for staff in lower grades to support its target of increasing the proportion of SCS staff from underrepresented groups. It also implemented changes to its graduate recruitment programme following a review to identify how it could increase the diversity of the graduate intake
- In addition, the department bolstered its wider outreach and developed a new social media campaign to improve its external branding amongst potential applicants

Openness

'Making us an organisation that is transparent internally, to model a visible and open culture in the workplace, and externally, to ensure the department truly listens and understands public and stakeholders' needs'

- The Treasury has continued its programme of monthly visits across the country to increase engagement and gather views to inform policy making
- Visits are part of a wider programme to embed the use of insights into public opinion within the department, which include producing, analysing

and sharing quarterly polling, media reporting and insights from correspondence

- In addition, the department has executed a wider programme of activities to improve the visibility of its senior leadership, and to create an open culture where staff are more involved in the decisions that affect them

Work-life balance

'Making us an organisation that champions good work-life balance for all staff, encouraging and supporting flexible working'

- The Treasury continues to use an internal quarterly survey of staff to monitor wellbeing and identify the key levers to help improve work-life balance
- Over 2019-20 the department will act on these key levers, promoting smarter working through reinforcing principles for staff wishing to work out of hours, utilising and promoting technology, chairing effective meetings and role-modelling flexible working
- The department will continue to encourage flexible resourcing within Groups to respond effectively to changing priorities

Skills and management excellence

'Embedding the learning and development strategy and improving our management capability'

- The Treasury has launched a new 'learning map' which provides, in one place, an overview of all learning available, with links to more detailed information
- The department has also, for the first time, provided links to learning for each of the key professions/functions represented in the department
- Following a comprehensive review of the department's performance appraisal system, involving consultation across the department, a refreshed approach has been agreed and will be implemented for 2019-20. The changes aim to strengthen the quality and regularity of feedback and embed a stronger coaching approach

Workspace

'Modernising the department's facilities and creating a professional workspace that meets the Treasury's future needs.'

- Treasury staff have promoted better use of technology to enable efficient, inclusive and flexible working, such as adopting virtual meeting rooms, video conferencing and the use of software to save printing
- The Treasury has increased the number of desks and ensured more groups sit together
- In addition, the department has addressed a number of suggestions from the staff survey, such as remodelling the café in 1 Horse Guards Road

Reward and recognition

The Treasury has sought to strike a balance between attracting and retaining our talented employees and the continued sensitivity of the Civil Service pay environment, whilst ensuring our reward strategy is better aligned to its workforce priorities. To achieve this, the department has focused on increasing our current pay ranges to make them more competitive across Whitehall and targeting money to where it is most needed to build a fairer system overall, within the public sector pay policy.

The department has a policy of recognising those staff who have performed exceptionally in their roles through the payment of awards, paid in three circumstances:

- annual performance awards to the top 25 per cent of staff as part of the staff appraisal system
- special non-consolidated awards paid in-year to staff to recognise exceptional performance for specific contributions or pieces of work during the year
- a reward and recognition voucher scheme "Treasury Thanks", introduced in 2017-18, which allows managers to provide instant recognition in the form of low value vouchers, to staff for excellent pieces of work

This is in line with practice across the Civil Service and the private sector. Due to the nature of the performance appraisal system, annual performance awards are paid in the year following the one in which the individual's performance was assessed as exceptional.

The Treasury is also committed to minimising the gender pay gap within the organisation. Like other government departments, Treasury published its second annual report on the gender pay gap in December 2018 (see pages 35 to 36 for further details).

Health, safety and wellbeing

The department actively promotes the health, safety and wellbeing of its staff, which helps to boost morale, staff engagement and performance.

The department has continued to promote health and wellbeing and worked to meet the recommendations made in the Prime Minister's independent review 'Thriving at Work' published in October 2017. An annual sense check was completed against the original plan of actions scoped to provide even better support to all HM Treasury employees including those with mental ill health or poor wellbeing, so they remain in and thrive at work. As part of our work plan of actions the department has:

- 90 of HM Treasury's 115 Senior Civil Servants (as at December 2018) have completed the recommended 'Wellbeing Confident Leaders Training'. We therefore achieved 78% completion in comparison to the Civil Service wide 74%.
- Completed a building fire risk assessment; recommendations made have been and continue to be addressed by the Health, Safety & Wellbeing team along with building facilities management

- Taken action to help prevent the onset of musculoskeletal disorders by carrying out numerous Display Screen Equipment assessments and provided advice on appropriate workstation and chair adjustments

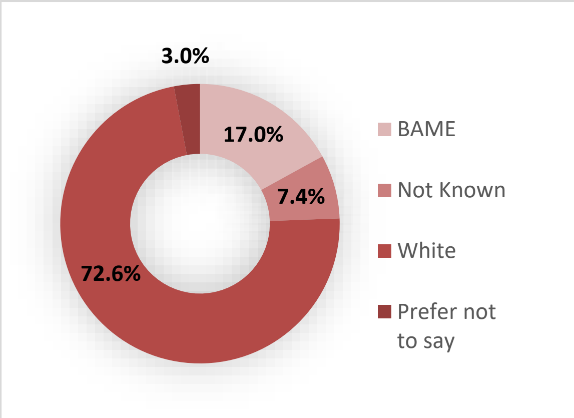
- Continued, in partnership with the staff led Mental Wellbeing Network, to run a quarterly wellbeing 'pulse check' to identify and take action on wellbeing hotspots

- Recorded Accident, Near Miss or Work Related Ill Health reports (10). Two of these accidents were reported to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations. New handrails have been fitted to the main staircase to help prevent further accidents from occurring on steps.

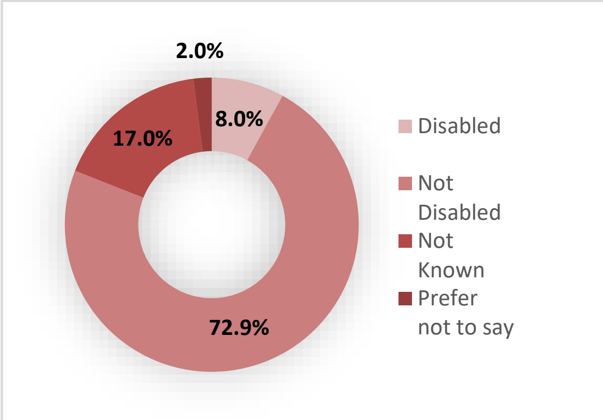
Diversity

The Treasury seeks to promote a culture which values difference and recognises that diversity enriches the economy and society. Information about the diversity of the department is available in the chart below.

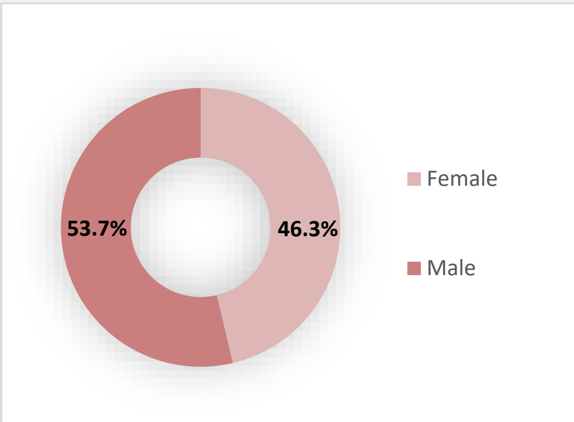
Core Treasury diversity at 31 March 2019



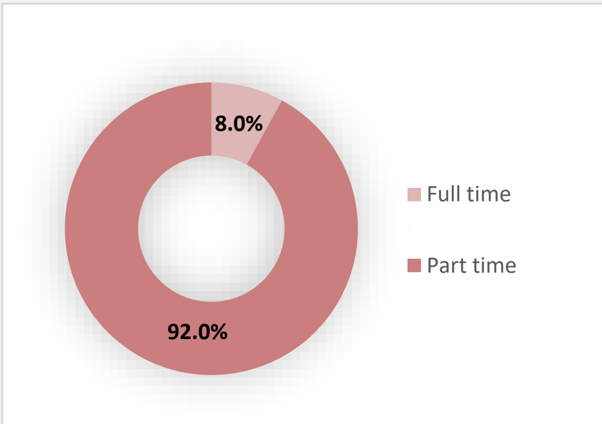
Core Treasury diversity at 31 March 2019



Core Treasury diversity at 31 March 2019



Core Treasury diversity at 31 March 2019



The Treasury has a four-year *Diversity and Inclusion Action Plan* (2016-20) setting out agreed initiatives which aim to recruit, develop and retain a diverse workforce in a working environment that is seen as an inclusive and supportive place to work. The current action plan is being reviewed and the consultation process is now underway to ensure the new plan from 2020 onwards continues to support these objectives. The current plan has three main themes: social mobility and recruitment, talent and inclusion. Actions in each of these areas during 2018-19 included:

Focus	Progress
Social mobility and recruitment	The department implemented changes to its university outreach programme and marketing campaign as part of its graduate recruitment campaign, to reach and attract a more socially diverse mix of applicants. It also made changes to the assessment process to support this ambition. As part of its apprenticeship strategy, the Treasury recruited the first cohort of policy apprentices into the department. The department has recently implemented the cross-government 'Success Profiles' recruitment framework, which introduces a more flexible model for assessing candidates. During 2018 the Treasury (i) participated in the Civil Service- wide *Diversity Internship Programme* hosting 19 interns and (ii) in conjunction with *London Youth* the Treasury ran a 3 days familiarisation programme for 15-17-year olds to introduce them to the workplace, the work of the Treasury and provide career guidance. The Treasury is also involved in a mentoring scheme with a local school and participates in *The Access Project* where Treasury volunteers coach young people from disadvantaged backgrounds. In 2018 the Treasury moved up six places from 40 to 34 in the external *Social Mobility Employer Index*, which ranks employers according to the actions they are taking to be open to accessing and progressing talent from all backgrounds. The Treasury's employee *Social Mobility Working Group* also led an internal survey to establish an evidence base on the socio-economic background of Treasury employees. This work will help inform initiatives on how best to progress the internal social mobility of staff.
Talent	To support progression of under-represented groups into the SCS the Treasury introduced a new talent programme – Accelerate – for staff at Ranges E and E2 (Grades 7 and 6) who are from a BAME background, have a disability or identify as LGBT. Around 50 staff accepted the invitation to the programme which launched in September. A similar programme for staff at Range D (HEO/SEO grade) has continued for a fifth year. During this period the representation of staff from these groups at Range E (Grade 7) has increased from less than 6% to over 16% (September 2018). Each Group in the department has a SCS Disability Champion to support and encourage staff with disabilities as well as acting as a go-to person if problems arise. The

	department continues to be a Disability Confident Level 3 employer. In 2018-19 the Treasury continued to run a development programme, Prospects, for business support employees and promoted participation in the refreshed Positive Action Pathway, a Civil Service-wide development programme for employees from under-represented groups. Representation of women in the most senior roles has increased; a new female Director General and two new female Directors for roles that sit on the Executive Management Board were appointed, meaning that as at July 2019 the Executive Management Board has equal numbers of women and men members.
Inclusion	The department ran a series of 'Inclusive Leadership' programmes for the whole SCS to build greater confidence and skills in championing inclusion. There was a subsequent workshop to embed the learning and this has been further supplemented by 'Wellbeing Confident Leader' workshops, also for the SCS, recognising the strong overlaps between inclusion and wellbeing. To ensure any instances of bullying, harassment and discrimination are tackled effectively the Treasury has launched a new *Dispute Resolution (formerly Grievance) and Discipline* policy which implements the recommendations of Dame Sue Owen's civil service-wide review into bullying, harassment and discrimination. This new policy clarifies what support is available to employees experiencing bullying, harassment and discrimination, and makes it easier to raise a concern. The department has launched a new *Wellbeing Hub*. The hub aims to give all staff the skills, support and help they may need. It offers tips for managers on how to spot signs of stress and provide support, including how to start sensitive conversations about mental wellbeing. The Treasury's staff led *Mental Wellbeing Network*, which has been in place for 6 years, continues to provide an essential source of support and advice on mental wellbeing.

Additionally, in accordance with the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, HM Treasury publishes the department's gender pay gap data annually. The most recent report was published in respect of 2017-18,[5] and includes mean and median gender pay gaps (4.3% and 8.8% respectively); the mean and median gender bonus gaps (-6.4% and -25% respectively); the proportion of men and women who received bonuses (49% and 52% respectively); and the proportions of male and female employees in each pay quartile (men: 51% quartile

5 https://www.gov.uk/government/publications/hm-treasury-gender-pay-gap-report-2017-to-2018/gender-pay-gap-report-2017-to-2018-hm-treasury-group

1, 51% quartile 2, 58% quartile 3, 55% quartile 4; women: 49% quartile 1, 49% quartile 2, 42% quartile 3, 45% quartile 4).

Recruitment

Key Treasury recruitment campaigns in 2018-19 included:

- an external graduate recruitment campaign which brought in 82 policy advisers at Treasury Range D, joining in two cohorts in April and September
- seven new Director appointments were made following campaigns (Operations, Finance, Economics, Public Services, International Finance, Customs, and Deputy Head of Finance Function)
- taking part in the Civil Service Fast Track Apprenticeship scheme to bring in 11 new policy apprentices for the first time, alongside seven new finance apprentices
- extensive work has been led by Treasury on establishing and introducing economics apprenticeships from autumn 2019 as detailed below.

In 2018-19, the Treasury completed a full review of its recruitment policy and processes, launching a new policy in January 2019. This new approach incorporates the Civil Service Success Profiles to allow managers to better target specific skills and experience where appropriate; alongside the policy update, an in-depth training offer was launched upskilling all recruiting managers to build confidence and capability in recruiting high quality, diverse candidates.

Following an external audit of graduate recruitment practices in 2017-18 which identified areas for improvement, an action plan has been developed and implemented making a series of changes to the graduate campaign with the aim of recruiting an even more diverse group of entrants.

In addition, the Treasury has supported interchange opportunities, including loans to and from other government departments, and secondments to private sector partner organisations or to and from finance ministries in other countries. These opportunities enable Treasury staff to gain greater breadth of experience and allow us to benefit from specialist skills which add value to our work.

The Government Economic Service (GES), for which the Treasury is joint lead, has launched the inaugural GES Degree Level Apprenticeship. This Apprenticeship will give up to 75 candidates the unique opportunity to get four years work experience in the Civil Service and obtain an economics degree, from Kent University, at the end of it. This first year of the scheme attracted some 2,500 applicants, from a diverse range of backgrounds and characteristics, with 75 candidates being offered a role in a government department. The first apprentices will arrive in Treasury and across the wider Civil Service in September; and on successful completion of the apprenticeship will be guaranteed a job in the GES.

Staff survey

The Treasury uses its annual staff survey results as an indicator of progress. In October 2018, the department took part in the annual Civil Service People Survey which had a 98% response rate. The departmental results show the staff engagement level has increased and the Employee Engagement Index – the key indicator of staff opinion – rose by 1% from the previous year to 75%. This sets the

Treasury well above the civil service average of 62%, and when just the highest performing organisations are considered, the department is 8% more engaged than its peers in this category. In addition to measuring levels of engagement, the survey takes views on 85 questions across several themes. The 2018 scores show an improvement across four themes (Engagement Index; Inclusion and Fair Treatment, Pay and Benefits and Leadership and Managing Change). However, the scores for three themes (My Work; My Manager; Learning and Development) have suffered a reduction of 1percentage point this year. Overall the Treasury's scores are well above the Civil Service High Performers.

Financial risks

In carrying out its activities, the Treasury is exposed to a number of risks, including financial risks that have arisen due to the department's interventions after the 2008 banking crisis. The department has a Risk Management Framework in place to consider, manage and, where possible, mitigate these risks.

The table below outlines a summary of the key financial risks for the Treasury for the reporting year. Further details on the Treasury's risk management is in the Governance Statement in Chapter 2 and Note 28 to the financial statements.

Summary of key financial risks

Type of risk	Relates to	Carrying amount (£ billion)	Note to the Accounts
Credit risk	UKAR loans to banking customers	5.5	14
Credit risk	Loans and advances	3.3	13
Credit risk	Financial guarantees	0.1	23
Price risk	RBS shareholding	18.5	12
Market risk	BEAPFF	45.1	16

Other corporate reporting

Transparency and scrutiny of performance

The Treasury welcomes scrutiny, whether from Internal Audit, the National Audit Office, Members of Parliament or members of the public.

Scrutiny by Internal Audit – the Government Internal Audit Agency

The 2018-19 annual Internal Audit plan for the department was developed through consultation with the Treasury's senior management team and discussed at the HMT Directors Forum, Operating Committee and Executive Management Board, prior to formal agreement by the Treasury's Audit and Risk Committee in March 2018.

The Audit and Risk Committee agreed minor changes to the plan throughout the year reflecting changes in HM Treasury's assurance needs, priorities and key risks. By 31 March 2019, Internal Audit had issued 18 internal audit reports and 4 pieces of advisory work for the department.

The outcomes of this work are used to inform the Head of Internal Audit Annual Report and Opinion, drawing also on the insight available from work undertaken across the HMT Group by the GIAA and other assurance providers during the year.

Scrutiny by Parliament

Treasury ministers and officials are committed to providing timely and accurate responses to Parliamentary Questions and the government has agreed to provide regular statistics to the House of Commons Procedure Committee.

In the 2017-19 parliamentary session to date, Treasury ministers responded on or before the parliamentary deadlines in relation to 99% of the 3,140 ordinary written questions received; 99% of the 2,207 named day questions received; and 99% of the 738 Lords written questions tabled to the department.

In addition to questions from individual Members of Parliament during the period from 1 April 2018 to 31 March 2019, ministers and officials appeared at various Committee sessions, including

House of Commons Treasury Committee hearings	
Work of the Chancellor of the Exchequer	25 April 2018
Household finances: income, saving and debt	8 May 2018
SME Finance	27 June 2018
Digital currencies	4 July 2018
Economic Crime	10 October 2018
The Work of HM Treasury	24 October 2018
Economic Crime	30 October 2018
Budget 2018	5 November 2018
The UK's economic relationship with the EU	4 December 2018
Economic analysis	5 December 2018
High Streets and town centres in 2030	19 December 2018
The UK's economic relationship with the EU	29 January 2019
Spring Statement 2019	20 March 2019

Source: House of Commons Treasury Committee

House of Commons Public Accounts Committee hearings	
EU Exit, Financial Settlement	23 April 2018
Sale of Student Loans	10 September 2018
Whole of Government Accounts	14 November 2018
Government Planning & Spending	12 December 2018

Source: House of Commons Public Accounts Committee

Scrutiny by the public – correspondence and information requests

In the calendar year 2018, the Treasury replied to 10,392 items of correspondence: 5,513 from MPs (ministerial correspondence) and 4,879 direct from members of the public (official correspondence). 86% of the replies sent by Treasury Ministers to MPs were answered within the Treasury's 15-working day deadline, an improvement of 9 percentage points on the 2017 performance. 94% of the replies sent to members of the public were answered within the Treasury's 15-working day deadline.

In 2018, the department received 1,029 requests for information which were handled under either the Freedom of Information (FOI) Act or the Environmental Information Regulations. The Treasury met the statutory response deadline in 95% of these cases.

Data Subject Access Requests (DSAR)

In 2018-19, the department received 16 Data Subject Access Requests which from 25 May 2018 were handled under the General Data Protection Regulations (GDPR). The Treasury met the statutory response deadline in all these cases.

Parliamentary and Health Service Ombudsman

The Parliamentary and Health Service Ombudsman (PHSO) can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf.

The PHSO published their most recent report "Complaints about UK government departments and agencies and other UK public organisations 2017-18" in December 2018.

This report sets out that there were 13 enquiries and 3 complaints made regarding the Treasury Group (covering HMT, Royal Mint and the Equitable Life Pension Scheme) during 2017-18. No complaints were accepted for investigation.

The National Audit Office

The department welcomes the NAO's objective and independent commentary on its work and is diligent in responding to recommendations made in NAO reports. During the year, the National Audit Office completed and published the following reports specifically relevant to the department:

- Investigation into devolved funding March 2019

- Managing the Bank of England's Central Services December 2018
- Exiting the EU: The financial settlement – follow-up report November 2018
- Improving government's planning and spending framework November 2018
- Projects leaving the Government Major Projects Portfolio October 2018
- Tackling problem debt September 2018
- The sale of student loans July 2018
- Investigation into the government's handling of the collapse of Carillion June 2018
- Whole of Government Accounts 2016-17 June 2018
- The return of Lloyds Banking Group to private ownership June 2018
- Exiting the EU: The financial settlement April 2018

The 'Better Regulation' agenda

As the UK's economics and finance ministry, the Treasury has strongly supported regulating only where necessary within the financial services and insurance sectors and minimising burdens to businesses where possible.

A full report on the Treasury's actions in relation to the Better Regulation Agenda can be found in the Better Regulation section from page 197.

Sustainability

The Treasury is committed to having a sustainable core to policies it develops, whether they relate to its economics and finance ministry objectives, or are part of the environment in which the department works.

At the Spring Statement 2019, the Chancellor announced a package of measures designed to build sustainability into the heart of our economic model. These include:

- a call for evidence on a Business Energy Efficiency Scheme[6]
- mandating net gains for biodiversity on new developments in England
- a global review into the Economics of Biodiversity to explore ways to both enhance the natural environment and deliver prosperity
- introduction of a Future Homes Standard by 2025, to future-proof new build homes with low carbon heating and world-leading levels of energy efficiency

Building on the commitment by the Prime Minister to remove all single-use plastics from government departments, 2018-19 has seen the Treasury take of number of actions to improve its environmental sustainability. These include:

[6] https://www.gov.uk/government/consultations/energy-efficiency-scheme-for-small-and-medium-sized-businesses-call-for-evidence

- Plastic: removal of plastic cups from office tea points and reduction of drinks sold in plastic bottles
- Energy: switching our electricity tariff to one that provides electricity from renewable sources and installing two electric vehicle charge points
- Paper: introduction of paperless governance boards and bamboo hand towels (more sustainable than previous paper hand towels)
- Water: introduction of push-button showers to reduce water usage
- Waste allocation: introduction of food waste streams at tea points

Further information covering how the department has met its Greening Government commitments and integrated sustainability into both policy making and delivery can be found from page 199.

Non-financial information

During 2018-19, HM Treasury had no reportable incidents relating to anti-corruption and anti-bribery matters. Issues of social matters and respect for human rights are addressed through this report's separate disclosures on diversity and disability.

Tom Scholar
Permanent Secretary

27 June 2019

Chapter 2
Accountability Report

Corporate Governance Report

Report from the Lead Non-Executive Board Member

Although much has changed in the thirty-three years since I first worked in Whitehall, I am pleased to say that on coming into the Treasury as Lead Non-Executive Director in March this year, there is much that is reassuringly familiar: the Treasury still has an abundance of intellectual firepower, the public service ethos is strong, and there is a fundamental seriousness of purpose. This tone is set from the top by our Permanent Secretary, Tom Scholar; it's not a surprise, therefore, that I have found the relationship between the Non-Executives and the Executive members of the Board to be open and constructive.

No one could pretend that this has been an easy year for Whitehall, and the Treasury has sometimes found itself in the eye of the political storm. But officials have got on with their jobs professionally, including preparing for a no deal Brexit. In common with other Whitehall Departments, the Treasury has recruited more staff to reflect this additional workload: our numbers now stand at 1,450 – modest by Whitehall standards, but high by our own.

Despite the challenges faced, and as a result of greater focus by management over the last year, it is good to report that levels of staff engagement have increased this year, and are now well above the average for the Civil Service. The challenge for the coming year is to keep this progress up and to build on it.

At the senior level of the Department, we have seen a number of changes among the Executive members of the Board. Clare Lombardelli was appointed as Chief Economic Adviser, Dan York Smith as Director, Strategy Planning and Budget, Catherine Webb as Operations Director, and Anna Caffyn as Finance Director. The Non-Executives are grateful to all those who have left the Executive Management Board over the last year, and will work hard to support the new team which is now in place.

The Non-Executives have also seen some change over the last year. Dame Amelia Fawcett, who served as interim lead non-executive, came to the end of her term in September 2018. She brought great commercial insight to the non-executive team, and I know how much she is missed by the Treasury team as well as by her non-executive colleagues. I would like to thank Tim Score for stepping into the breach by taking on the chairmanship of the Audit and Risk Committee while Richard Meddings temporarily stood down from the role during the period in which he served as Executive Chairman of TSB. That task having been completed, I am pleased to say that Richard has now re-joined the Board. Our non-executive team has been re-inforced by the addition of Gay Huey Evans, who brings wide executive and non-executive experience and a strong background in regulation and financial services.

Some things don't change, however, and the Treasury continues to grapple with the perennial issue of how to retain staff. While we are able to recruit excellent young officials, we need to do better at keeping and developing them. While this is a Whitehall-wide problem, we face it in a more acute form, given the attractiveness of Treasury staff to other organisations in both the public and private sectors. We will therefore have to think carefully about pay and promotion and about the contribution that outside expertise could make.

In recent years, the Treasury Board Sub-Committee has been providing increased scrutiny and challenge to the Treasury's Arms' Length Bodies. This has proved valuable and now forms a regular part of the TB(SC)'s work.

In line with previous Reports, both the Executive and the Non-Executives are clear that we can best make a contribution by helping the Department think about the long-term challenges the Treasury faces rather than the short-term, and in leading broader, thematic discussions where we can bring an external perspective to the Department's thinking. We are clearly going to be busy in the year ahead.

Rt Hon Lord Hill of Oareford CBE
Lead Non-Executive Board Member

27 June 2019

About the Treasury

As the United Kingdom's economics and finance ministry, the Treasury's focus is on maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable growth. The Treasury is responsible for:

- Placing the public finances on a sustainable footing ensuring value for money and improved outcomes in public services
- Ensuring the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU
- Increasing employment and productivity, and ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU

Every member of Treasury staff should be able to play a full, productive and valued role in helping deliver the department's objectives, while working to ensure the Treasury operates as a high performing organisation. To achieve this, the department has a corporate objective to:

- Build a great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence.

Governance Statement

The Governance Statement is a personal statement by the Principal Accounting Officer, outlining his role and responsibilities, and recording the stewardship and risk management undertaken within the department. It also sets out the Permanent Secretary's views on the key challenges faced by the department in order to give a sense of how successfully the department has coped with them.

The roles of additional accounting officers within the department and the assurances received in preparing this report are also declared.

How we are structured

The Treasury's Ministers

The Chancellor of the Exchequer, The Rt Hon Philip Hammond MP, has overall responsibility for the Treasury. He is accountable to Parliament for all the policies, decisions and actions of the department and its arm's length bodies. While Treasury civil servants may exercise the power of the Chancellor, the Chancellor remains responsible to Parliament for decisions made under his powers.

Within the Treasury the Chancellor has devolved responsibility for a defined range of departmental work to supporting ministers[1], who at 31 March 2019 were:

- The Chief Secretary to the Treasury: Elizabeth Truss
- The Financial Secretary to the Treasury and Paymaster General: Mel Stride
- The Economic Secretary to the Treasury and City Minister: John Glen
- The Exchequer Secretary to the Treasury: Robert Jenrick

Permanent Secretaries

The Permanent Secretary, Tom Scholar, is the Principal Accounting Officer (PAO) for the department. Tom is responsible and accountable to Parliament for the organisation and management of the department, including its use of public money and stewardship of assets. He also has overall responsibility for the delivery of the aims and priorities of ministers and the decisions and actions taken by Treasury officials. Tom was Permanent Secretary and PAO throughout 2018-19.

Charles Roxburgh is the Second Permanent Secretary. He chairs the Executive Management Board's Operating Committee.

Non-Executive Board Members

The Treasury's Non-Executive Board Members provide challenge to help shape the thinking of ministers and officials. They are experts from outside government with significant experience of working with the public sector and/or third sectors and have strong financial and commercial expertise. Outside the formal meetings, individual members have shared their commercial and professional expertise across the Treasury.

A recruitment was undertaken to appoint a new Lead Non-Executive to replace Baroness Sarah Hogg. Following an open recruitment, and approval from the Prime Minister, the Chancellor appointed Rt Hon Lord Hill of Oareford CBE who took up post on 1 March 2019.

Dame Amelia Fawcett stepped down from the Board on 1 September 2018, after 6 years on the Board. Following an open recruitment Gay Huey Evans OBE was appointed on 1 January 2019.

Following a recommendation from the Exchequer Secretary and approval from the Prime Minister, Tim Score was reappointed for a second 3-year term on 1 July 2018. His appointment now runs until 1 July 2021.

On 4 September 2018 Richard Meddings was appointed as Executive Chairman of TSB pending the appointment of a new Chief Executive Officer of TSB. Given the significant commitment to that appointment and to avoid any possible perception of a conflict of interest Richard requested a suspension to his non-executive Treasury role, which was agreed for the duration of his appointment as Executive Chairman

[1] A list of current ministers and their individual responsibilities can be found on https://www.gov.uk/government/organisations/hm-treasury.

of TSB. Tim Score was appointed as interim chair of the Audit and Risk Committee during Richard's period of suspension which ended on 1 May 2019.

The Department is looking to recruit a further non-executive to complete the aim set out in last year's Corporate Governance Report to have 5 non-executive board members.

Rt Hon Lord Hill of Oareford CBE

Appointed: 1 March 2019 (first term).

Experience: Lord Hill brings wide financial regulation experience having been European Commissioner for Financial Stability, Financial Services and Capital Markets Union between 2014-16.

He has extensive government and political knowledge having worked in five government Departments and also in the European Commission. He was Chancellor of the Duchy of Lancaster and Leader of the House of Lords 2013-14 and Parliamentary Under Secretary of State for Education between 2010-2013.

Other roles: Chairman, Council of Management, Ditchley Foundation (from 1 November 2017); Independent National Director, Times Newspapers; Senior Adviser, Freshfields Bruckhaus Deringer; Senior Adviser, Deloitte (professional services network); Senior Adviser, Aviva plc (insurance); Senior Adviser, UBS; Senior Adviser, Intercontinental Exchange Inc; Trustee, Teach First; Board Member, Centre for Policy Studies and Co-Founder of Prosperity UK.

Committees: Member of Treasury Board, Chair of the Treasury Board Sub-Committee and Nominations Committee.

Tim Score

Appointed: 1 July 2015. Reappointed 1 July 2018.

Experience: Tim's experience covers financial management and an in-depth knowledge of the technology sector.

He was Chief Financial Officer of ARM Holdings plc from 2002 to 2015, Senior independent director, Chair of Audit and Interim Chairman at National Express Group (2005-2014), CFO of Rebus Group and William Baird PLC, Group Financial Controller at BTR Plc and LucasVarity PLC.

Other roles: Member of the Board of Trustees of Royal National Theatre; Chair of the Audit Committee of the Football Association;
Non-executive director and Chair of Audit Committee at Pearson plc; Non-executive director, Chair of Audit Committee and Chairman-Elect of The British Land Company plc.

Committees: Treasury Board; Treasury Board Sub-Committee; Nominations Committee; Audit and Risk Committee.

Gay Huey Evans OBE

Appointed: 1 January 2019 (first term).

Experience: Gay's experience covers financial and regulatory services and she has experience in banking, capital markets and commercial. She was vice chair, Investment Banking and Investment Management at Barclays Capital from 2008-2010. She was Head of Governance of Citi Alternative Investments (EMEA) from 2007-2008 and president of Tribeca Global Management (Europe) Ltd from 2005-2007, both part of Citigroup. She was director of markets division and head of capital markets sector at UK Financial Services Authority from 1998-2005 and has held various senior management positions with Bankers Trust Company in New York and London. She has previously served on the boards of London Stock Exchange Group plc and Aviva plc.

Other roles: She is Deputy Chair at the Financial Reporting Council (FRC) and is a non-executive director at Standard Chartered plc; Conoco Philips and Itau BBA international plc.

Committees: Member of Treasury Board, Treasury Board Sub-Committee and Nominations Committee.

Dame Amelia Fawcett

Appointed: 1 September 2015 (second term). Term finished on 1 September 2018.

Experience: Dame Amelia brings significant financial industry experience. She is a former banking executive at Morgan Stanley where she was Chief Operating Officer for Europe, Middle East and Africa. She is Chairman of the publicly listed Swedish investment company, Investment AB Kinnevik.

Other Roles: Chairman of the Standards Board for Alternative Investment (formerly Hedge Fund Standards Board); Non-Executive Director of State Street Corporation (Boston, Massachusetts, USA).

Committees: Treasury Board; Treasury Board Sub-Committee; Nominations Committee.

Richard Meddings

Appointed: Reappointed 1 July 2017 (second term). Richard requested a suspension to his Non-Executive Treasury role in September 2018, which was agreed for the duration of his appointment as Executive Chairman of TSB.

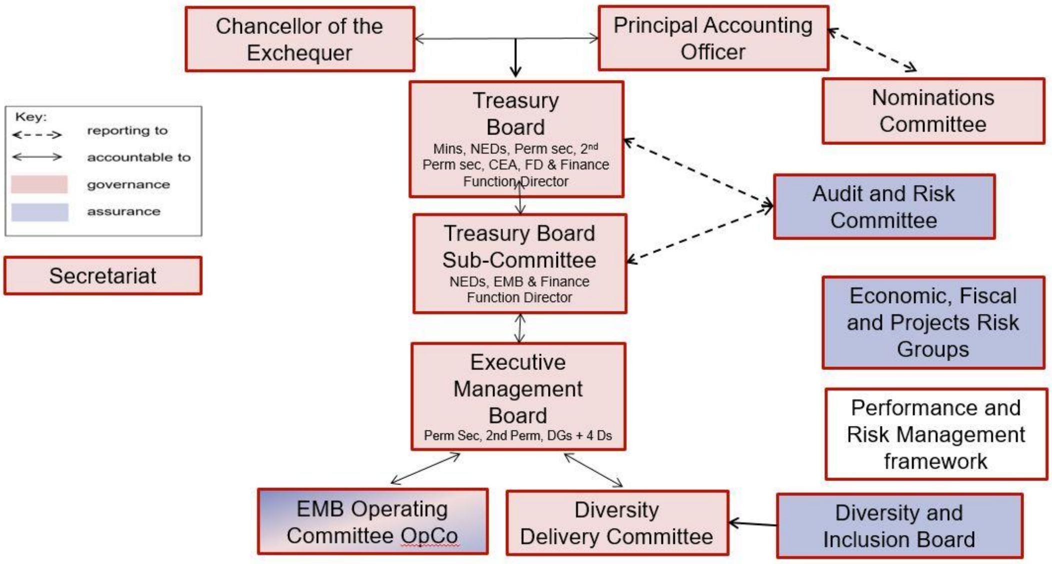
Experience: Richard was also appointed as Audit and Risk Committee chair on his arrival in 2014. He brings risk and banking experience to the role having been at Standard Chartered plc from 2002 until 2014 as Group Executive Director responsible for Risk and Group Finance Director for 8 years. Richard is a chartered accountant and worked in the banking industry (including at Hill Samuel, Barclays, Woolwich and Credit Suisse) in his early career.

Other roles: Non-Executive Director TSB (September 2017 - present) and Chairman from 1 February 2018; Non-Executive Director, Deutsche Bank AG (October 2015 - present); Non-Executive Director JLT plc (September 2017 - present); Non-Executive Director Teach First (February 2016 - present). Financial Reporting Review Panel in FRC (2008 – 2018) and Board member of International Chambers of Commerce UK (2007 – present); Non-executive Director, Legal & General plc (December 2014 to May 2017); Non-executive Director and Senior Independent Director of 3i Group plc (2008-2014) and chair of Audit and Risk Committee; and Main Board Director (2002-2014) and Group Finance Director (2006–2014) Standard Chartered PLC.

Committees: Treasury Board; Treasury Board Sub-Committee; Nominations Committee and Chair of the Audit and Risk Committee.

Our governance structure

The Treasury Board and its committees



The Treasury Board is the most senior of the department's oversight committees. It draws together ministerial and civil service leaders with experts from outside government.

The Board draws on the experience of attendees to provide advice, support and challenge to the effective running of the department.

The Board met once during 2018-19. The session covered the priorities, challenges, performance and risks facing the department along with resourcing and the performance of the department.

Treasury Board Sub-Committee

The Treasury Board Sub-Committee (TB(SC)) is made up of the Non-Executive members of the Treasury Board and the Executive Management Board.

TB(SC) has delegated authority of the Treasury Board. It meets to consider the department's performance and key risks, as well as specific policy areas, along with having responsibility for oversight of the department's arm's length bodies.

Over the course of the year the TB(SC) has considered a broad range of both policy and corporate issues facing the department including:

- Europe;
- Brexit negotiations;
- deal and no deal planning;
- the resourcing of the department;
- the Government Finance Function;
- the National Infrastructure Commission;

- the Government Internal Audit Agency and their audit plan of the Treasury;
- department's change programme;
- Staff Survey results;
- and NS&I.

TB(SC) met 6 times during 2018-19.

Board effectiveness evaluation

Undertaking an annual review of a Board's processes and practices is standard good corporate practice.

The process is set out in the Corporate governance in central government departments: code of good practice[2]. This year's Board Effectiveness Evaluation commenced after Rt Hon Lord Hill of Oareford CBE took up post. The evaluation considered the effectiveness of the Board under the following headings:

- Governance arrangements
- Work of the Board
- Composition and Culture
- Culture and Dynamics
- Contribution
- Support and Organisation and
- Progress and Impact.

The findings recognised that there were several new members of the committee and their observations were therefore limited. However, the open and frank discussions by members and the external challenge by non-executives was valued by the committee.

Recommendations from the exercise included having wider thematic discussions based around risks to the department, including those with the Arm's Length Bodies and a further effectiveness review is planned for 6-12 months, which allows time for new members of TB(SC) to provide wider observations.

The Executive Management Board

The Permanent Secretaries and the Director Generals make up the senior management team of the department, known as EMB.

They are joined on EMB by the Directors for Finance, Fiscal, Operations and Strategy, Planning and Budget. This executive team takes personal and corporate responsibility for the running of the department.

2 https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Members of EMB at 31 March 2019 were:

Permanent Secretary:	Tom Scholar
Second Permanent Secretary:	Charles Roxburgh
Directors General:	James Bowler
	Mark Bowman
	Beth Russell
	Katharine Braddick
	Clare Lombardelli
Directors:	Richard Hughes (Director, Fiscal)
	Catherine Webb (Operations Director)
	Anna Caffyn (Finance Director)
	Dan York-Smith (Director, Strategy, Planning and Budget).

Clare Lombardelli was appointed as Chief Economic Adviser following an open recruitment on 3 April 2018. Following the departure of Dave Ramsden in September 2017, and while the recruitment was undertaken, Richard Hughes was appointed as Acting Chief Economic Adviser on an interim basis. Recognising the importance of the fiscal agenda and risks across the department, Richard Hughes remained on the Executive Management Board when Clare Lombardelli took up the role as Chief Economic Adviser.

Dan York Smith was appointed as Director, Strategy, Planning and Budget on 16 April 2018. Kate Ivers was appointed as Interim Finance Director following Sophie Dean leaving the department in August 2018 and before Anna Caffyn arrived on 14 March 2019. Catherine Webb was appointed Operations Director (on 2 January 2019) in succession to Katherine Green who left the department in August 2018.

EMB meets at least once a week. In the latter part of the year EMB was meeting twice a week to ensure appropriate governance over no deal Brexit planning.

EMB also meets regularly with the Directors from across the department to receive updates and understand the risks across the department and to ensure sufficient executive oversight.

EMB meet separately for additional sessions where members will consider the strategic direction of specific Treasury policy areas.

An annual business planning process, overseen by EMB and cleared by ministers, sets the department's priorities for the year ahead – focusing on the Treasury's core functions, ministerial priorities and identified risks.

The Board also ensures delivery against the department's work programme, and the efficient and effective allocation of resources.

Sub-committees to the Executive Management Board

EMB has 2 sub-committees. These are the Operating Committee (OpCo) and the Diversity Delivery Committee (DDC).

Recognising the increased focus on Diversity and Inclusion within the department, the Diversity Delivery Committee (DDC) was made a formal sub-committee of EMB during the financial year. The Diversity and Inclusion Board (DIB) is a sub-committee of DDC.

The Diversity Delivery Committee (DDC) has delegated authority from EMB to make decisions on the form and delivery of the Treasury's diversity and inclusion agenda. The DDC brings together EMB's diversity champion (Beth Russell), the Chair of the Diversity and Inclusion Board, the Director of Operations and other relevant attendees to support and challenge the department's performance on diversity and inclusion and the Diversity Action Plan, and ensures cohesion with the department's change programme.

The Diversity and Inclusion Board (DIB) supports the senior management team to bring together networks across the department and promotes inclusion and fair treatment for all.

DIB is chaired by Lowri Khan (Director, Financial Stability) who is joined by Beth Russell. They are joined by representatives of staff networks across the department.

OpCo oversees the financial, planning, operational and risk management issues of the department. It also provides financial, commercial and business case approval.

OpCo meets monthly and the membership is made up of the Second Permanent Secretary (Charles Roxburgh), the Director General Financial Services (Katharine Braddick), the Directors of Finance (Anna Caffyn), Operations (Catherine Webb) and Strategy Planning and Budget (Dan York-Smith), the Deputy Director of Governance and Assurance (Kate Ivers) and 2 or 3 Directors from the policy side of the Treasury.

OpCo considers operational risks to the Treasury objectives. In addition, EMB has 3 other risk committees, the Economic Risk Group, the Fiscal Risk Group and the Projects Risk Group. The Risk Groups contribute to the Treasury's risk management framework by identifying, tracking indicators, horizon-scanning, and assessing the likelihood, probable impact and potential mitigation of risks, enabling EMB and senior managers to take action where appropriate.[3]

The Economic and Fiscal Risk Groups are chaired by Director Strategy Planning and Budget and the Chief Economic Adviser respectively. The Project Risk Group is chaired by the department's Project Management Champion.

Audit and Risk Committee

The Audit and Risk Committee (ARC) provides independent, objective and constructive challenge on the robustness of the control mechanisms in place and the evidence provided to deliver the assurance needed by the Board. It supports the Permanent Secretary and the other core department Accounting Officers in their

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3 Further information on how the department manages risk can be found on pages 57 and 58.

responsibilities for managing risk, control and governance. The Committee may consider any issue relating to the running of the Treasury as well as any delivery or reputational risk. The ARC has oversight of the production of the Treasury Annual Report and Accounts, Central Funds and Whole of Government Accounts. They review the progress that Government Internal Audit (GIAA) have made against the agreed Audit Plan. They also reviewed the department's readiness for GDPR.

Members of the Committee are appointed by the Permanent Secretary. The Chair is also a Non-Executive Member of the Treasury Board.

As at 31 March 2019, the membership of the Committee was as follows:

- Tim Score (interim Chair while Richard Meddings is suspended from his Non-Executive role – see biography on page 49).
- Zarin Patel – Zarin Patel is a Non-Executive Director of John Lewis Partnership Plc, Anglian Water Services Limited and is a member of their respective Audit and Risk Committees. She is also a Trustee of National Trust and chairs its Audit and Risk Committee. She was formerly the Chief Financial Officer at the BBC and a member of its Executive Board.
- Jacinda Humphry – Director of Government Finance Transformation – central finance function. Previously Finance Director – Department of Communities and Local Government (now Ministry of Housing, Communities and Local Government).

Peter Estlin's appointment to the ARC was suspended at his request from 1 July 2018 to 31 December 2019 following his nomination for Lord Mayor of the City of London for 2018-19.

Pre-meeting discussions with the National Audit Office and the Government Internal Audit Agency (GIAA) were held before each session of the Audit and Risk Committee.

Audit and Risk Committee's Chair's Report

I took over from Richard Meddings as interim chair of the Audit and Risk Committee in September 2018 when it was agreed that Richard would take a break from his Non-Executive role on the Treasury Board for the duration of his appointment as interim Executive Chairman of TSB.

I would like to thank Jacinda Humphry, Zarin Patel (the members of the Committee) and Peter Estlin (member of the Committee to 30 June 2018) for their support, diligence and commitment throughout the year. Each of my colleagues continues to bring, to the Committee's work, significant experience which remains invaluable.

The main work of the Committee during the year remained centred on the preparation, audit, review and sign-off of the various Treasury Accounts, including Central Funds Accounts as well as separately the review and sign off, of the Whole of Government Accounts.

The Committee also continued to provide challenge to the work of the Treasury and to assist in its focus on strategic and operational risks, as well as reviewing the effectiveness of the risk management framework and the internal control environment. The Principal Accounting Officer, Second Permanent Secretary and Finance Director provide regular reports on their key activities at each meeting.

During the year, the Committee met regularly with the National Audit Office and with Group Internal Audit, both privately and in full committee, to discuss with them findings from their various reports and management actions taken. The Committee also had oversight of the internal audit work plan and monitored its performance through the year.

Tim Score

Interim Chair, Treasury Group Audit and Risk Committee

27 June 2019

Nominations Committee

The Nominations Committee is made up of the Permanent Secretary with the Non-Executive Board Members. It considers succession planning within the department and reviews systems in place to identify and develop leadership potential. The Committee also considers performance and remuneration of the senior management team. It met once during 2018-19.

Attendance of members at Board and Committee meetings

Attendance	Treasury Board	TB(SC)	Audit and Risk Committee	Nominations Committee
Ministers				
Chancellor	1/1	-	-	-
Chief Secretary	1/1	-	-	-
Financial Secretary and Paymaster General	1/1	-	-	-
Economic Secretary	1/1	-	-	-
Exchequer Secretary	1/1	-	-	-
Non-Executives				
Lord Jonathan Hill	1/1	2/2	-	-
Tim Score	1/1	6/6	4/5	1/1
Dame Amelia Fawcett	-	1/1	-	-
Richard Meddings[4]	-	1/1	3/3	-

[4] Requested suspension of duties from 4 September 2018 for duration of his appointment as Executive Chairman of TSB.

Gay Huey Evans	1/1	4/4	-	1/1
Mike Driver	1/1	6/6	-	-
Peter Estlin[5]	-	-	3/3	-
Zarin Patel	-	-	5/5	-
Jacinda Humphry	-	-	3/5	-
Executives				
Tom Scholar	1/1	5/6	-	1/1
Charles Roxburgh	1/1	6/6	-	-
Mark Bowman	-	3/6	-	-
James Bowler	-	5/6	-	-
Katharine Braddick	-	4/6	-	-
Clare Lombardelli	1/1	4/6	-	-
Katherine Green	-	1/1	-	-
Sophie Dean	-	1/1	-	-
Kate Ivers	1/1	4/4	-	-
Beth Russell	-	6/6	-	-
Dan York-Smith		5/6	-	-
Richard Hughes	-	6/6	-	-
Anna Caffyn	-	1/1	-	-
Catherine Webb	-	2/4	-	-

Treasury's internal structure

The Treasury is structured into 13 Director led groups, with each group working to achieve the department's core objectives.

Each Director has responsibility delegated to them from the management board for the delivery of policy and management of risk within their group. They are also responsible for ensuring any policy or operational risks in their groups are understood across the department to help actively manage the cross-cutting risks facing the Treasury.

Quality of information

Recognising the need to ensure the department's board and committees receive sound advice and information, the department uses a template for board papers. This is structured to ensure risks and resource implications are highlighted and to ensure sufficient engagement and challenge during discussions. The board secretariat works with teams to ensure the information provided is of good quality.

[5] Requested a suspension of duties from 1 July 2018 following his nomination for Lord Mayor of the City of London for 2018-19.

The structure and information contained in regular agenda items (including management information and Quarterly Performance and Risk reports) continues to be reviewed, improved and updated to meet the needs of the boards and committees.

Following fiscal events, lessons learned exercises are conducted so the information provided to the board meetings allows the board to have high quality discussions with relevant, up to date information.

Register of interest

Ensuring the effective management of conflicts of interest is a key aspect of any effective governance framework and system of internal control. In support of this, relevant information is held by the department in a central register alongside mitigation measures taken.

The register of ministers' interests is held by Parliament. Non-executive board members' interests are set out in this document on pages 47 to 49.

In addition to the mitigations previously put in place for Richard Meddings (outlined in the department's Annual Report and Account in 2017-18), on 4 September 2018 Richard Meddings was appointed as Executive Chairman of TSB pending the appointment of a new Chief Executive Officer of TSB. Given the significant commitment to that appointment and to avoid any possible perception of a potential conflict of interest Richard requested a suspension to his Non-Executive Treasury role, which was agreed for the duration of his appointment as Executive Chairman of TSB.

No members of EMB have any conflict of interest recorded.

Managing risks to our objectives

The Treasury faces macro and micro level risks in its dual role as the UK's economics and finance ministry and a central government department and employer. The risks faced are diverse in nature and severity, and will sometimes be determined by external forces over which the department may have influence but no control.

As the government's economics ministry, the department must react to events in the global and UK economy, and ensure the sustainability of the public finances, while operationally ensuring it allocates its budget appropriately in order to meet its objectives, ensuring value for money and delivery on its duty of care to both staff and stakeholders.

Our risk management framework

The Treasury's Risk Management Framework enables the identification and management of risks to the department's 4 strategic objectives, as set annually in the Single Departmental Plan (SDP).

The Framework is underpinned by 3 Risk Groups and OpCo who are responsible for monitoring, challenging and reporting on performance against and risks to the Treasury's objectives.

By tracking indicators, horizon-scanning, and assessing the likelihood, probability, impact and potential mitigation of risks, the Risk Groups contribute to the Treasury's risk management framework, enabling the Executive Management Board and senior managers to take action where appropriate.

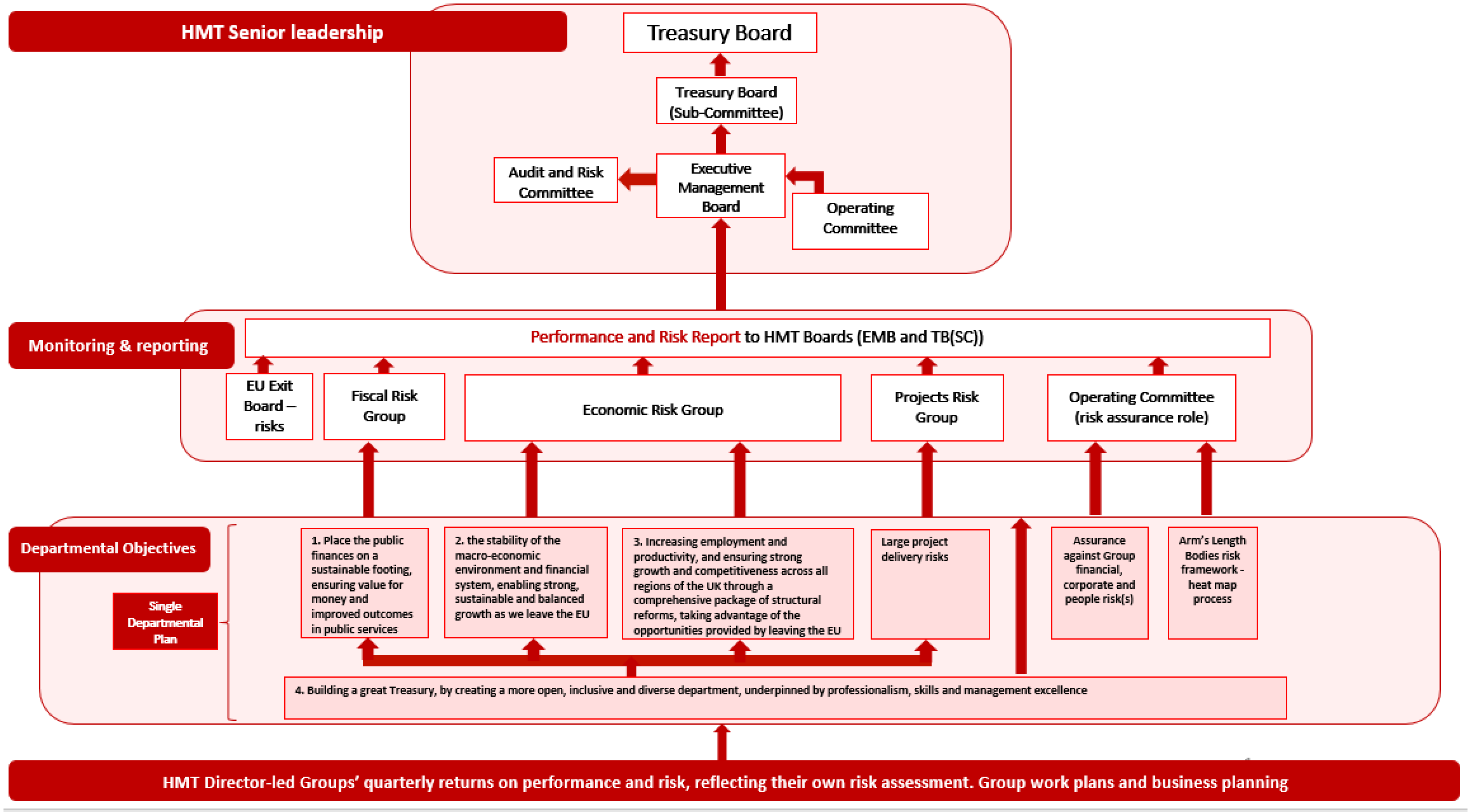
These groups report into the Quarterly Performance and Risk Report (QPRR) which analyses trends across key performance data and assesses the level of risk to delivery of the objective. The QPRR, which reflects on risk and performance across the department, is discussed by EMB and TB(SC) on a quarterly basis. This enables EMB, TB(SC) and senior managers to take action where appropriate, as well as providing them with a strategic overview of the department's work.

The department has a sound system in place to consider the risks faced by the Treasury, challenge the assumptions made about these risks and, where appropriate, offer advice on how best to mitigate risk. Within this structure each individual has a role to play, with some key positions holding specific accountabilities. Steps are underway to improve communication of this Risk Framework across the department and ensure that it is fully embedded.

The Treasury's identification and management of risk is based in part on management information; annual business plan assessments including 6 monthly reviews; the QPRR; and HR and Finance Management Information.

This business planning process enables the Treasury to consider and identify risk in the context of its core economics and finance ministry priorities for the year ahead, ensuring these are resourced within the limits of the Treasury's Spending Review settlement.

The department's QPRR is the formal system by which the Treasury addresses, challenges and responds to identified risks. The Report includes outcome objectives, all of which the department seeks to influence (but may not control) and departmental deliverables, all of which the Treasury seeks to achieve via policy interventions.


HMT Senior leadership
Treasury Board
Treasury Board (Sub-Committee)
Audit and Risk Committee
Executive Management Board
Operating Committee
Monitoring & reporting
Performance and Risk Report to HMT Boards (EMB and TB(SC))
EU Exit Board – risks
Fiscal Risk Group
Economic Risk Group
Projects Risk Group
Operating Committee (risk assurance role)
Departmental Objectives
Single Departmental Plan
1. Place the public finances on a sustainable footing, ensuring value for money and improved outcomes in public services
2. the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU
3. Increasing employment and productivity, and ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms, taking advantage of the opportunities provided by leaving the EU
Large project delivery risks
Assurance against Group financial, corporate and people risk(s)
Arm's Length Bodies risk framework - heat map process
4. Building a great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence
HMT Director-led Groups' quarterly returns on performance and risk, reflecting their own risk assessment. Group work plans and business planning

Delegation

The PAO has delegated responsibility to each Director for the delivery of policy and management of risk within their group. They are also responsible for ensuring any policy or operational risks in their groups are understood across the department to help actively manage the cross-cutting risks facing the Treasury.

Assurances

During the year there were a number of independent assurances through the work of the Non-Executive Board Members, internal and external audit, the Head of the Treasury Legal Advisers (Government Legal Department) and other bodies such as the Office of the Civil Service Commissioners.

The Group Chief Internal Auditor has provided assurance to me (as outlined in her report on page 62) and to the Audit and Risk Committee throughout the period. In turn the Audit and Risk Committee has challenged and endorsed the Government Internal Audit Agency's work programme throughout the year, which included following up on key internal audit actions with management to ensure they were complied with.

The Group Annual Accounts are audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out from page 112. The cost of the external audit is disclosed in Note 32 of the financial statements.

Other internal Treasury Group assurances have been provided by:

- UK Asset Resolution Ltd, the Financial Services Compensation Scheme, the Debt Management Office, the National Infrastructure Commission, the Government Internal Audit Agency, the UK Government Investment Ltd and the Royal Household;
- the Treasury's Executive Management Board;
- the Group Finance Director; and
- the Chief Economic Adviser, who has confirmed that an appropriate quality assurance framework is in place and is used for all business-critical models.

Additional Accounting Officers

To assist in the stewardship of public funds, and to maintain the system of internal control, additional Accounting Officers have been appointed across the Treasury Group and details can be found from page 206 of this report.

The Central Funds (the Consolidated Fund, the National Loans Fund, the Contingencies Fund and the Exchange Equalisation Account) are reported on independently of this Annual Report and Accounts, as are the Whole of Government Accounts. Each Accounting Officer produces an individual governance statement for their corresponding account.

Account Name and Accounting Officer	Notes
Consolidated Fund (CF) Tom Scholar	The CF was set up in 1787 and is akin to the government's current account. It receives the proceeds of taxation and other government receipts.
National Loans Fund Tom Scholar	The NLF was established in 1968 and is akin to the government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office and National Savings and Investments.
Contingencies Fund James Bowler	The Contingencies Fund is used to finance payments for urgent services in anticipation of parliamentary agreement and to provide funds temporarily to departments for working balances or meet other temporary cash deficiencies. All advances from the Fund must be repaid and where practical are recovered in the same financial year.
Exchange Equalisation Account (EEA) Clare Lombardelli	The EEA was established in 1932 to provide a fund that could be used, when necessary to regulate the exchange value of sterling. It holds, amongst other assets, the UK's reserves of gold and foreign currency assets and comprises the UK's official holdings of international reserves.
Whole of Government Accounts (WGA) James Bowler	The WGA consolidates the audited accounts of around 8,000 public sector organisations to produce a comprehensive, accounts based picture of the financial position of the UK public sector.

Internal audit arrangements

Stephanie Donaldson, who was appointed on 16 April 2018 as Chief Internal Auditor at the Government Internal Audit Agency, provided her Annual Report and Opinion on the adequacy and effectiveness of the Treasury's framework of governance, risk management and control to the Principal Accounting Officer and the Audit and Risk Committee. She provided a Moderate opinion. This assessment is based on the work that the GIAA have conducted in the Departments and HMT's Arm's Length Bodies (ALBs) and Executive Agencies (EA's) during the year.

I am grateful to Stephanie for her view that, based on her findings from delivery of the 2018-19 Internal Audit Plan and follow up work, she is able to provide assurance on the adequacy and effectiveness of the risk management, control and governance framework relevant to the annual report and accounts. There were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Governance Statement.

Group Chief Internal Auditor's Report

The annual internal audit opinion is a key element of the assurance framework, which the Accounting Officer needs to inform his annual Governance Statement. It does not detract from the Principal Accounting Officer's personal responsibility for the framework of governance, risk management and control, on the effectiveness of which he takes assurance from his senior management and format controls, as well as from internal audit.

The Treasury Internal Audit function is provided by the cross-Whitehall Government Internal Audit Agency (GIAA), an executive agency of the Treasury.

The planned internal audit programme, including revisions to the programme during the course of the year, was reviewed and endorsed by the department's Audit and Risk Committee and Principal Accounting Officer. GIAA has delivered a wide programme of challenging internal audit engagements throughout 2018-19, from policy delivery to core systems and included coverage of the full range of Treasury work covering OSCAR II, EU Withdrawal Governance, Business Critical Models, risk management, corporate functions, cyber security, physical and information security and stewardship of arm's length bodies.

GIAA also attended Project Board meetings of significant projects in order to observe and advise on risk and project management. In addition, GIAA have taken consideration of 3rd party assurances from the IPA, where appropriate.

Stephanie Donaldson MA (hons) CPFA

Group Chief Internal Auditor, Centre of Government

Government Internal Audit Agency

Whistleblowing

As well as ensuring that any conflicts among senior staff are registered, making sure the department's staff feel able to come forward with concerns is important in ensuring effective governance and management across the organisation.

The department's staff survey results in 2018 showed 56% of staff were aware of how to raise a concern under the Civil Service Code and 80% were confident that if a concern was raised it would be investigated properly.

The department has 3 nominated officers responsible for investigating staff concerns that are raised confidentially. During the financial year, 2 of the nominated officers changed due to staff changes. Tim Score as a departmental Non-Executive Board member, and Stephanie Donaldson as Group Chief Internal Auditor, Government Internal Audit Agency have taken on the role. Gwyneth Nurse, Director Financial Services, remains a nominated officer.

There have been no issues raised by staff in 2018-19.

Transparency and scrutiny

The roles and structures described here are designed to ensure the effective governance, control, and management of risk within the department. Scrutiny from others, whether it be from internal audit, the National Audit Office, Parliament or members of the public is also important and the Treasury prides itself on welcoming such oversight.

Detail on the scrutiny of the department by internal audit, the public and Parliament can be found on pages 37 to 40 of the Performance Report.

In addition to financial audit services, the National Audit Office (NAO) undertakes independent scrutiny of the department's performance; the value-for-money studies of relevance to the Treasury can be found on pages 39 to 40.

A number of Parliamentary Committees, including the Public Accounts Committee and the Treasury Select Committee, have called witnesses from across the Treasury Group on key issues. The Treasury welcomes the oversight, challenge and scrutiny this process provides, responds constructively to the recommendations it receives, and implements them where appropriate.

For example, the PAC's 16th Report on Government borrowing and the Whole of Government Accounts was published on 26 January 2018, to which the Government formally responded in the Treasury Minutes published in March 2018, with 2 of the recommendations having been implemented. The Treasury Minutes Progress Reports published in July 2018 reported progress on the implementation of a further 2 recommendations and a response to the remaining recommendation will be included in Summer 2020's Treasury Minutes Progress Report.

Workforce reporting

The Treasury's workforce is critical to its ability to operate effectively, it relies on the expertise of its staff, their hard work and dedication. Information on sickness absence, off payroll engagements and staff pension costs is within the Staff Report on pages 81 to 90.

Personal data

During 2018-19, the Department identified 2 personal data incidents which it self-reported to the Information Commissioner's Office.

The first was the result of documents, containing personal data belonging to a member of the public, being lost in the post after being returned by Royal Mail. The second incident involved the loss of documents, which identified some Treasury employees, which were quickly returned by a member of the public.

In both cases, the Treasury took immediate action. Following internal investigations and changes to Treasury's handling procedures, no action was taken by the Information Commissioner's Office relating to either incident.

Ministerial Directions

Should the Permanent Secretary ever be directed by the Chancellor to take responsibility for the delivery of an aim, priority or action he believes is contrary to the principles of Managing Public Money (the main guidance for Accounting Officers) he may seek a written direction to continue. No written directions have been sought in the Treasury during 2018-19.

Operational issues facing the department in 2018-19

In preparing this Governance Statement I have considered people, security and policy issues which might pose challenges to the delivery of the Treasury's objectives or undermine the integrity or reputation of the department.

Resources and workplace

As the department has continued to work towards our exit from the EU, headcount has again grown to reflect this continuing work. The target for March 2019 was circa 1,450. EMB continues to monitor turnover rates, and to support initiatives to reduce turnover, such as targeted pay awards, a continued focus on development, including support for professions, and an emphasis on building a truly inclusive culture where all staff feel valued and able to play their part.

The department's workforce strategy was developed this year and included options to reposition the way the Treasury attracts, recruits and retains people. We have focussed on changes to our graduate recruitment process, to achieve greater diversity amongst our graduate recruits, and a refreshed recruitment policy which implements the cross-Whitehall 'Success profiles' model. This model offers greater flexibility in how candidates are assessed, and a renewed focus on diversity. We also agreed a new learning and development strategy which focusses on providing signposting for learning across all the Treasury's professions. The strategy will also include a new focus on developing management skills and brigading together all the current management-related development; additional learning is being added to this. The department has continued to prioritise development of policy skills via the graduate development programme (GDP) and policy leadership programme (PLP). We also invest in more advanced skills and knowledge by supporting small numbers of staff to do a Masters in Public Policy or Masters in Economics.

The department's annual staff survey results have remained very positive this year. EMB pays close attention to the results and takes the feedback encouraged by staff very seriously. The 2018 results show an engagement score of 75% (an increase of 1 percentage point on last year) and a 98% response rate (a 4 percentage point increase on last year).

Recognising that the wellbeing of its workforce is critical, EMB were concerned by the anxiety scores in the staff survey. The department has implemented the cross-Whitehall 'Wellbeing Confident Leadership' workshop, with EMB members and other members of the senior civil service invited to participate. EMB has also been working with the Mental Wellbeing Network to consider the responses to the Staff Survey through the lens of mental health and wellbeing. A new 'wellbeing resources hub' will shortly be launched, offering all staff access to a range of tools to support wellbeing.

This year saw the first cohort of 11 policy apprentices join the department. This was part of the department's wider apprenticeship strategy, which aims to ensure an apprenticeship route into the department for all the key professions represented. By March 2018 the department will have had 36 new apprenticeships starts, including in finance, human resources, business administration and management as well as policy. The department has continued also to recruit graduates, with 2 cohorts totalling 76 joining in April and September 2018.

As part of the commitment to valuing everyone and supporting retention, the department launched 'Treasury Thanks', a reward voucher scheme. This makes use of existing in-year bonus pot budget, but allows more immediate recognition of individuals' contribution via a £30 or £50 voucher which can be spent at a wide range of high street stores. A review of the first 6 months of the scheme is currently underway.

An all-staff event was held in July 2018. This inclusive event put the agenda in the hands of staff and saw them run sessions on a wide range of topics, from socioeconomic diversity at the Treasury to climate change. Staff were encouraged to continue discussions after the event and take forward relevant actions. EMB recognised the broad range of ideas and actions which came out of the sessions and acknowledged that the department needs to continue to make progress in many areas, through our change programme – Building a great Treasury.

Ensuring the senior leadership team is accessible to colleagues both formally and informally is important. Several initiatives were undertaken in the department including monthly Ask EMB sessions where all staff are invited to question EMB on anything that they wish to raise. These events have been well attended. We also post regular leadership updates on the intranet, looking ahead at the priorities over the coming months, alongside monthly interviews with different members of the leadership team. This content is always very well read amongst staff. Another initiative included increasing the face-to-face engagement staff have with members of the leadership team outside of their direct line management chains. This involved open slots where staff could sit down informally with a Director or Director General for a discussion, or to ask a question of their choosing.

Building on the work last year we have improved the building environment through a reallocation of space to Groups in April 2018 and refurbished breakout areas. Work has been undertaken this year to improve flexible working including the introduction of virtual meeting rooms and enhanced support for staff working flexibly from a range of locations. EMB are continuing to look for initiatives to support its staff in obtaining a healthy work-life balance.

During 2018-19 the department has responded to the challenges of managing its own budget in year. There were significant pressures on pay costs and non-pay costs which were managed within groups to ensure there was no overspend on the departmental budget.

A reserve claim was submitted to cover Brexit funding and other pressures to ensure the department was able to meet its strategic objectives, ensuring there was the right resource in the right place at the right time.

The annual business planning process has been started for 2019-20 and preparations are being made for the Spending Review.

Security

Physical, cyber and information security remains a priority for the department in being able to deliver its objectives.

Recognising the ongoing security threats, the security of staff is paramount. A new emergency notification system has been rolled out to improve our responsiveness in incidents.

Group business continuity plans across the department are regularly challenged and updated to ensure they remain relevant, robust and up to date.

Staff continue to be required to undertake the mandatory annual Responsible for Information training and there have been several bespoke briefings that have been delivered by both the department's security team and expert colleagues from across government.

In addition, EMB receive 6 monthly updates covering all aspects of security from the Departmental Security Officer (DSO) and physical, cyber and information security risks are reviewed by OpCo.

Policy – preparing for the UK's exit from Europe

A significant focus of the Treasury's work in 2018-19 has been to ensure the stability of the macro-economic environment as the UK leaves the EU.

Several workstreams have been set up to monitor and mitigate risks relating to the UK's exit from the EU. These covered:

- Financial Services
- Public Spending and HMG guarantee
- Economic Response
- Business Support
- Financial Stability
- Customs and Tariffs
- Strategy, Projects and Change
- Civil Contingencies Response

Ensuring there are robust governance structures to facilitate cross-team working and ensuring information is disseminated effectively to relevant teams and to/from EMB to support decision making at the strategic and tactical level was paramount.

The department's governance structures were reviewed and bolstered during the year to ensure capacity and capability for this work. Director and team lead boards ensure that the department has robust processes in place for EU Exit and deal planning (including the senior-led EU Exit Board); and formally track deal/no deal readiness within the department's EU Exit programme management structures (Domestic Readiness and Preparations Board). Along with these boards, the department prepared for Brexit using additional EMB meetings, focussing on no deal preparations, along with TB(SC) engagement on Europe scenario planning and the creation of a bi-weekly no deal sit rep document outlining the risks and mitigations for the department's workstreams were also set up.

The Treasury Group

Organisations in the wider Treasury Group work to support the government's economic and fiscal strategy. The Permanent Secretary to the Treasury is the Principal Accounting Officer for the Group.[6]

The department continues with its programme of Tailored Reviews of its ALBs. These reviews consider:

- whether their functions are still necessary
- how effective and efficient they are
- their corporate governance.

Final sign-off of the NS&I Tailored Review is expected shortly and should be published in 2019. The reviews are overseen centrally by the Cabinet Office.

The Corporate Governance Code

As part of the preparation of this report the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code for Central Government Departments. This assessment has provided assurances that the Treasury complies with the principles of the Code.

Conclusion

I have considered the evidence that supports this Governance Statement and I am assured the Treasury has a strong system of controls to support the department's achievement of its policies, aims and objectives. I therefore have no disclosures of control weaknesses to make for the 2018-19 financial year.

Tom Scholar
Permanent Secretary

27 June 2019

6 Further information on the Treasury Group can be found from page 206.

Statement of Accounting Officer Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the department to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2018 numbers 313 and 1335 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at Note 1.2 to the accounts).

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the departmental group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the departmental group for the financial year.

In preparing the accounts, the Accounting Officer of the department is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental and other arm's length public bodies
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis.
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury appointed the Permanent Secretary of the department as Accounting Officer of the department

The Accounting Officer of the department has also appointed the Chief Executives or equivalents of its sponsored non-departmental and other arm's length public bodies as Accounting Officers of those bodies.

The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts.

Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or non-departmental or other arm's length public body for which the Accounting Officer is responsible, are set out in Managing Public Money published by HM Treasury.

Statement regarding the disclosure of information to the auditors

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

I also confirm that this annual report and accounts as a whole is fair, balanced and understandable, and I take personal responsibility for judgements made to ensure that it is fair, balanced and understandable.

Remuneration and Staff Report

Remuneration Report[7]

Treasury ministers – single total figure of remuneration (audited)

£[8]	2018-19				2017-18			
	Salary (FYE)	Benefits in kind	Pension benefits	Total	Salary (FYE)	Benefits in kind[9]	Pension benefits	Total
Philip Hammond Chancellor of the Exchequer[10]	67,505	6,800	14,000	**88,000**	67,505	6,800	16,000	**90,000**
Elizabeth Truss Chief Secretary to the Treasury (from 13/06/17)	31,680		6,000	**38,000**	25,344 (31,680)	-	7,000	**32,000**
David Gauke Chief Secretary to the Treasury (to 10/06/17)	-	-	-	-	7,920 (31,680)	-	2,000	**10,000**
Mel Stride Financial Secretary to the Treasury (from 12/06/17)	31,680		7,000	**39,000**	25,432 (31,680)	-	7,000	**32,000**
Jane Ellison Financial Secretary to the Treasury (to 09/06/17)	-	-	-	-	5,984 (31,680)	-	1,000	**7,000**
John Glen Economic Secretary to the Treasury (from 10/01/18)	22,375	-	5,000	**27,000**	5,052 (22,375)	-	2,000	**7,000**
Stephen Barclay Economic Secretary to the Treasury (from 14/06/17 to 09/01/18)	-	-	-	-	11,939 (22,375)	-	3,000	**15,000**
Simon Kirby Economic Secretary to the Treasury (to 09/06/17)	-	-	-	-	4,289 (22,375)	-	1,000	**5,000**
Robert Jenrick Exchequer Secretary to the Treasury (from 10/01/18)	22,375	-	6,000	**28,000**	5,052 (22,375)	-	2,000	**7,000**
Andrew Jones Exchequer Secretary to the Treasury (from 15/06/17 to 09/01/18)	-	-	-	-	12,723 (22,375)	-	3,000	**16,000**
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury (to 13/06/17)[11]	-	-	-	-	15,997 (78,891)	-	N/A	**16,000**

[7] Certain disclosures within the remuneration report have been audited as per the FReM 5.3.4.

[8] Salary and full year equivalent (FYE) are presented to the nearest £1. FYE is shown in brackets. Benefits in kind are presented to the nearest £100, pension benefits and total remuneration to the nearest £1,000.

[9] Benefits in kind restated from £6.7k to £6.8k due to rounding issue in the prior year.

[10] The Chancellor's benefit in kind relates to the full-year occupancy of 11 Downing Street and is capped at 10% of gross pay.

[11] Baroness Neville-Rolfe opted out of the pension and so there are no pensions benefits to disclose.

Treasury ministers – severance payments[12] (audited)

The table below represents the severance payments made to former ministers.

£[13]	2018-19 Actual Severance	2018-19 Receivable Severance	2017-18 Actual Severance	2017-18 Receivable Severance
Simon Kirby Economic Secretary to the Treasury (to 09/06/17)	-	-	5,594	5,594
Andrew Jones Exchequer Secretary to the Treasury (from 15/06/17 to 09/01/18)	-	-	5,594	5,594
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury (to 13/06/17)	-	-	19,723	19,723

Treasury ministers – pension benefits (audited)

£000	Accrued pension at pension age as at 31/3/19	Real increase in pension at pension age	CETV at 31/3/19	CETV at 31/3/18[14]	Real increase in CETV
Philip Hammond Chancellor of the Exchequer	10-15	0-2.5	278	247	12
Elizabeth Truss Chief Secretary to the Treasury	5-10	0-2.5	79	70	2
David Gauke Chief Secretary to the Treasury[15]	-	-	-	59	-
Mel Stride Financial Secretary to the Treasury	0-5	0-2.5	32	22	5
Jane Ellison Financial Secretary to the Treasury[15]	-	-	-	24	-
John Glen Financial Secretary to the Treasury	0-5	0-2.5	9	4	2
Stephen Barclay Economic Secretary to the Treasury[15]	-	-	-	10	-
Simon Kirby Economic Secretary to the Treasury[15]	-	-	-	9	-
Robert Jenrick Exchequer Secretary to the Treasury	0-5	0-2.5	5	1	1
Andrew Jones Exchequer Secretary to the Treasury[15]	-	-	-	14	-
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury[11,15]	-	-	-	N/A	-

12 Ministers who have not attained the age of 65, and are not appointed to a relevant Ministerial or other paid office within three weeks of the last day of service, are eligible for a severance payment of one quarter of the annual Ministerial salary being paid.

13 Severance payments are presented to the nearest £1.

14 Figures have been restated where RPMI have made retrospective updates to the data.

15 These ministers have left the Treasury.

Additional ministerial remuneration borne by HM Treasury (audited)

£000	2018-19	2017-18[16]
Theresa May Prime Minister	75-80	75-80
Julian Smith Chief Whip, Commons (from 02/11/17); Deputy Chief Whip, Commons (from 13/06/17 to 01/11/17)	30-35	25-30
Gavin Williamson Chief Whip, Commons (to 01/11/17)	-	20-25
Christopher Pincher Deputy Chief Whip, Commons (from 09/01/18)	30-35	5-10
Ester McVey Deputy Chief Whip, Commons (from 02/11/17 to 09/01/18)	-	5-10
Anne Milton Deputy Chief Whip, Commons (to 11/06/17)	-	5-10
Lord Taylor of Holbeach Chief Whip, Lords	120-125	120-125
The Earl of Courtown Deputy Chief Whip, Lords	105-110	105-110
Baronesses and Lords-in-Waiting (9 posts, 4 unpaid)[17] (2017-18: 13 posts, 4 unpaid)[18]	455-460	410-415
Government and Assistant Government Whips (21 posts, 3 unpaid)[19] (2017-18: 31 posts, 3 unpaid)[18]	250-255	260-265

[16] Government and Assistant Government Whips 2017-18 remuneration has been restated from 255-260 to 260-265 as one month's salary for one Whip was previously omitted from the disclosure.

[17] Baronesses and Lords-in-Waiting comprise: Viscount Younger of Leckie, Lord Young of Cookham CH, Baroness Goldie DL, Baroness Vere of Norbiton, Baroness Sugg CBE, Baroness Stedman-Scott OBE DL, Baroness Manzoor CBE, Baroness Buscombe, Baroness Barran MBE.

[18] This disclosure has been updated to show all those in post during the year and not only in post at 31 March.

[19] Government and Assistant Government Whips comprise: Chris Heaton-Harris MP, Mark Spencer MP, Stuart Andrew MP, Mike Freer MP, Nigel Adams MP, Andrew Stephenson MP, Craig Whittaker MP, Rebecca Harris MP, David Rutley MP, Kelly Tolhurst MP, Mims Davies MP, Paul Maynard MP, Wendy Morton MP, Jo Churchill MP, Amanda Milling MP, Nusrat Ghani MP, Jeremy Quin MP, Iain Stewart MP, Michelle Donelan MP, Gareth Johnson MP, Alister Jack MP.

Senior management – single total figure of remuneration (audited)

£000[20]	2018-19 Salary (FYE)	2018-19 Bonuses	2018-19 BIK[21]	2018-19 Pension benefits[22]	2018-19 Total	2017-18 Salary (FYE)	2017-18 Bonuses	2017-18 BIK	2017-18 Pension benefits	2017-18 Total
Tom Scholar Permanent Secretary	185-190	-	-	93	**280-285**	185-190	-	-	65	**250-255**
Charles Roxburgh Second Permanent Secretary[23]	155-160	15-20	-	N/A	**170-175**	155-160	-	-	N/A	**155-160**
Mark Bowman Director General, International and EU	125-130	15-20	-	43	**185-190**	125-130	15-20	-	36	**175-180**
Clare Lombardelli Chief Economic Advisor (from 03/04/18); Director, Strategy, Planning and Budget (to 02/04/18)	125-130	10-15	-	136	**275-280**	95-100	10-15	-	29	**135-140**
Richard Hughes Acting Chief Economic Advisor (from 04/09/17 to 02/04/18)[24] Director, Fiscal[25]	125-130	5-10	-	-	**130-135**	70-75 (110-115)	-	-	N/A	**70-75**
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service (to 01/09/17)	-	-	-	-	-	55-60 (130-135)	-	-	3	**60-65**
James Bowler Director General, Public Spending (from 08/05/17); Director General, Tax and Welfare (to 07/05/17)	125-130	15-20	-	43	**185-190**	125-130	5-10	-	36	**165-170**
Julian Kelly Director General, Public Spending and Finance (to 07/05/17)	-	-	-	-	-	25-30 (120-125)	5-10	-	6	**35-40**
Beth Russell Director General Tax and Welfare (from 02/08/17); Director, Personal Tax Welfare and Pensions (to 01/08/17)	125-130	-	-	79	**205-210**	115-120	5-10	-	122	**250-255**
Dan York-Smith Director Strategy, Planning and Budgeting (from 16/04/18)	85-90 (90-95)	10-15	-	76	**170-175**	-	-	-	-	-
Catherine Webb Director, Operations (from 02/01/19)	5-10 (90-95)	-	-	5	**10-15**	-	-	-	-	-
Katherine Green Director, Operations (to 05/08/18)[26]	30-35 (70-75)	10-15	-	7	**45-50**	70-75	5-10	-	25	**105-110**
Anna Caffyn Director, Finance and Commercial (from 14/03/19)	0-5 (90-95)	-	-	3	**5-10**		-	-	-	-
Kate Ivers Acting Director, Finance and Commercial (to 1/10/17 and from 26/07/18 to 13/03/19)[26]	60-65 (95-100)	10-15	-	31	**100-105**	45-50 (90-95)	-	-	34	**80-85**
Sophie Dean Director, Finance and Commercial (from 24/09/17 to 05/08/18)[26]	20-25 (50-55)	-	-	18	**35-40**	35-40 (60-65)	-	-	10	**45-50**

20 Salary, full year equivalent (FYE), bonuses and totals are presented in £5,000 bands. FYE is shown in brackets. Benefits in kind are presented to the nearest £100 and pension benefits to the nearest £1,000.

21 Benefits in kind.

22 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decreases due to a transfer of pension rights. Figures are restated for retrospective updates and are reported before tax.

Katharine Braddick joined the Treasury Board on 20 October 2016 as Director General, Financial Services on funded secondment from the Bank of England. Of these secondment costs gross earnings during the accounting period 1 April 2018 to 31 March 2019 were £180k-185k (2017-18: £175k-180k).

Pay multiples (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in the organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in HM Treasury in the financial year 2018-19 was £185,000-190,000 (2017-18: £185,000-190,000). This was 4.4 times (2017-18: 4.3 times) the median remuneration of the workforce, which was £42,630 (2017-18: £43,442).

The increase in the remuneration ratio is primarily driven by changes in the grade mix of employees.

In 2018-19, no employees received remuneration in excess of the highest paid director. Remuneration ranged from £17,000 to £189,000 (2017-18: £17,000-£188,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash-equivalent transfer value of pensions.

23 Charles Roxburgh did not participate in the Civil Service pension scheme.

24 Richard Hughes continued in his post as Director, Fiscal while Acting Chief Economic Advisor. From 3 April 2018, Richard continued to sit on the Executive Management Board in his capacity as Director, Fiscal. Richard has been in this post since July 2016.

25 Richard Hughes is a member of a Partnership Pension Scheme. There were £16k contributions to the Partnership Pensions scheme in 2018-19 (2017-18: £16k). The prior year amount has been restated as no contributions were disclosed in 2017-18.

26 Katherine Green worked 0.8 FTE. Sophie Dean worked 0.7 FTE until December 2017 and 0.6 FTE thereafter. Kate Ivers was Acting Finance and Commercial Director for the period 12/12/16 to 01/10/17 and from 26/07/18 to 13/03/19. The salary disclosed in each year relates to the Acting Director, Finance and Commercial role only.

Senior management – pension benefits[27] (audited)

£000	Accrued pension at pension age as at 31/3/19 and related lump sum	Real increase in pension at pension age	CETV at 31/3/19	CETV at 31/3/18[28]	Real increase in CETV
Tom Scholar Permanent Secretary	65-70 plus a lump sum of 145-150	5-7.5 plus a lump sum of 2.5-5	1,172	981	55
Mark Bowman Director General, International and EU	40-45 plus a lump sum of 95-100	2.5-5 plus a lump sum of 0	729	619	19
Clare Lombardelli Chief Economic Advisor; Director, Strategy, Planning and Budget	25-30	5-7.5	350	226	76
James Bowler Director General, Public Spending; Director General, Tax and Welfare	40-45 plus a lump sum of 95-100	2.5-5 plus a lump sum of 0	696	584	17
Beth Russell Director General, Tax and Welfare; Director Personal Tax Welfare and Pensions	35-40 plus a lump sum of 85-90	2.5-5 plus a lump sum of 2.5-5	610	483	44
Dan York Smith Director, Strategy, Planning and Budget	20-25	2.5-5	280	198	39
Catherine Webb Director, Operations	20-25 plus a lump sum of 45-50	0-2.5 plus a lump sum of 0	322	317	1
Katherine Green Director, Operations	15-20 plus a lump sum of 40-45	0-2.5 plus a lump sum of 0	256	250	2
Anna Caffyn Director, Finance and Commercial	15-20	0-2.5	238	237	1
Kate Ivers Acting Director, Finance and Commercial	45-50 plus a lump sum of 55-60	0-2.5 plus a lump sum of 0-2.5	860	757	20
Sophie Dean Director, Finance and Commercial	15-20	0-2.5	240	226	10

27 This table relates to pension benefits in the Civil Service pension scheme.

28 Figures have been restated where the Civil Service Pension Scheme have made retrospective updates to the data.

Fees paid to Non-Executive Board and Audit and Risk Committee members fees (audited)

£000[29]	2018-19 Fees	2018-19 Benefits in kind	2017-18 Fees	2017-18 Benefits in kind
Rt Hon Lord Hill of Oareford CBE Lead Non-Executive for HM Treasury (from 01/03/2019)	0-5	-	-	-
Dame Amelia Fawcett Non-Executive Board member (to 01/08/18) and Interim Lead Non-Executive for HM Treasury (from 01/01/18 to 01/09/18)	0-5	-	5-10	-
Baroness Hogg Lead Non-Executive for HM Treasury (to 31/12/17)	-	-	5-10	-
Richard Meddings Non-Executive Board member and Chair of the Audit Committee (to 04/09/18)	5-10	-	20-25	-
Tim Score Non-Executive Board member and Interim Chair of the Audit Committee (from 01/10/18)	15-20	-	10-15	-
Gay Huey Evans OBE Non-Executive Board member (from 01/01/19)	0-5	-	-	-
Peter Estlin Member of the Audit and Risk Committee (to 30/06/18)	0-5	-	5-10	-
Zarin Patel Member of the Audit Committee	5-10	-	5-10	-

Richard Meddings suspended his role as Chair of the Audit Committee on 4 September 2018 while acting executive Chairman of TSB. Tim Score is acting Chair of the Audit Committee as of 1 October 2018 and received a higher fee from this date.

Baroness Hogg stepped down from her role as Lead Non-Executive Director on 31 December 2017. Dame Amelia Fawcett was acting Lead Non-Executive Director until 1 September 2018. Rt Hon Lord Hill of Oareford CBE took up the role of Lead Non-Executive Director on 1 March 2019.

Peter Estlin suspended his role as member of the Audit Committee on 30 June 2018 while serving as Lord Mayor of the City of London.

During the year, Dame Amelia Fawcett, Richard Meddings, Peter Estlin and Rt Hon Lord Hill of Oareford CBE donated their fees to charity.

Jacinda Humphry, a Member of the Audit Committee is a Civil Servant and is remunerated by her home department.

Mike Driver is also a Civil Servant and attends the HM Treasury Board Meetings as an unpaid non-executive board member, in his role as Head of Government Finance Function.

29 Fees are presented in £5,000 bands. Benefits in kind are presented to the nearest £100.

Remuneration policy

The pay of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. From time to time, the Review Body advises the Prime Minister on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In making its recommendations, the Review Body considers:

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

For the Permanent Secretary and Second Permanent Secretary, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining executive members of the Treasury Board and the Chief Executives of DMO, GIAA and NIC, remuneration is determined by the Treasury's Pay Committee in line with this central guidance.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to senior managers during the year.

Pay committees

Dependent on the grade of senior manager, the pay committees responsible for reviewing pay comprise either the Permanent Secretary and a senior outside member (usually a non-executive director), or Directors General and a senior outside member.

Salary and bonuses

Salary covers both pensionable and non-pensionable amounts and includes: gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts.

In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. The salary for their services as an MP (£77,379 from 1 April 2018) and various allowances to which they are entitled are borne centrally.

However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in in this report.

Bonuses are based on performance levels achieved in 2017-18 and comparative bonuses on those achieved in 2016-17. Annual bonuses are paid following the appraisal process.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue & Customs (HMRC) as taxable. The Chancellor has the use of his official residence at 11 Downing Street. Expenses relating to its use, such as heating and lighting, are chargeable to tax under the terms of the Income Tax on Earnings and Pensions Act 2003. The benefit in kind is capped at 10% of gross salary.

In addition, staff receive certain minor benefits in kind, such as subscriptions and taxi journeys. The Treasury has agreed with HMRC to account for income tax on such benefits on an aggregate basis, as it is not practical to disclose individual amounts.

Ministerial pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out within the Ministerial Pension Scheme 2015.[30]

Those ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). A new MPs' pension scheme was introduced from May 2015, although members who were MPs and aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MPs' final salary pension scheme.

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 ministerial pension schemes.

30 http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced, the Civil Servants and Others Pension Scheme (alpha), which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher).

From that date, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS), which has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under all the above schemes are increased annually in line with Pensions Increase legislation.

Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015.Those members who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha between 1 June 2015 and 1 February 2022. All members who switch to alpha have their existing PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range from 4.6% and 8.05% for members of classic, premium, classic plus, nuvos, and alpha. Benefits in classic accrue at a rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement)

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionschemes.org.uk.

Cash Equivalent Transfer Value (CETV)

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure benefits in another scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies (or, for ministers, their current appointment as minister).

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister or staff member. It is worked out using common market valuation factors for the start and end of the period.

Staff Report[31]

Workforce dynamics

Core Treasury workforce breakdown

		31 March 2019	31 March 2018
Workforce Dynamics	Recruitment Exemptions[32] (number)	-	88
	Annual Turnover rate %	21.8	21.2
Workforce Diversity (%)[33]	Black and Minority Ethnic	17.0	15.9
	Women	46.3	46.5
	Disabled	8.0	6.8
	Part time	8.0	7.6
	LGBT	6.6	5.2
Diversity of Senior Civil Servants only (%)[33]	Black and Minority Ethnic	5.9	5.8
	Women	50.0	45.2
	Women (Top Management Posts)[34]	51.5	50.0
	Disabled	3.4	2.9
	Part time	18.6	17.3
Attendance (AWDL)[35]	Actual (days)	2.6	2.4

Core Treasury – Number of Senior Civil Servants by pay band (FTE)

Range[36]	**31 March 2019**	**31 March 2018**
SCS1	81	76
SCS2	25	18
SCS3	7	7
Total	**113**	**101**

31 This part of the Remuneration and Staffing Report provides details of staff numbers and costs, including pension costs and exit packages for the Treasury Group in 2018-19. With the exception of the table which details average staff numbers, all numbers are presented on an actual basis as at the reporting date. For information on staff matters, such as welfare, recruitment policy and diversity see Objective 4 from page 29.

32 Ministerial dispensation for externally advertised roles was required during a period of recruitment freeze across government. This requirement changed when the 2016-2020 Civil Service Workforce Plan included an ambition for all jobs to be advertised externally by 2020, and ministerial sign-off ceased in Treasury in July 2017.

33 Diversity percentages are calculated based on paid headcount using ONS definitions.

34 Top management posts are defined as SCS2 and SCS3.

35 AWDL: Average working days lost.

36 The Treasury uses the term 'range' as an alternative to 'grade' or 'pay band' to describe the internal structure of the department. Range B are the most junior officials; ranges SCS1 to SCS3 are members of the Senior Civil Service.

Core Treasury – staff composition at 31 March 2019 (FTE)

	Female	Male	Total
All employees	658	789	**1,447**
Of which:			
Directors (SCS2)	13.3	12.0	**25.3**
Senior Civil Service	54.4	58.8	**113.2**

Core Treasury – staff composition at 31 March 2018 (FTE)

	Female	Male	Total
All employees	606	722	**1,328**
Of which:			
Directors (SCS2)	10.2	8.0	**18.2**
Senior Civil Service	43.9	56.8	**100.7**

Recruitment[37]

Core Treasury recruitment 2018-19 (2017-18)

Range	Permanent Appointments	Fixed term appointments	Loans from other Government Departments	Secondments	Total
B[38]	8 (12)	66 (52)	0 (0)	0 (0)	74 (64)
C	49 (36)	6 (2)	0 (0)	0 (0)	55 (38)
D	186 (205)	0 (8)	15 (18)	7 (8)	208 (239)
E	68 (58)	1 (4)	9 (4)	4 (11)	82 (77)
E2	18 (17)	1 (0)	7 (5)	1 (0)	27 (22)
Commercial Specialists	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
SCS 1,2,3	3 (3)	0 (0)	6 (1)	0 (1)	9 (5)
Total	**332 (331)**	**74 (66)**	**37 (28)**	**12 (20)**	**455 (445)**

37 Recruitment figures based on new people joining the department. The FTA figures include students and apprentices.

38 Including students.

Diversity[33]

Core Treasury grade diversity as at 31 March 2019 (31 March 2018)

Range	Women	People from Minority ethnic backgrounds	People with disabilities	LGBT
B (%)	56.9 (55.7)	24.1 (22.9)	5.2 (8.2)	3.5 (1.6)
C (%)	57.1 (67.4)	28.6 (29.6)	12.2 (12.6)	3.4 (3.0)
D (%)	44.0 (41.8)	17.3 (16.9)	8.8 (6.8)	8.3 (6.8)
E (%)	42.8 (42.9)	17.2 (15.5)	7.8 (7.1)	7.1 (5.1)
E2 (%)	46.5 (49.5)	11.6 (6.6)	6.6 (3.9)	5.6 (4.4)
SCS 1,2,3 (%)	50.0 (45.2)	5.9 (5.8)	3.4 (2.9)	3.4 (3.9)

Treasury gender diversity as at 31 March 2019 (31 March 2018)

	Male	Female
Executive Management Board members and Group Directors (%)	48.5 (50.0)	51.5 (50.0)
Senior Managers (SCS, not including EMB) (%)	49.5 (55.3)	50.5 (44.7)
All staff (%)	53.7 (53.5)	46.3 (46.5)

Health, safety and wellbeing

Sickness absence

	Jan – Dec 2018 (AWDL)	Jan – Dec 2017 (AWDL)
Government departments[39]	7.0	6.8
Treasury and its agencies	3.7	3.2
Core Treasury	2.6	2.4

Days lost (in Core Treasury) to mental health and related issues

	Jan – Dec 2018	Jan – Dec 2017
Total days lost	897	409
Long term absences days lost	463	112
Short term absences days lost	434	297

Staff with no sickness absence

	Jan – Dec 2018	Jan – Dec 2017
Treasury and its agencies	66%	66%
Core Treasury	70%	70%

39 Latest cross-government data available is at 30th September 2018.

Staff redeployments – Core Treasury

	Loaned in total	Loaned in short-term (6 months or less)[40]	Loaned in long-term (more than 6 months)	Average loan in (years)
Range B	-	-	-	-
Range C	-	-	-	-
Range D	27.0		25.0	1.2
Range E	11.0	2.0	10.0	1.6
Range E2	12.0	1.0	10.0	2.0
SCS1	8.0	2.0	8.0	2.1
SCS2	-	-	-	-
Total	**58.0**	**5.0**	**53.0**	**1.6**

	Loaned out total	Loaned out short-term (6 months or less)[41]	Loaned out long-term (more than 6 months)	Average loan out (years)
Range B	1.0	-	1.0	3.0
Range C	6.0	-	6.0	1.8
Range D	40.0	-	40.0	2.2
Range E	46.0	4.0	42.0	2.2
Range E2	25.0	-	25.0	2.3
SCS1	10.0	-	10.0	3.0
SCS2[42]	3.0	-	3.0	3.5
Total	**131.0**	**4.0**	**127.0**	**2.3**

Trade Union Facilities Time[43]

Relevant union officials

The total number of employees who were relevant union officials during the relevant period was two (1 FTE).

Percentage of pay bill spent on facility time

The percentage of total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period was less than 1%. The total cost of facility time was £1,130 of a total pay bill of £87.9m.[44]

HM Treasury has no agreement in place for facilities time and therefore has nothing to disclose in relation to the percentage of time spent on facility time or paid trade union activities by employees.

40 Loaned in staff are classified as an administration cost. Of the 7 short-term loaned in staff, 5 are free resource. The cost of the other 2 staff is £32k.

41 Loaned out staff are classified as an administration cost. The cost of the staff on short-term loan is £276k.

42 There is one SCS2 who is on loan but also on a career break so has been excluded from the figures.

43 There is nothing to disclose for HM Treasury's agencies – DMO, GIAA and NIC.

44 Calculated as the total gross amount spent on wages, employer pension contributions and employer national insurance contributions during the period.

Analysis of staff costs (audited)

The following disclosures on staff costs (including pension costs), average number of persons employed and exit packages have been audited.

Staff costs

In £m	2018-19 Ministers	Special Advisers	Permanent staff	Others[45]	Total	2017-18 Total
Salaries and wages	1	1	148	18	**168**	167
Social Security costs	-	-	17	-	**17**	17
Staff pension costs	-	-	13	-	**13**	14
Total staff costs	**1**	**1**	**178**	**18**	**198**	198
Less recoveries for outward secondments	-	-	(2)	-	**(2)**	(2)
Net staff costs	**1**	**1**	**176**	**18**	**196**	196
Core Treasury and Agencies	1	1	125	10	**137**	128
ALBs and other bodies	-	-	53	8	**61**	70
Total staff costs	**1**	**1**	**178**	**18**	**198**	198

Average number of full-time equivalent persons employed[46]

	Ministers	Special Advisers	Permanent staff	Others	2018-19 number Total	2017-18 number[47] Total
Core Treasury and agencies	5	7	2,007	52	**2,071**	**1,932**
ALBs and other bodies	-	-	931	69	**1,000**	**1,142**
Total persons employed	**5**	**7**	**2,938**	**121**	**3,071**	**3,074**

Staff pension costs

Staff pension costs for permanent staff of £13m (2017-18: £14m) are primarily employer contributions, including £20m (2017-18: £18m) payable to the Civil Service Pension schemes[48], £4m (2017-18: £5m) payable to defined contribution schemes and £12m credit (2017-18: £10m credit) for United Kingdom Asset Resolution (UKAR) pension schemes and post-retirement healthcare benefits. The

45 'Others' relates to non-permanent staff such as short term contract, agency and temporary staff, as well as staff seconded in from other bodies.

46 Total staff in ALBs and other bodies includes 196 UKAR, 463 Royal Household and 341 in other bodies. The increase in Core Treasury and agencies is attributable to additional staff employed by HM Treasury for EU Exit related work. The decrease in ALBs and Other Bodies is primarily a due to the winddown of UKAR operations and the transfer of MAS to DWP.

47 2017-18 has been restated as the incorrect number was disclosed for the UKAR 'other' category.

48 The Civil Service Pension schemes are unfunded multi-employer defined benefit schemes, however as the Department is unable to identify the share of the underlying assets and liabilities they are treated as defined contribution schemes.

UKAR schemes are in surplus at the reporting date and the credit reflects the net interest income on the schemes.

The Civil Servants and Others Pension Scheme (alpha) was launched as a new pension scheme for civil servants from 1 April 2015. Details on the transition arrangements between alpha and Principal Civil Service Pension Scheme (PCSPS) are outlined on pages 78 to 80. The PCSPS scheme actuary valued the scheme as at 31 March 2012. Details can be found in the 2015-16 Resource Accounts of the Cabinet Office: Civil Superannuation.[49]

For 2018-19, employer's contributions of £20m (2017-18: £18m) were payable to the PCSPS at one of four rates in the range of 20.0% to 24.5% of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accrued during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.1m (2017-18: £0.2m) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and have ranged from 8.0% to 14.75% of pensionable pay since 1 October 2015. In addition, employer contributions of 0.8% of pensionable pay of £11k (2017-18: £9k) were payable to the Civil Service Pension Schemes to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Further details of the Group's pension schemes are provided in Note 11 – Net pension asset.

49 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587315/58353_HC366_Accessible.pdf

Exit packages (audited)

Core Treasury and Agencies

	2018-19			2017-18 (restated)[50]		
Exit package cost band	**Compulsory redundancies**	**Other departures**	**Total**	**Compulsory redundancies**	**Other departures**	**Total**
<£10,000	-	1	**1**	-	-	**-**
£10,000 – £25,000	-	-	**-**	-	4	**4**
£25,001 – £50,000	-	2	**2**	-	4	**4**
£50,001 – £100,000	-	1	**1**	-	3	**3**
£100,001 – £150,000	-	-	**-**	-	-	**-**
£150,001 – £200,000	-	-	**-**	-	-	**-**
>£200,001	-	-	**-**	-	-	**-**
Total exit packages	-	4	**4**	-	11	**11**
Total Resource Cost (£'000)	-	118	**118**	-	442	**442**

50 In 2017-18 GIAA reported 4 compulsory redundancies, which were subsequently identified as 'Other'. Furthermore, 1 HMT employee with a last day of service in 2017-18 was not disclosed in the prior year. Therefore the 2018-19 accounts have been restated to reflect this.

Group[51]

Exit package cost band	2018-19 Compulsory redundancies	2018-19 Other departures	2018-19 Total	2017-18 (restated)[50] Compulsory redundancies	2017-18 (restated)[50] Other departures	2017-18 (restated)[50] Total
<£10,000	-	5	**5**	5	-	**5**
£10,000 – £25,000	4	4	**8**	6	7	**13**
£25,001 – £50,000	7	2	**9**	9	9	**18**
£50,001 – £100,000	1	2	**3**	4	6	**10**
£100,001 – £150,000	1	-	**1**	-	1	**1**
£150,001 – £200,000	-	-	**-**	-	-	**-**
>£200,001	1	-	**1**	1	-	**1**
Total exit packages	14	13	**27**	25	23	**48**
Total Resource Cost (£'000)	781	287	**1,068**	929	957	**1,886**

Consultancy

Consultancy and contingent labour

In £m	2018-19		2017-18	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
Consultancy	15	144	18	166
Contingent labour	8	16	11	18
Total	23	160	29	184

HM Treasury and its agencies and arm's length bodies use professional service providers to support specialist work. This includes consultancy, contingent labour (temporary workers), legal advice and IT expertise.

51 Exit packages are paid, where applicable, in accordance with the terms of the Civil Service Compensation Scheme. Some group entities, such as UKAR and FSCS, do not make payments under the above scheme but under other schemes as disclosed in their respective annual accounts.

Non–payroll staff

There were 49.0 non-payroll FTEs across the department and Agencies as at 31 March 2019, a decrease from 60.6[52] in 2017-18. These include people who are contingent staff, including agency workers, interim managers, specialist contractors and consultants.

Off-payroll transactions

Off-payroll arrangements are those where individuals, either self-employed or acting through a personal service company (PSC) are paid gross by the employer.

While off-payroll arrangements may sometimes be appropriate in the public sector for those engaged on a genuinely interim basis, they are not appropriate for those in management positions or those working for a significant period with the same employer.

The tables below show off-payroll engagements for bodies for which the Treasury holds management information data which it reports on a regular basis.

In addition, there have been no board members and/or senior officials with significant financial responsibility between 1 April 2018 and 1 April 2019 who have been engaged off-payroll.

Off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than 6 months[53]

	Core Treasury	DMO	GIAA
The total number of engagements	-	6	2
Of which:			
No. that have existed for less than one year at time of reporting	-	1	1
No. that have existed for between one and two years at time of reporting	-	1	1
No. that have existed for between two and three years at time of reporting	-	1	-
No. that have existed for between three and four years at time of reporting	-	3	-
No. that have existed for four or more years at time of reporting	-	-	-

52 The FTE number of 23 disclosed in 2017-18 was not correct as it only included non-payroll staff from one supplier.

53 As of 31 March 2019, there were no engagements that matched the above criteria for Core Treasury and NIC and so have not been included in this table.

New off-payroll appointments, or those that reach six months in duration between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months[54]

	Core Treasury	DMO	GIAA
The number of existing engagements, or those that reached six months in duration between 1 April 2018 and 31 March 2019.	1	2	2
Of which:			
Number assessed as within the scope of IR35.	1	2	2
Number assessed as not within the scope of IR35	-	-	-

None of these engagements were direct (via PSC, contracted to the department) and are not on the payroll. No engagements were reassessed for consistency or assurance purposes during the year and none saw a change in IR35 status.

Tom Scholar
Permanent Secretary

27 June 2019

54 There were no engagements that matched the above criteria for NIC and so have not been included in this table.

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply and related notes (audited)

For the period ended 31 March 2019

In addition to the primary financial statements prepared under IFRS, the FReM requires the Treasury to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes analysing the net resource and capital outturn against control totals voted by Parliament through the Estimate.

Voted totals and the Net Cash Requirement figures shown below are subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Estimate of administration costs will also result in an excess vote. Explanations of variances between estimate and outturn are given in the notes to the SoPS. The SoPS and supporting notes are subject to audit.

		2018-19							2017-18
		Estimate			Outturn			Voted Outturn compared with Voted Estimate	Outturn
In £000	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Saving/ (Excess)	Total
Departmental Expenditure Limit									
Resource	SoPS 1.1	254,540	7,300	**261,840**	238,999	6,998	**245,997**	15,541	**225,841**
Capital	SoPS 1.2	181,190	-	**181,190**	167,136	-	**167,136**	14,054	**(78,311)**
Annually Managed Expenditure									
Resource	SoPS 1.1	11,218,718	3,859	**11,222,577**	(15,282,536)	4,267	**(15,278,269)**	26,501,254	**(678,666)**
Capital	SoPS 1.2	(8,527,050)	-	**(8,527,050)**	(12,998,111)	-	**(12,998,111)**	4,471,061	**(3,696,566)**
Total Budget		**3,127,398**	**11,159**	**3,138,557**	**(27,874,512)**	**11,265**	**(27,863,247)**	**31,001,910**	**(4,227,702)**
Total Resource		11,473,258	11,159	**11,484,417**	(15,043,537)	11,265	**(15,032,272)**	26,516,795	**(452,825)**
Total Capital		(8,345,860)	-	**(8,345,860)**	(12,830,975)	-	**(12,830,975)**	4,485,115	**(3,774,877)**
Total		**3,127,398**	**11,159**	**3,138,557**	**(27,874,512)**	**11,265**	**(27,863,247)**	**31,001,910**	**(4,227,702)**
Net Cash Requirement	SoPS3			**(6,261,473)**			**(9,447,596)**	3,186,123	**(16,060,448)**
Administration costs				**190,142**			**186,114**	4,028	**165,236**

SoPS1.1 Analysis of net resource outturn by section

		2018-19										2017-18
		Administration			Programme			Outturn	Estimate	Outturn	Outturn	Outturn
In £000		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	net total	net total	compared to Estimate	compared to Estimate, adjusted for virements	net total
Spending in Department Expenditure Limit (DEL)												
Voted												
A	Core Treasury	168,673	(18,791)	149,882	43,878	(4,316)	39,562	189,444	198,350	8,906	10,568	170,291
B	Debt Management Office	17,278	(4,056)	13,222	4,693	(804)	3,889	17,111	19,341	2,230	2,172	17,664
C	Government Internal Audit Agency	36,872	(36,137)	735	-	-	-	735	3,060	2,325	2,252	4,106
D	Office of Tax Simplification	937	-	937	-	-	-	937	961	24	24	768
	UK Financial Investments (net)	-	-	-	-	-	-	-	-	-	-	1,709
E	Office for Budget Responsibility (net)	3,209	-	3,209	-	-	-	3,209	3,000	(209)	-	2,563
F	Infrastructure Finance Unit Limited (net)	-	-	-	-	-	-	-	1	1	1	(4,378)
G	IUK Investments Ltd (net)	-	-	-	(518)	-	(518)	(518)	-	518	518	(77)
I	HM Treasury UK Sovereign Sukuk Ltd (net)	-	-	-	(4)	-	(4)	(4)	1	5	5	(4)
J	Royal Mint Advisory Committee (net)	-	-	-	-	-	-	-	1	1	1	-
K	Asian Infrastructure Investment Bank	-	-	-	9,956	-	9,956	9,956	9,956	-	-	8,848
L	National Infrastructure Commission	4,825	-	4,825	-	-	-	4,825	4,600	(225)	-	5,416
M	UK Government Investments Limited (net)	13,304	-	13,304	-	-	-	13,304	15,269	1,965	-	11,918
Total Voted spending in DEL		**245,098**	**(58,984)**	**186,114**	**58,005**	**(5,120)**	**52,885**	**238,999**	**254,540**	**15,541**	**15,541**	**218,824**
Non-voted												
N	Banking and gilts registration services	-	-	-	6,998	-	6,998	6,998	7,300	302	302	7,017
Total spending in DEL		**245,098**	**(58,984)**	**186,114**	**65,003**	**(5,120)**	**59,883**	**245,997**	**261,840**	**15,843**	**15,843**	**225,841**

Spending in Annually Managed Expenditure (AME)												
Voted												
G	IUK Investments Ltd (net)	-	-	-	-	-	-	-	-	-	-	2,666
O	Provisions	-	-	-	134,748	-	134,748	134,748	48,500	(86,248)	-	141,676
P	UK coinage manufacturing costs	-	-	-	22,992	-	22,992	22,992	11,500	(11,492)	-	43,108
Q	UK coinage metal costs	-	-	-	23,113	(19,541)	3,572	3,572	(9,000)	(12,572)	-	24,930
R	Royal Mint dividend	-	-	-	-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	(4,000)
S	Investment in Bank of England	-	-	-	-	(54,000)	(54,000)	(54,000)	(50,000)	4,000	4,000	(62,444)
T	Administration of the Equitable Life payment scheme	-	-	-	(148)	-	(148)	(148)	250	398	398	786
U	Sale of shares	-	-	-	-	-	-	-	(446,775)	(446,775)	-	(426,844)
	National Loan Guarantee Scheme	-	-	-	-	-	-	-	-	-	-	(3,390)
V	Loans to Ireland	-	-	-	-	(86,620)	(86,620)	(86,620)	(83,768)	2,852	2,852	(81,043)
W	Assistance to financial institutions	-	-	-	(14,027,075)	(1,000,448)	(15,027,523)	(15,027,523)	11,819,810	26,847,333	26,290,188	291,566
X	Sovereign Grant funding of the Royal Household (net)	-	-	-	66,485	-	66,485	66,485	82,200	15,715	15,715	47,349
	Money Advice Service (net)	-	-	-	-	-	-	-	-	-	-	9,500
Y	Financial Services Compensation Scheme (net)	-	-	-	(11,474)	-	(11,474)	(11,474)	(1,000)	10,474	10,474	(75,323)
Z	UK Asset Resolution Ltd (net)	-	-	-	(327,527)	-	(327,527)	(327,527)	(150,000)	177,527	177,527	(592,143)
AA	Help to Buy (net)	-	-	-	59	-	59	59	1	(58)	-	(12)
AB	Help to Buy ISA	-	-	-	-	-	-	-	-	-	-	-
	UK Financial Investments (net)	-	-	-	-	-	-	-	-	-	-	967
AC	UK Government Investments (net)	-	-	-	900	-	900	900	1,000	100	100	-
Total Voted spending in AME		**-**	**-**	**-**	**(14,117,927)**	**(1,164,609)**	**(15,282,536)**	**(15,282,536)**	**11,218,718**	**26,501,254**	**26,501,254**	**(682,651)**
Non-voted												
AD	Royal Household Pensions	-	-	-	4,502	(594)	3,908	3,908	3,500	(408)	(408)	3,626
AE	Civil List	-	-	-	359	-	359	359	359	-	-	359
Total spending in AME		**-**	**-**	**-**	**(14,113,066)**	**(1,165,203)**	**(15,278,269)**	**(15,278,269)**	**11,222,577**	**26,500,846**	**26,500,846**	**(678,666)**
Total resource outturn		**245,098**	**(58,984)**	**186,114**	**(14,048,063)**	**(1,170,323)**	**(15,218,386)**	**(15,032,272)**	**11,484,417**	**26,516,689**	**26,516,689**	**(452,825)**

SoPS1.2 Analysis of net capital outturn by section

In £000		2018-19 Gross	Income	Outturn net total	Estimate net total	Outturn net total compared to Estimate	Outturn net total compared to Estimate, adj. for virements	2017-18 Outturn net total
Spending in Department Expenditure Limit (DEL)								
Voted								
A	Core Treasury	1,221	-	1,221	2,784	1,563	1,130	1,499
B	Debt Management Office	4,566	-	4,566	5,452	886	886	2,594
F	Infrastructure Finance Unit Limited (net)	63,321	-	63,321	75,000	11,679	11,679	(88,346)
G	IUK Investments Limited (net)	434	-	434	1	(433)	-	5,942
H	IUK Investments Holdings Limited (net)	-	-	-	1	1	1	-
K	Asian Infrastructure Investment Bank	411,079	(313,828)	97,251	97,252	1	1	-
L	National Infrastructure Commission	343	-	343	700	357	357	-
Capital spending in DEL		**480,964**	**(313,828)**	**167,136**	**181,190**	**14,054**	**14,054**	**(78,311)**
Annually Managed Expenditure (AME)								
Voted								
S	Investment in Bank of England	1,180,000	-	1,180,000	1,200,000	20,000	20,000	-
U	Sale of shares	-	(2,506,750)	(2,506,750)	(2,393,000)	113,750	113,750	(935,433)
W	Assistance to financial institutions	-	(2,186)	(2,186)	-	2,186	2,186	(6,536)
X	Sovereign Grant funding of the Royal Household (net)	8,809	-	8,809	3,200	(5,609)	-	4,618
	Money Advice Service (net)	-	-	-	-	-	-	500
Y	Financial Services Compensation Scheme (net)	623	-	623	250	(373)	-	(23,877)
Z	UK Asset Resolution (net)	(11,806,922)	-	(11,806,922)	(7,475,500)	4,331,422	4,325,440	(2,839,808)
AB	Help to Buy ISA	128,315	-	128,315	138,000	9,685	9,685	103,970
Capital spending in AME		**(10,489,175)**	**(2,508,936)**	**(12,998,111)**	**(8,527,050)**	**4,471,061**	**4,471,061**	**(3,696,566)**
Total Capital Outturn		**(10,008,211)**	**(2,822,764)**	**(12,830,975)**	**(8,345,860)**	**4,485,115**	**4,485,115**	**(3,774,877)**

Explanation of key variances between Estimate and net resource outturn as at 31 March 2019

SoPS 1.1 Analysis of net resource outturn by section

Spending in Department Expenditure Limit (DEL)

A Core Treasury:

Programme costs were £11m less than budget predominately due to the implications of previous funding decisions, categorisation and currency changes both at 2015 Spending Review (SR) and subsequently that has resulted in surplus programme budget. This includes £5m of funding received for the administration of the Help to Buy Scheme that is regarded as AME, the £2m programme transfer for UKGI received in year which has been charged to the admin budget, and income from the Northern line extension (£2m) which was previously not anticipated.

Legal costs were £3m lower than expected, with the actual claims received less than originally anticipated by the Government Legal Department. This is predominately due to an adjournment in significant cases, which will result in additional cost pressures in 2019-20.

Accommodation income was £1m greater than expected due to an additional tenant for Horse Guards Road.

Pay costs were £3m higher than expected due to earlier than anticipated recruitment and FTE levels higher than budgeted throughout the year. As part of business planning for 2019-20 work has been undertaken to ensure that the pay budget is based on a recruitment profile that reflects appropriate and realistic assumptions, and to confirm controls so that resources are employed in line with this profile and delegated limits.

B DMO:

Underspend was primarily due to £3m of fee income greater than expected - predominately associated with PLWB lending. This income is led entirely by market conditions and the Department has a limited amount of control and sight of demand changes, this level of fluctuation is evident in the highest level of monthly income for over 5 years being recognised in March 2019. The additional income has been offset by pay costs £1m above budget.

C GIAA:

Underspend mainly due to £2m intra-group back office IT and Finance charges included in the budget but eliminated on consolidation.

M UKGI:

Underspend is mainly due to pay costs £1m less than budget, predominately due to a delay in the recruitment timeline, and higher than expected recovery of costs from other Government Departments.

Spending in Annually Managed Expenditure (AME)

O Provisions:

Variance due to the increase in savings backed by the Help to Buy ISA, and an increased forecast of decommissioning costs under the Decommissioning relief deeds – both increases exceeding the utilisation of existing provision during the year.

U Sale of Shares:

The variance relates entirely to the change to the treatment of fair value movements following the change in accounting standards from IAS 39 to IFRS 9.

W Assistance to Financial Institutions:

The variance mainly relates to the £26bn variance for fair value movements in the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative which achieved a gain of £14bn during the year (for more information see Note 16 of the Accounts).

Due to the volatile and unpredictable nature of the derivative estimate, a decision was made on the grounds of prudence to cover a potential £12bn loss (calculated by reference to historic movements since inception), thereby generating the variance disclosed. By electing to budget for the potential downside this ensured that a breach in control totals was less likely to occur.

X UK Asset Resolution:

Profit on the sale of loans to banking customers, offset by the release of the hedging instruments linked to these loans.

SoPS 1.2 Analysis of net capital outturn by section

Spending in Department Expenditure Limit (DEL)

A Core Treasury:

£2m underspend is due to delays in corporate ICT and estates projects, and in reclassification of ICT project costs from capital to resource.

F Infrastructure Finance Unit Limited (net):

The underspend relates to the Digital Infrastructure Fund, with the remaining undrawn amount able to be called upon in the future years of the funds operation.

Spending in Annually Managed Expenditure (AME)

U Sale of Shares:

The variance relates entirely to the change to the treatment of fair value movements following the change in accounting standards from IAS 39 and IFRS 9

X UK Asset Resolution:

Variance of £4.3bn is mainly due to accelerated mortgage asset sales not included in the 2018-19 budget.

SoPS2 Reconciliation of outturn to net income

In £000	Note	2018-19	2017-18
Total resource outturn in SoPS	SoPS1.1	(15,032,272)	(452,825)
Add: Capital grants made		128,315	103,970
Less: Capital grant in kind received		(313,828)	-
Less: Income payable to the Consolidated Fund		(182,422)	(213,503)
Net income in the SoCNE		**(15,400,207)**	**(562,358)**

The capital grants made relate to Help to Buy ISA bonus payments which are charged against Capital AME within the SoPS capital outturn.

The income payable to the Consolidated Fund primarily relates to Pool Re fees. These have been accrued for and will be paid over to the Consolidated Fund when they have been received by the Treasury.

The capital grant in kind relates to a transfer from the Department of International Development of their portion of the UK's shareholding in the Asian Infrastructure Investment Bank.

SoPS3 Reconciliation of net resource outturn to net cash requirement

			2018-19	
In £000	**Note**	**Estimate**	**Outturn**	**Outturn Net total compared with Estimate: saving/(excess)**
Resource Outturn	SoPS1.1	**11,484,417**	**(15,032,272)**	**26,516,689**
Capital Outturn	SoPS1.2	**(8,345,860)**	**(12,830,975)**	**4,485,115**
Accruals to cash adjustments:		**(9,388,871)**	**18,426,916**	**(27,815,787)**
Of which:				
Adjustments to remove non-cash items:				
Depreciation		(5,215)	(3,483)	(1,732)
BEAPFF fair value movements		(11,970,000)	14,030,760	(26,000,760)
New provisions and adjustments to previous provisions		(49,000)	(316,375)	267,375
Other non-cash items		(200)	87,576	(87,776)
Adjustments for ALBs and other bodies:				
Remove voted resource and capital		7,446,575	3,602,239	3,844,336
Add cash grant-in-aid		100,469	97,985	2,484
Adjustments to reflect movements in working balances:				
Decrease in inventory		(20,000)	(11,778)	(8,222)
Decrease in receivables		(4,924,000)	710,555	(5,634,555)
Decrease in payables		-	15,922	(15,922)
Use of provisions		32,500	213,515	(181,015)
Subtotal		**(6,250,314)**	**(9,436,331)**	**3,186,017**
Removal of non-voted budget items:				
Banking and gilts registration service		(7,300)	(6,998)	(302)
Royal Household Pension Scheme		(3,500)	(3,908)	408
Civil List		(359)	(359)	-
Net cash requirement		**(6,261,473)**	**(9,447,596)**	**3,186,123**

SoPS4.1 Income payable to the Consolidated Fund

In addition to income and capital receipts retained by HM Treasury, the following amounts are payable to the Consolidated Fund.

In £000	2018-19 Outturn Income	2018-19 Outturn Cash receipts	2017-18 Outturn Income	2017-18 Outturn Cash receipts
Operating income outside the scope of the Estimate	182,422	272,102	213,503	203,162
Capital receipts outside the scope of the Estimate	-	9,684,765	-	10,029,012
Excess cash surrendered to the Consolidated Fund	9,392,211	9,392,211	16,058,071	16,058,071
Excess cash surrenderable to the Consolidated Fund	55,833	55,833	2,761	2,761
Total amounts paid and payable to the Consolidated Fund	**9,630,466**	**19,404,911**	**16,274,335**	**26,293,006**

Capital receipts outside the scope of the estimate consists entirely of cash transfers from the BEAPFF derivative. See also Note 16 – Derivative Financial Assets and Note 28 Financial Risk.

Excess cash surrendered to the consolidated fund – relates to cash held in HM Treasury which is not required to fund the department's continuing operations, and is therefore passed to the consolidated fund. See also Statement of Cash Flows for further information.

SoPS4.2 Consolidated Fund income

Consolidated Fund income shown in the table above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement in Chapter 4 of this Annual Report and Accounts.

Parliamentary accountability disclosures

Losses and special payments (audited)

During the current year, the Group accounts contained no special payments and one reportable loss (2017-18: one) totalling over £300,000 (2017-18: £3,355k). The loss reflected the impairment by IUK Investments Limited of £1,978k in respect of its PF2 investment in the PSBP Midlands (Holdings) Ltd, the project company delivering construction of a batch of Midlands schools. The impairment arose following the liquidation of Carillion plc, one of the partners in the project.

Fees and charges (audited)

The Treasury Group receives the below fees, levies and charges for services

Fees, levies and charges (core Treasury)	Income (£m)
Pool Re loan commitment[1]	181
UK Guarantee Scheme	12
Help to Buy Guarantees	14

Fees, levies and charges (Group)	Income (£m)
FSCS Levies	503
GIAA Audit fees	36
UKAR Fees and charges	12
DMO Fees and charges	4

Fees for guarantees and loan commitments provided by core Treasury are set based on the risk of a call on the underlying guarantees and commitments, and are entered into to ensure the stability of the economy rather than to achieve a financial objective of recovering the annual costs of a service being provided. There is no material administration cost incurred in providing these services.

All other details regarding income from fees, levies and charges received by arm's length bodies can be found in the relevant bodies' annual reports and accounts.

Income in the above tables is included within the Income from sale of goods and services, Other operating income (Note 2) and Finance income (Note 6) lines in the SoCNE.

Payment of suppliers

In May 2010, the government introduced a 5-day target for all suppliers to receive payment. During 2018-19, the Treasury Group made 68% of all supplier payments within 5 days, against an internal target of 90%[2] (2017-18: 61%).

Auditors

The Comptroller and Auditor General carries out the audit of the consolidated accounts of the Treasury Group under the Government Resources and Accounts Act 2000.

[1] Including interest due on receivable

[2] The cross government target differs, having committed to pay 80% of undisputed and valid invoices within 5 days with the remainder paid in 30 days.

Central Funds

As detailed in the Governance Statement above, HM Treasury has oversight and administrative responsibility for the government's Central Funds, namely the Consolidated Fund, National Loans Fund, Contingencies Fund and Exchange Equalisation Account. These funds are accounted for outside of the Treasury departmental group, and disclosures within the Annual Report and Accounts of each of these funds should be viewed alongside those of the departmental group.

Contingent liabilities not required to be disclosed under IAS 37 (audited)

In addition to contingent liabilities reported under IAS 37 in Note 27 of the Accounts, HM Treasury is required to disclose liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of a contingent liability or a contingent liability otherwise outside the scope of IAS 37, such as financial guarantees.

These disclosures are required by Managing Public Money and are related to Parliamentary accountability. All contingent liabilities must be reported to Parliament by a departmental minute so that Parliament has the opportunity to debate the merits of the item and to bind the government to honour the obligation. To meet the relevant disclosure requirements HM Treasury is required to provide a brief description of the nature of each contingent liability and where practical, an estimate of its financial effect.

In many cases, entering into arrangements that create a contingent liability has a distinct policy advantage; as they allow the government to intervene where it deems necessary, whilst not requiring an injection of government funding. While the risk of settlement may be remote, if they did crystallise there is a possibility that the government may have to distribute funds. The contingent liabilities disclosed by HM Treasury are linked to the role of being the UK's finance and economics ministry, or because there is no other practical place to disclose these within the public sector.

A remote contingent liability represents the maximum potential exposure assuming trigger events occur and the maximum exposure crystallises. If any of the contingent liabilities detailed below were to crystallise and HM Treasury was required to settle an obligation this would be achieved through the normal Supply Estimates[3] process.

HM Treasury's contingent liabilities include indemnities, financial guarantees and letters of support. These are explained in more detail below.

Article 50

On 29 March 2017, the UK government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified, during which the UK remains a full member of the EU with all the rights and obligations arising from membership. The terms on which the UK will leave, including any financial settlement payable by the UK towards commitments and liabilities that the

[3] The Supply Estimates Guide can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220744/estimates_manual_july2011.pdf

EU entered into when the UK was a member state, will be determined by the withdrawal agreement under Article 50 and become legally binding when ratified. On 19 March 2018 the UK and EU negotiators published a draft withdrawal agreement. An updated withdrawal agreement was published on 25 November 2018. The negotiations are ongoing and as such have not given rise to any legal or constructive obligation for HM Treasury at the reporting date.

The department may be required to settle any liabilities arising from changes in legislation, regulation and funding arrangements resulting from EU exit on behalf of the UK government where these are not covered by other government departments. This is disclosed as an unquantifiable remote contingent liability in accordance with the principles of Managing Public Money.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, to effect what is known as quantitative easing, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK government debt traded on the secondary market. The government has indemnified the Bank and the Bank of England Asset Purchase Facility Fund (BEAPFF) Limited, the fund specially created to implement the facility, from any losses arising out of or in connection with the facility.

The BEAPFF is financed by a loan from the Bank of England, which totalled £445bn at 31 March 2019, after the transfer of the Term Funding Scheme (TFS) to the Bank, as detailed below and in Note 28.3.

The indemnity provided to the Bank represents a remote contingent liability for HM Treasury, which would crystallise if the BEAPFF incurred losses when ultimately wound up and HM Treasury were required to fund a shortfall of cash needed to repay the Bank of England loan. Payments of interest may also need supporting by HM Treasury if there were a significant increase in the Bank of England's Base Rate (Bank Rate).

Although the indemnity supports total asset acquisitions and lending of £445bn, the crystallisation of a potential loss on realising these assets is currently unquantifiable, as the quantum of any potential loss is driven by both the Bank's future policy decisions regarding when to wind up the scheme and by market prices at that time.

In June 2018 HM Treasury and the Bank of England announced reforms to the Bank's financial framework to boost transparency, reinforce Bank resilience and independence and strengthen the financial system. The new arrangements include a more transparent capital and income framework for the Bank, requiring an upfront injection of £1.2bn to bring the Bank's capital base up to a new target level.

Alongside the injection, the Bank has taken the TFS onto its own balance sheet from the BEAPFF. This reduced the maximum size of HM Treasury's indemnity for the BEAPFF by £140bn to £445bn.

The formal agreement that HM Treasury recapitalise the Bank in the event of a capital loss results in a new, smaller, remote contingent liability for HM Treasury. This is currently unquantifiable as the occurrence of the conditions required for the contingent liability to crystallise cannot be accurately calculated, given the unprecedented nature of the economic conditions required, and as the new framework is not for a finite term.

Following the upfront injection, the bank has a strengthened capital base, and the risk of a subsequent capital loss to the Bank requiring further injection by HM Treasury is considered remote. due to the unprecedented nature of the economic conditions that would cause it to crystallise.

The risk management undertaken by the Bank of England on the BEAPFF and HM Treasury's behalf is detailed in Note 28.3.

Decommissioning Relief Deeds – oil and gas industry

The government has entered into deeds with oil and gas companies to guarantee the basis on which tax relief for decommissioning is available.

As part of the terms of becoming a participator in a licence in the UK or UK Continental Shelf, companies have a statutory obligation to decommission their operations properly once oil and gas production has ceased.

The Deeds have been signed by the government and eligible companies. Any company that has carried on a ring-fenced trade, and the associates of those companies, are eligible to be party to a deed. The Deed provides companies with greater certainty in respect of decommissioning tax relief and allows them to adopt post-tax securitisation arrangements for the future costs of decommissioning.

The Deeds support the government's objective of maximising economic production of oil and gas reserves in the UK Continental Shelf. The Deeds are designed to free up capital that otherwise would have been held in reserve against possible changes in tax rules. In December 2018 Oil and Gas UK estimated that £6bn of capital had been unlocked for reinvestment as a result of the Deeds.

As at 31 March 2019, 92 Deeds had been signed and were in force (2017-18: 86). These Deeds indemnify the companies for changes in tax legislation or the default of joint-venture partners in respect of their decommissioning activities, allowing them to claim relief potentially otherwise available to the field from HMRC through the tax system.

The crystallisation of any liability is dependent on the financial health of the companies (and their joint-venture partners) that are party to the Deeds.

Since inception, one claim has been made. The remaining amount of the claim has been reflected as a provision for £357m; see Note 20 of the Accounts.

HM Treasury has not disclosed the potential financial value of the Decommissioning Relief Deeds because it is unquantifiable, given the absence of comparable data to use in any calculation.

Director indemnities

HM Treasury employees can be called upon to act as a director of one of the incorporated companies within the HM Treasury Group. HM Treasury has granted directors an indemnity against any losses or liabilities incurred in the course of their duties whilst the incorporated companies remain in public ownership.

The crystallisation of any liability is dependent on the actions of the directors.

HM Treasury has not disclosed the financial effect of director indemnities because it is not practicable to do so as there is no evidence to evaluate.

UK Guarantees

The UK Guarantee scheme was announced on 18 July 2012. The scheme aims to support infrastructure projects that may have stalled because of adverse credit conditions. The Scheme enables the Treasury to issue a guarantee to the lenders to infrastructure projects ensuring that principal and interest payments will be paid in full and on time. Up to £40bn of guarantees could be offered under the scheme.

As at 31 March 2019 six projects were guaranteed and no new guarantees were issued during the year. Note 28.3 to the Accounts gives more detail on each infrastructure project.

If a borrower is in a default position and not able to meet the principal and interest obligations, the guarantee will be called and HM Treasury will assume responsibility for these payments.

However, default would not necessarily mean a full pay out of the borrower's obligations. The Treasury would seek to recover as much as possible from the borrower and to refinance within 12 months.

The crystallisation of any liability is dependent on individual borrowers being unable to make their repayments. To date, no call has been made under the scheme and as a result no amounts have been required to be paid.

The scheme allows for maximum contingent liability of £40bn. As at 31 March 2019 the maximum potential liabilities under this scheme were estimated to be £1bn. A breakdown of the exposure by each infrastructure project can be seen in Note 28.3 of the Accounts.

The Help to Buy: mortgage guarantee scheme

The Help to Buy: mortgage guarantee scheme was launched on the 8 October 2013 to address the shortage of high loan-to-value mortgages by offering lenders the option to purchase a guarantee on mortgages where the borrower has a deposit of between 5% and 20%.

The scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2016 continued to be accepted into the scheme until 30 June 2017.

A portion of the liability would crystallise if the following events occurred: 1) a borrower defaults on their mortgage 2) the sale proceeds from property are less than the outstanding principal and interest repayments owing; and 3) the lender makes a claim to HM Treasury for the difference. During the life of the scheme there have been eleven successful claims totalling £120k. Since inception bank rates has been at historic lows, employment rates have been steady and on average property values have increased. This has contributed to the fact that the number of claims has been so low.

Under the scheme rules the maximum contingent liability limit was set at £12bn. As at 31 March 2019 the maximum potential liabilities under this scheme were estimated to be £1.4bn.

For information on the related financial guarantee see Note 23 of the Accounts.

Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) was set up in December 2015 with the UK as a shareholder, along with a large number of other countries, to support financing for infrastructure projects across Asia. The UK's investment, like that of all other shareholders in the bank, is in the form of 20% paid-in capital and 80% callable capital. The paid-in capital is made in five annual instalments of US$122m, totalling US$611m.

A remote contingent liability arises in relation to the callable capital, which increases by US$489m (approximately £374m) each time a new payment is due, to an eventual total of US$2.4bn (approximately £1.84bn) callable capital. This is not paid over, but the AIIB would be able to call on it from shareholders in the event that the bank was not able to meet its obligations.

Although the AIIB has the right to call for payment of this callable capital if there is a crisis affecting the bank's assets or loans, the equity base of the bank is currently more than sufficient to meets its financial objectives by absorbing risk from its own resources. Three major credit ratings agencies provided the bank with AAA ratings in their most recent assessments,[4] and no such instance whereby payment has been called has occurred in any major multilateral development bank in the past. If the liability were to be called, provision for any payment would be sought through the normal Supply Estimates procedure.

The first instalment of paid-in capital was made by HM Treasury in January 2016. The second and third instalments were paid by the Department for International Development (DfID) and transferred to HM Treasury during the 2018-19 financial year and HM Treasury made the fourth payment in December 2018.

Accordingly, HM Treasury has a remote contingent liability of US$1.95bn (approximately £1.53bn) as at 31 March 2019 in respect of callable capital related to the AIIB. HM Treasury will make the final payment in December 2019 to bring the contingent liability for the UK's total investment in the AIIB to the total US$2.4bn (approximately £1.88bn).

For information on the related commitments see Note 25 of the Accounts.

Deposit guarantees

At the time of the nationalisation of Bradford & Bingley plc (B&B) in 2008 and Northern Rock Asset Management plc (NRAM) in 2010, HM Treasury provided

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[4] Standard & Poors, 15 February 2019 https://www.aiib.org/en/treasury/_common/_download/SPGlobalRatings_Feb_15_2019.pdf; Fitch, 11 July 2018, https://www.aiib.org/en/treasury/_common/_download/AIIB_fitch_2018.pdf; Moody's, 28 March 2019, https://www.aiib.org/en/treasury/_common/_download/PR-AIIB-affirmation-March-2019.pdf

guarantees with regard to certain borrowings, derivative transactions and certain wholesale deposits held in accounts with each entity. See further detail in Note 23 of the Accounts.

B&B and NRAM (now NRAM Ltd, created after the sale of NRAM plc in 2016) pay monthly guarantee fees to the Treasury for these guarantees. If B&B and NRAM are unable to meet their obligations, HM Treasury will assume responsibility for these payments.

The crystallisation of any liability is dependent on the solvency of B&B and NRAM. Each year, the board of UK Asset Resolution Ltd (UKAR), which owns and manages B&B and NRAM on behalf of HM Treasury, assesses the long-term viability of the UKAR Group. In the most recent review, UKAR management assessed that the Group will remain viable throughout the entire period of its anticipated wind down. No payments have been made by HM Treasury under these guarantees.

The maximum potential liabilities under the intervention for B&B are nil as at 31 March 2019 (2017-18: £13.3m) as the underlying guaranteed assets were disposed of in-year although the guarantee still exists. A financial guarantee liability of nil value is carried at fair value on the Statement of Financial Position (SoFP) at the reporting date (2017-18: £1.8m).

The maximum potential liabilities under the intervention for NRAM are estimated to be £0.2bn as at 31 March 2019 (2017-18: £0.2bn), of which a financial guarantee liability of £10.0m is carried at fair value on the Statement of Financial Position at the reporting date (2017-18: £9.8m).

There is no contingent liability at the group level for either guarantee.

UKAR: Bradford & Bingley plc and NRAM Ltd mortgage assets

To facilitate each sale of UKAR's B&B and NRAM assets, HM Treasury has offered certain fundamental market-standard warranties which have created remote contingent liabilities. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their nature, such occurrence is considered remote.

Each of these sales and the associated remote contingent liability are listed below:

- On the 31 March 2017, the Chancellor announced the sale of a portfolio of UKAR's B&B loan book assets to Prudential plc and funds managed by Blackstone. The proceeds of the sale were £11.4bn.

  Maximum value of remote contingent liabilities arising from:

Fundamental warranties	£11.4bn

- On the 26 April 2018, the Chancellor announced the sale of a portfolio of UKAR's B&B loan book assets to an investor group led by Barclays. The proceeds from the sale were £5.3bn.

  Maximum value of remote contingent liabilities arising from:

Fundamental warranties	£5.3bn
Other warranties	£1.1bn

- On the 27 September 2018, the Chancellor announced the sale of a portfolio of UKAR's B&B and NRAM loan book assets to Rothesay Life. The proceeds from the sale were £983m.

  Maximum value of remote contingent liabilities arising from:

Fundamental warranties	£983m

- On 10 January 2019 the Economic Secretary to the Treasury announced the sale in December 2018 of a portfolio of UKAR's B&B and NRAM commercial loans to a consortium formed of Arrow Global Limited and Davidson Kempner European Partners LLP. The proceeds from the sale were £61m.

  Maximum value of remote contingent liabilities arising from:

Fundamental warranties	£58.2m
Intermediate warranties	£11.6m
Contractual rights (regarding Sale & Leaseback agreements)	£2.8m

- On 2 April 2019 the Economic Secretary to the Treasury announced the sale in March 2019 of a portfolio of UKAR's NRAM together loans to Citi with majority funding from PIMCO. The proceeds from the sale were £4.9bn.

  Maximum value of remote contingent liabilities arising from:

Fundamental warranties	£4.9bn

For information on the related contingent liabilities arising from these transactions see Note 27 of the Accounts.

In November 2015 a £1bn Net Asset Value Covenant was provided to Cerberus as part of the sale of certain loans and the shares in NRAM plc. From January 2019 that Covenant has been replaced with a parent company guarantee from UKAR and a credit support deed from HMT to UKAR.

Pool Re and Pool Re (Nuclear) Limited

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies providing terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption in Great Britain.

The total reserves of Pool Re and of Pool Re (Nuclear) as at the date of their latest published and management accounts (December 2018) are £5.8bn (2017-18: £5.8bn) and £31m (2017-18: £30m) respectively. In the event of losses exceeding their available resources, HM Treasury will fund the difference which will be repaid over time. Maximum potential liabilities under this arrangement are considered unquantifiable as there is no past experience to use in forming an estimate, and the size and scale of a potential terrorist incident cannot be predicted. It is also considered remote that circumstances would arise requiring HM Treasury to provide such financial assistance. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Royal Mint

The Royal Mint Trading Fund has a Memorandum of Understanding arrangement with the National Loans Fund by which it can draw down against a financing facility, with an upper limit of £36m. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50m.

If the Royal Mint Trading Fund was unable to repay any drawdowns against this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met by HM Treasury.

HM Treasury has provided an indemnity to the Cabinet Office in respect of employer contributions payable to the Civil Service Pensions Scheme when the Royal Mint's pensions transferred under new fair deal[5]. This liability would only materialise in the unlikely event that the Royal Mint failed to make payments to the pension scheme. It is unquantifiable since the scheme is expected to run for the foreseeable future, and the timing and scale of any possible failure by the Royal Mint cannot be predicted.

5 https://www.civilservicepensionscheme.org.uk/employers/applying-to-join-civil-service-pensions/new-fair-deal/

Treasury core tables

Total resource and capital spending for the Treasury Group

The tables on the following pages provide a summary of the department's net expenditure outturn for 2018-19 and the four prior years, along with the planned expenditure for 2019-20. The outturn and planned expenditure is recorded on the same basis as the information on financial performance in the Statement of Parliamentary Supply beginning on page 91. They represent the spending incurred collectively across the departmental group in meeting its objectives detailed in the Performance Report in Chapter 1.

Resource

In £m			Outturn			Budget
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Resource DEL						
Core Treasury	106	122	118	170	189	159
Debt Management Office	18	18	18	18	17	21
Government Internal Audit Agency	-	1	2	4	1	-
Office of Tax Simplification	-	-	1	1	1	1
UK Financial Investments	3	3	2	2	-	-
Office for Budget Responsibility	2	2	3	2	3	3
Infrastructure Finance Unit Ltd	(4)	(4)	(4)	(4)	-	-
IUK Investments Limited	-	-	-	-	-	-
Eurostar	-	(16)	-	-	-	-
UK Government Investments Ltd	-	-	11	12	13	16
National Infrastructure Commission	-	-	1	5	5	5
Business Finance Partnership	(11)	-	-	-	-	-
Asian Infrastructure Investment Bank	-	-	-	9	10	10
Non-voted: Banking & gilts registration	11	11	7	7	7	7
Total Resource DEL	**125**	**137**	**159**	**226**	**246**	**222**
Resource AME						
Provisions	448	298	244	141	135	(1)
Coinage manufacturing	41	35	31	43	23	12
Coinage metal costs	9	15	21	25	4	13
Investment in the Royal Mint	(4)	(4)	(4)	(4)	(4)	(4)
Investment in the Bank of England	(93)	(105)	(103)	(62)	(54)	(50)
Equitable Life administration	6	4	3	1	-	-
Financial stability	(48,570)	(12,500)	(24,832)	(217)	(15,114)	(79)
Credit easing	(64)	(63)	(61)	(3)	-	-
Sovereign Grant	36	40	42	47	66	82
MAS	1	(3)	(6)	9	-	-
FSCS	(393)	(333)	(301)	(75)	(11)	21
UKAR	(1,231)	(1,264)	(497)	(592)	(328)	(75)
Help to Buy	1	-	-	-	-	-
Help to Buy ISA	-	61	-	-	-	-
IUK Investments	-	-	-	3	-	-
UK Financial Investments	-	-	1	1	-	-
UK Government Investments	-	-	-	-	1	1
Non-voted: Royal Household pension	3	4	4	4	4	5
Total Resource AME	**(49,810)**	**(13,815)**	**(25,458)**	**(679)**	**(15,278)**	**(75)**
Total Resource DEL and AME (net)	**(49,685)**	**(13,678)**	**(25,299)**	**(453)**	**(15,032)**	**147**
of which:						
DEL Depreciation	6	8	8	8	5	7

Note: data for years beyond 2019-20 is not held, so only five historic years and one future year is included.

Resource DEL

Resource DEL in Core Treasury has increased in 2018-19 predominately due to increased staffing requirements to address the Department's work in connection with the UK's withdrawal from the EU.

Resource AME

Financial stability comprises fair value movements in derivatives, changes to financial stability provisions, fees and interest arising from financial stability interventions, impairments of financial instruments and proceeds from the sale of RBS shares.

Provisions relate primarily to bonus payments under the Help to Buy ISA scheme, and the Equitable Life Payment Scheme and a tax provision (in 2014-15) relating to a court ruling against the Government Actuaries Department.

Capital

In £m	Outturn					Budget
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Capital DEL						
Core Treasury	9	-	-	1	1	1
Debt Management Office	1	-	-	3	5	1
Infrastructure Finance Unit Ltd	(5)	(4)	(5)	(88)	63	90
IUK Investments Limited	-	-	2	6	1	-
Eurostar	-	(741)	-	-	-	-
Business Finance Partnership	31	-	-	-	-	-
Asian Infrastructure Investment Bank	-	85	-	-	97	80
Total Capital DEL	**36**	**(660)**	**(3)**	**(78)**	**167**	**172**
CapitaL AME						
Investment in Bank of England	-	-	-	-	1,180	-
Assistance to Financial Institutions	(3,030)	(11,314)	(3,515)	(942)	(2,509)	(1,613)
Sovereign Grant	2	2	2	5	9	6
MAS	-	-	-	-	-	-
FSCS	(587)	(294)	(2)	(24)	1	1
UKAR	(9,100)	(17,459)	(16,270)	(2,840)	(11,807)	(707)
Help To Buy ISA	-	-	53	104	128	160
Total Capital AME	**(12,715)**	**(29,065)**	**(19,732)**	**(3,697)**	**(12,998)**	**(2,153)**
Total Capital DEL and AME (net)	**(12,679)**	**(29,725)**	**(19,735)**	**(3,775)**	**(12,831)**	**(1,981)**
Total departmental spending	**(62,364)**	**(43,403)**	**(45,034)**	**(4,228)**	**(27,863)**	**(1,834)**

Capital DEL

The 2016-17 and 2017-18 capital subscription to the Asian Infrastructure Investment Bank was made by the Department for International Development (DfID), so does not appear in HM Treasury's expenditure in these years and the corresponding amount provided for in HM Treasury's budget was transferred to DfID accordingly. From 2018-19, the capital subscriptions are again made by HM Treasury.

Infrastructure Finance Unit Ltd's Manchester Waste loans were paid off in 2017-18 and in 2018-19 loans provided as part of the Digital Infrastructure Investment Fund (DIIF) were accelerated.

Capital AME

Assistance to financial institutions can fluctuate considerably due to the nature of the activity.

Analysis of administration costs

An analysis of administration income and expenditure is provided below.

In £m	Outturn					Budget
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Core Treasury	123	136	125	123	150	154
Debt Management Office	14	14	15	15	13	17
Government Internal Audit Agency	-	1	2	4	1	-
Office of Tax Simplification	-	-	1	1	1	1
UK Financial Investments	3	4	2	2	-	-
Office for Budget Responsibility	2	2	3	3	3	3
UK Government Investments	-	-	11	12	13	12
National Infrastructure Commission	-	-	1	5	5	5
Eurostar	-	(16)	-	-	-	-
Total net administration costs	**142**	**141**	**160**	**165**	**186**	**192**
Of which:						
Staff Costs	80	102	129	140	151	
Other Expenditure	91	101	85	85	94	
Income	(29)	(62)	(54)	(60)	(59)	

Staff costs

Staff costs have increased from 2017-18 predominately due to a planned increase in the headcount to address the Department's work in connection with the UK's withdrawal from the EU.

Other expenditure

Expenditure remained consistent with 2017-18.

Income

Income remained consistent with 2017-18.

Tom Scholar
Permanent Secretary

27 June 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of HM Treasury and of its Departmental Group for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. HM Treasury comprises the core Department and its agencies. The Departmental Group consists of HM Treasury and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2018. The financial statements comprise: HM Treasury's and the Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of HM Treasury's and the Departmental Group's affairs as at 31 March 2019 and of HM Treasury's and the Departmental Group's net income for the year then ended;
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2019 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Departmental Group's and HM Treasury's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of HM Treasury in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied.

Regularity Framework- HM Treasury	
Authorising legislation	Government Resources and Accounts Act 2000
Parliamentary authorities	Supply and Appropriations Act
HM Treasury and related authorities	Managing Public Money

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around management override of controls, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their statement on matters that they considered to be significant to the financial statements is set out in the Governance Statement.

In this year's report the following changes have been made compared to my prior year's report to the significant risks identified under ISA (UK) 315:

- The key audit matter and significant risk on loan loss impairment provision assumptions in 2017-18 related to the measurement of loan loss impairment under IAS 39. I have identified a similar key audit matter for 2018-19 within the key audit matter, Valuation of UK Asset Resolution (UKAR) assets. This covers the measurement of the expected credit loss allowance on loans as a result of the implementation of IFRS 9, and the measurement of Fair Value due to Loans to Banking Customers meeting the criteria to be held at Fair Value through Other Comprehensive Income (FVtOCI);
- In the prior year, I reported a key audit matter in respect of the negotiations between the government and the EU on the terms of the UK's withdrawal from the EU. The UK was scheduled to leave the EU on 29 March 2019 and I identified the impact of the UK's exit as a significant risk for my current year audit. However, the UK's membership of the EU has since been extended to October 2019 and no Withdrawal Agreement has yet been ratified. As such, although I have monitored this risk throughout the year, I conclude that this is not a key audit matter as no new judgments have been made. I expect this to be an area of continued significant risk in the next financial year due to the level of judgement and complexity potentially involved in the assessment of any financial reporting implications.

Key audit matter 1- Valuation of the BEAPFF derivative

Description of risk

HM Treasury provides an indemnity to the Bank of England over its loan to the Bank of England Asset Purchase Facility Fund (BEAPFF). This indemnity is recognised as a derivative financial instrument in HM Treasury's accounts – a derivative asset of £45.1 billion as at 31 March 2019.

BEAPFF prepares its accounts to 28 February, one month before HM Treasury's reporting date. HM Treasury uses BEAPFF's management accounts to establish the value of the derivative at 31 March. Due to the significance of this figure and its volatility to market prices, I identified a significant risk per ISA 315 and a key audit matter in respect of the valuation of this financial asset for the audit of the Department and the Departmental Group.

I have assessed the design and implementation of controls carried out by HM Treasury to ensure that the figures reported in the BEAPFF management accounts for March 2019 are sufficiently accurate to use for the valuation of the BEAPFF derivative asset in the HM Treasury's accounts.

I have used the work of my team auditing the BEAPFF accounts to obtain assurance over the derivative value at 28 February 2019. In 2019, this included gaining assurance over the transfer of the Term Funding Scheme from BEAPFF to the Bank of England during the year. I also confirmed that the terms of the indemnity were amended as a result.

How the scope of my audit responded to the risk

I have performed additional procedures on the subsequent movements in assets and liabilities, in particular, considering the fair value of the financial assets held by BEAPFF, as well as agreeing cash movements, to obtain assurance over the value of the derivative asset as at 31 March 2019.

Key observations

Although I have identified that Treasury's controls around the valuation of the BEAPFF derivative were not sufficiently detailed for my audit to rely on, I have obtained sufficient assurance over this risk through my substantive testing. I did not identify any misstatements as a result of the work I have performed.

Key audit matter 2- UKAR Valuation of Assets

Description of risk

Loans to banking customers held by NRAM Ltd (NRAM) and Bradford and Bingley (B&B) are consolidated into UK Asset Resolution (UKAR) group and ultimately into the HM Treasury Group. Valuations relating to these loans have been an area of significant risk in previous years.

Following adoption of IFRS 9 on 1 April 2018, UKAR's loans are measured at fair value through other comprehensive income as a result of its business model for loans being one whose objective is achieved by both collecting contractual cash flows and selling loans as evidenced by a series of sales of loan portfolios over recent years. Therefore, although the loans are measured at fair value, a loss allowance based on lifetime expected credit losses is still recognised with movements recognised in profit or loss.

A number of material and subjective judgements are made by management in arriving at measurements for fair value and the expected credit losses and as such is a key area of focus and significant risk of material misstatement for the audit.

There are two separate models used to arrive at the valuation of assets: the fair value model and the expected credit loss model. These utilise different data, processes and controls, as well as different assumptions and are therefore subject to different risks and sensitivities.

How the scope of my audit responded to the risk

I have used the work of my team auditing the UKAR accounts to assess the design and implementation of key controls UKAR has in place over the models used to value these assets.

I have used the work of my team auditing the UKAR accounts to assess the assurance provided over the group accounts figures.

Through my audit of UKAR:

- I performed audit procedures to obtain assurance on UKAR's transition adjustments from IAS 39. This included assessing the fair value measurement of loans, considering the reasonableness of assumptions adopted by UKAR and testing the adjustments and disclosures made on transition. My team have undertaken work to ensure this has been correctly reflected in the Departmental Group's accounts.

Fair Value Model

- I assessed the design of the fair value model and management's rationale for the methods used to evaluate whether the model is compliant with the requirements of IFRS 13 and the appropriateness of the assumptions that underpin it using corporate finance specialist members of my team.
- I tested the completeness and accuracy of the input data that was used to support the fair value model, by re-performing reconciliations and agreeing assumptions to third party sources.
- I created an independent version of the model to validate the logical integrity of the UKAR model using modelling specialist members of my team.
- I reviewed back-testing undertaken by management of recent asset sales to confirm the validity of the fair

value model and the appropriateness of the assumptions used.

Expected Credit Loss Model

- I assessed the design of the ECL model and assessed management's rationale for the assumptions and methods used to confirm that these would produce an estimate compliant with the requirements of IFRS 9.
- I obtained assurance over the completeness and accuracy of the input data used in the model by testing a sample of loan balances, sales, property valuations and other information.
- I reviewed the reasonableness of assumptions including testing of input data used in the calculation of behavioural assumptions and agreement of economic assumptions to scenarios provided by UKAR's independent specialist economic analysts. I assessed the analysts as management's experts under ISA 500 using economics specialist members of my team.
- I obtained assurance over the ECL model through assessment of the independent specialists that developed and operate the model as management's experts under ISA 500 using modelling specialist members of my team, and review of the validation and testing of the model by both UKAR and the independent specialists.
- I tested post-model adjustments to confirm that the management judgements made in determining the need for these was appropriate and that the adjustments had been calculated using appropriate and supportable assumptions.

For both the Fair Value and Expected Credit Loss models, I reviewed the sensitivity analysis undertaken by management to identify the most sensitive assumptions used in the model to focus our testing, and to evaluate how management had addressed estimation uncertainty in making the accounting estimate. I evaluated the reasonableness of those assumptions and performed additional sensitivity analysis.

Key observations

Based on the evidence I have obtained, I have found that the assumptions and data used in both the fair value model and expected credit loss model are reasonable and in line with the requirements of IFRS 13 and IFRS 9. Both models are highly dependent on their assumptions. The financial statements Note 28 disclose these sensitivities, which I have assessed to be reasonable, though an audit can not be expected to predict all possible outcomes.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgment of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgment, I determined overall materiality for HM Treasury's financial statements based on the BEAPFF derivative valuation. I chose this benchmark because of the significance of this asset in terms of value and risk. At £45 billion, the BEAPFF derivative dominates the statement of financial position of HM Treasury. Materiality for the Core Department was set at £374 million and for the Departmental group at £375 million, which is approximately 1% of the value of the BEAPFF derivative asset at the time of planning my audit

The other assets held by HM Treasury have significantly decreased in recent years, primarily due to a sale of the remaining shares in the Lloyds Banking Group and the Royal Bank of Scotland, and sales of the mortgage assets held by UKAR. I have therefore determined that for financial statement components unconnected with the BEAPFF derivative asset, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given there is more interest in these figures. I have therefore determined that the threshold to be applied to these components is £184 million for HM Treasury and £204 million for the Departmental Group, being approximately 0.5% of the remaining gross assets. My approach to determining materiality for this audit has remained same as the prior year.

	Group materiality	Parent materiality
Overall materiality	£375 million	£374 million
Lower threshold	£204 million	£184 million

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, errors in relation to the remuneration of Ministers or senior management reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £1 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee would have decreased net assets of HM Treasury by £71 million and of the Departmental Group by £85 million.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Departmental Group's and HM Treasury's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Departmental Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

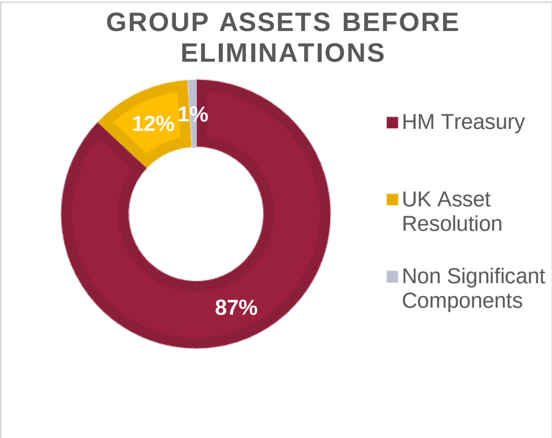
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

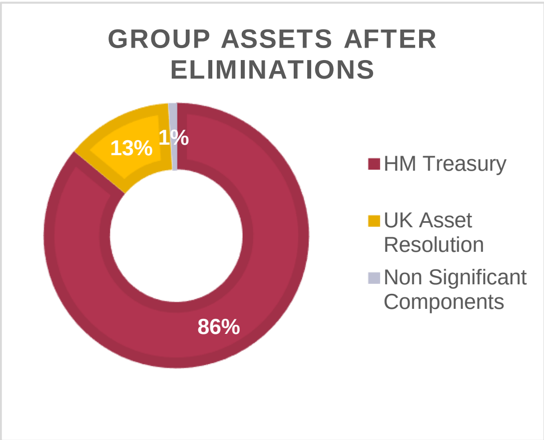
I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Audit scope

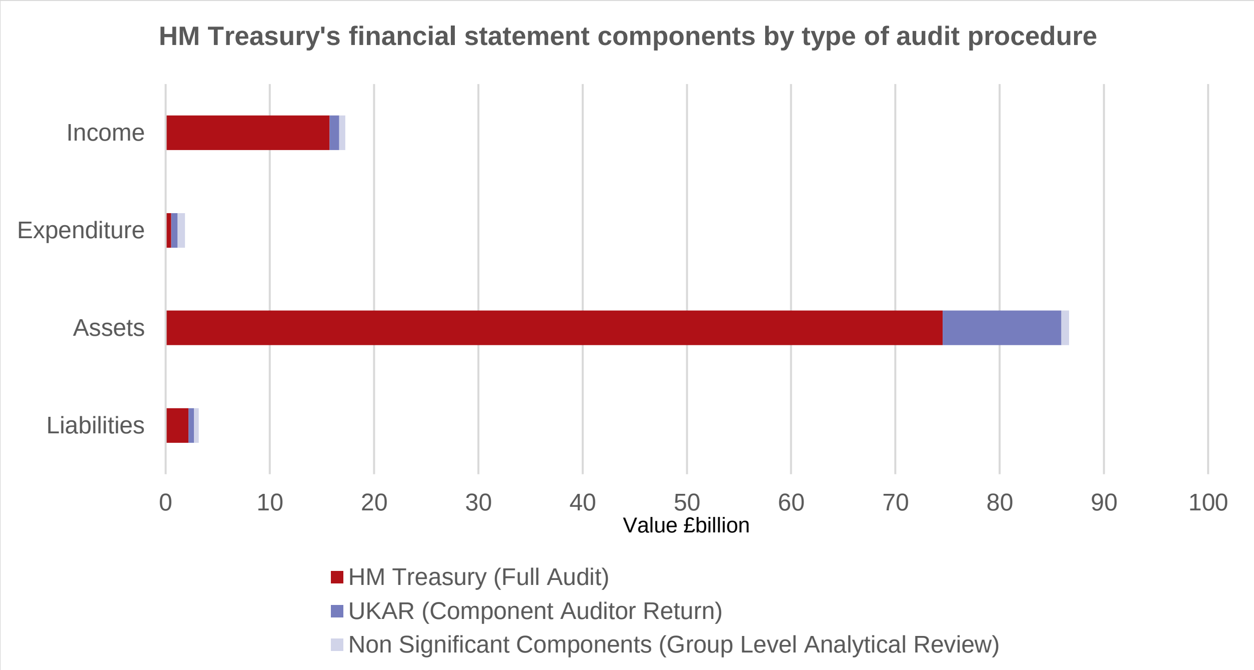
The scope of my audit of the Departmental Group was determined by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

I identified two significant components for my audit of the Departmental Group: HM Treasury and UKAR. Together these represent 99% of the group's gross assets before group eliminations and 99% of the group's gross assets following the group eliminations (see graphs below).





I carried out a full audit of HM Treasury as part of the audit of the Departmental Group and had regular involvement in my statutory audit of UKAR, particularly in respect of the significant risk and key audit matter that I have identified in relation to the *Valuation of UKAR Assets*. This work covered substantially all of the group's assets and net income, and together with the procedures performed at the group level, gave me the evidence I needed for my opinion on the group financial statements as a whole (see graph below).



Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the HM Treasury and the HM Treasury Group and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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;
- the financial statements and the parts of the Accountability 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.
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

3 July 2019

Chapter 3

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure
for the period ended 31 March 2019

		Core Treasury and Agencies		Group	
In £m	**Note**	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Income from sale of goods and services		(51)	(62)	(52)	(62)
Other operating income	2	(236)	(315)	(789)	(917)
Total operating income		(287)	**(377)**	(841)	**(979)**
Staff costs	3	137	128	198	198
Purchase of goods and services	4	128	167	368	466
Other operating expenditure	5	440	423	860	804
Total operating expenditure		705	718	1,426	1,468
Net operating expenditure before financing		**418**	**341**	**585**	**489**
Capital grant in kind	12	(314)	-	(314)	-
Finance income	6	(1,281)	(442)	(1,607)	(891)
Finance expense	7	11	(178)	(26)	(148)
Revaluation of financial assets and liabilities	8	(14,031)	369	(13,643)	350
Net gain on disposal of assets	9	-	(427)	(452)	(458)
Net income before tax		**(15,197)**	**(337)**	**(15,457)**	**(658)**
Taxation		-	-	57	96
Net income after tax		**(15,197)**	**(337)**	**(15,400)**	**(562)**
Other comprehensive net (income)/ expenditure					
Items that may be reclassified to net operating expenditure when specific conditions are met					
Net loss/(gain) on assets recognised in reserves		-	(1,565)	288	(1,112)
Net transfer from reserves and recognised as income in year	9	-	414	96	414
Net loss in hedging reserve		-	-	-	(1)
Total		**-**	**(1,151)**	**384**	**(699)**
Items that will not be reclassified to net operating expenditure					
Net loss/(gain) on assets recognised in reserves		660	-	1,006	-
Actuarial loss on pension scheme liabilities		-	-	(8)	33
Total		**660**	**-**	**998**	**33**
Net comprehensive income for the year		**(14,537)**	**(1,488)**	**(14,018)**	**(1,228)**

The notes on pages 130 to 187 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2019

		Core Treasury and Agencies		Group	
In £m	**Note**	**2018-19**	**2017-18[1]**	**2018-19**	**2017-18[1]**
Non-current assets					
Property, plant and equipment		138	139	161	159
Intangible assets		9	5	9	8
Trade and other receivables	10	418	470	506	563
Net pension asset	11	-	-	651	535
Assets held at FV through OCI[2]	12	33,432	34,940	24,553	26,412
Loans and advances[3]	13	1,620	8,235	1,648	3,267
Loans to banking customers[3]	14	-	-	4,747	11,807
Loan hedging asset	15	-	-	-	406
Total non-current assets		**35,617**	**43,789**	**32,275**	**43,157**
Current assets					
Cash and cash equivalents	17	61	5	1,089	1,986
Trade and other receivables	10	1,199	527	5,747	578
Inventory		27	40	28	40
Loans and advances[3]	13	3,571	5,174	1,613	-
Assets held for sale	18	-	-	-	4,992
Loans to banking customers[3]	14	-	-	778	443
Loan hedging asset	15	-	-	-	15
Derivative financial assets	16	45,124	40,778	45,124	40,778
Total current assets		**49,982**	**46,524**	**54,379**	**48,832**
Total assets		**85,599**	**90,313**	**86,654**	**91,989**
Current liabilities					
Trade and other payables	19	(333)	(310)	(819)	(663)
Provisions	20	(760)	(592)	(902)	(699)
Debt securities in issue	21	-	-	(204)	(4)
Financial guarantees	23	(33)	(36)	(23)	(26)
Total current liabilities		**(1,126)**	**(938)**	**(1,948)**	**(1,392)**
Non-current liabilities					
Trade and other payables	19	(329)	(377)	(476)	(704)
Provisions	20	(639)	(705)	(647)	(751)
Debt securities in issue	21	-	-	-	(200)
Derivative financial liabilities	22	-	-	-	(472)
Financial guarantees	23	(110)	(131)	(110)	(129)
Total non-current liabilities		**(1,078)**	**(1,213)**	**(1,233)**	**(2,256)**
Total assets less liabilities		**83,395**	**88,162**	**83,473**	**88,341**
Equity					
General fund[3]	SoCTE	88,142	73,339	95,876	80,790
Fair value reserve[3]	SoCTE	(4,794)	14,776	(13,588)	6,244
Revaluation reserve	SoCTE	47	47	47	47
Hedging reserve	SoCTE	-	-	-	-
Pension reserve	SoCTE	-	-	8	118
Merger reserve	SoCTE	-	-	1,130	1,142
Total equity		**83,395**	**88,162**	**83,473**	**88,341**

The notes on pages 130 to 187 form part of these accounts.

[1] 2017-18 has been re-presented as the Net pension asset has been separated from the Trade and other payables/receivables notes.

[2] The Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9, the grouping of equity shareholdings Assets held at FV through OCI in 2018-19 were known as Available-for-Sale assets in 2017-18.

[3] As part of IFRS 9 adoption, the 2018-19 amounts have been prepared on a different basis from that presented for the comparative periods. Further information is provided in Note 1.3.

Tom Scholar, Permanent Secretary
27 June 2019

Statement of Changes in Taxpayers' Equity
for the period ended 31 March 2019

Group

In £m	Note	General fund	Fair value reserve[4]	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Total reserves
Balance at 31 March 2017		**103,848**	**5,546**	**47**	**(1)**	**151**	**3,796**	**113,387**
Net income after tax		562	-	-	-	-	-	562
Change in CFERs payable to the Consolidated Fund		(10)	-	-	-	-	-	(10)
CFERs paid to the Consolidated Fund	SoPS 4.1	(10,232)	-	-	-	-	-	(10,232)
Change in excess cash payable to the Consolidated Fund		(3)	-	-	-	-	-	(3)
Excess cash paid to the Consolidated Fund	SoPS 4.1	(16,058)	-	-	-	-	-	(16,058)
Consolidated Fund standing services		4	-	-	-	-	-	4
Other movements		25	-	-	-	-	-	25
Revaluation gains and losses		-	698	-	1	(33)	-	666
Transfers		2,654	-	-	-	-	(2,654)	-
Balance at 31 March 2018		**80,790**	**6,244**	**47**	**-**	**118**	**1,142**	**88,341**
Adjustments due to changes in accounting standards	1.3	22,435	(21,994)	-	-	-	-	441
Balance at 1 April 2018		**103,225**	**(15,750)**	**47**	**-**	**118**	**1,142**	**88,782**
Net income after tax		15,400	-	-	-	-	-	15,400
Change in CFERs payable to the Consolidated Fund		90	-	-	-	-	-	90
CFERs paid to the Consolidated Fund	SoPS 4.1	(9,957)	-	-	-	-	-	(9,957)
Change in excess cash payable to the Consolidated Fund		(56)	-	-	-	-	-	(56)
Excess cash paid to the Consolidated Fund	SoPS 4.1	(9,392)	-	-	-	-	-	(9,392)
Consolidated Fund standing services		4	-	-	-	-	-	4
Other movements		(16)	-	-	-	-	-	(16)
Revaluation gains and losses		-	(1,390)	-	-	8		(1,382)
Transfers		(3,422)	3,552	-	-	(118)	(12)	-
Balance at 31 March 2019		**95,876**	**(13,588)**	**47**		**8**	**1,130**	**83,473**

The notes on pages 130 to 187 form part of these accounts.

[4] Under IFRS 9 'Financial Instruments' the Fair Value reserve has superseded the Available-for-sale reserve. The Group has adopted IFRS 9 with effect from 1 April 2018.

Statement of Changes in Taxpayers' Equity
for the period ended 31 March 2019

Core Treasury and Agencies

In £m	Note	General fund	Fair value reserve[5]	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Total reserves
Balance at 31 March 2017		**99,295**	**13,625**	**47**	**-**	**-**	**-**	**112,967**
Net income after tax		337	-	-	-	-	-	337
Change in CFERs payable to the Consolidated Fund		(10)	-	-	-	-	-	(10)
CFERs paid to the Consolidated Fund	SoPS 4.1	(10,232)	-	-	-	-	-	(10,232)
Change in excess cash payable to the Consolidated Fund		(3)	-	-	-	-	-	(3)
Excess cash paid to the Consolidated Fund	SoPS 4.1	(16,058)	-	-	-	-	-	(16,058)
Consolidated Fund standing services		4	-	-	-	-	-	4
Other movements		6	-	-	-	-	-	6
Revaluation gains and losses		-	1,151	-	-	-	-	1,151
Balance at 31 March 2018		**73,339**	**14,776**	**47**	**-**	**-**	**-**	**88,162**
Adjustments due to changes in accounting standards	1.3	22,462	(22,462)	-	-	-	-	-
Balance at 1 April 2018		**95,801**	**(7,686)**	**47**	**-**	**-**	**-**	**88,162**
Net income after tax		15,197	-	-	-	-	-	15,197
Change in CFERs payable to the Consolidated Fund		90	-	-	-	-	-	90
CFERs paid to the Consolidated Fund	SoPS 4.1	(9,957)	-	-	-	-	-	(9,957)
Change in excess cash payable to the Consolidated Fund		(56)	-	-	-	-	-	(56)
Excess cash paid to the Consolidated Fund	SoPS 4.1	(9,392)	-	-	-	-	-	(9,392)
Consolidated Fund standing services		4	-	-	-	-	-	4
Other movements		7	-	-	-	-	-	7
Revaluation gains and losses		-	(660)	-	-	-	-	(660)
Transfers		(3,552)	3,552	-	-	-	-	-
Balance at 31 March 2019		**88,142**	**(4,794)**	**47**	**-**	**-**	**-**	**83,395**

The notes on pages 130 to 187 form part of these accounts.

[5] Under IFRS 9 'Financial Instruments' the Fair Value reserve has superseded the Available-for-sale reserve. The Group has adopted IFRS 9 with effect from 1 April 2018.

Consolidated Statement of Cash Flows
for the period ended 31 March 2019

		Core Treasury and Agencies		Group	
In £m	**Note**	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Cash flows from operating activities					
Net operating income/(expenditure) before financing	SoCNE	(418)	(341)	(585)	(489)
Other non-cash transactions	24	327	305	428	486
Changes in working capital		95	46	(67)	106
Corporation tax paid		-	-	2	(143)
Use of provisions	20	(213)	(183)	(349)	(295)
Net cash flows from operating activities		**(209)**	**(173)**	**(571)**	**(335)**
Cash flows from investing activities					
Proceeds: derivative financial assets	16	9,685	10,029	9,685	10,029
Proceeds: sale of shares UK listed entities		2,507	949	2,507	949
Proceeds: sale of investment securities and other assets		-	-	(453)	254
Net cash outflows from debt securities in issue		-	-	-	(13)
Proceeds: interest, dividend and other finance income		471	669	763	943
Purchases: financial assets		(1,346)	(12)	(1,340)	(11)
Proceeds: repayment of financial assets		8,308	14,842	2	124
Advances and repayments of loans to banking customers		-	-	1,864	2,476
Proceeds: sale of loans to banking customers		-	-	6,079	11,417
Other investing activities		(12)	(12)	(85)	(213)
Net cash flow from investing activities		**19,613**	**26,465**	**19,022**	**25,955**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		4	4	4	4
Advances from the Contingencies Fund		-	-	-	-
Repayments to the Contingencies Fund		-	-	-	-
Capital element of the PFI contract		(3)	(3)	(3)	(3)
Net cash flows from financing activities		**1**	**1**	**1**	**1**
Net increase in cash and cash equivalents before adjustments		**19,405**	**26,293**	**18,452**	**25,621**
Payments of amounts due to the Consolidated Fund	SoCTE	(9,957)	(10,232)	(9,957)	(10,232)
Excess cash paid to the Consolidated Fund – current year	SoCTE	(9,387)	(16,056)	(9,387)	(16,056)
Excess cash paid to the Consolidated Fund – prior year balance	SoCTE	(5)	(2)	(5)	(2)
Net increase/(decrease) in cash and cash equivalents after adjustments	17	**56**	**3**	**(897)**	**(669)**
Cash and cash equivalents at the beginning of the period	17	5	2	1,986	2,655
Cash and cash equivalents at the end of the period	17	**61**	**5**	**1,089**	**1,986**

The notes on pages 130 to 187 form part of these accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2018-19 FReM and the Government Resources and Accounts Act 2000. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HM Treasury for the purpose of giving a true and fair view has been selected.

The particular policies adopted by HM Treasury are described below. In addition to the primary statements prepared under IFRS, the FReM requires HM Treasury to prepare a Statement of Parliamentary Supply and supporting notes analysing the net resource outturn and capital outturn against control totals voted by Parliament through the Estimate. These are included within the Parliamentary Accountability section of this document.

As detailed in Note 1.3, the Group has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018. The Group has also adopted IFRS 15 'Revenue from Contracts with Customers' with effect from 1 April 2018, see Note 1.3 for details. There have been no other material changes to the accounting policies previously applied by the Group in preparing its financial statements for the period ended 31 March 2018.

HM Treasury is domiciled in the United Kingdom and is located at 1 Horse Guards Road, London. The presentational and functional currency is pound sterling.

These financial statements have been prepared on a going concern basis.

1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified to account for the revaluation of land and buildings and certain financial instruments to fair value, as determined by the relevant accounting standards and the accounts direction issued by HM Treasury.

1.2 Basis of consolidation

These accounts consolidate Core Treasury and Agencies and those entities which fall within the Departmental Boundary as defined in the FReM and listed in the Designation Order 2018-19 issued by HM Treasury. Core Treasury and Agencies include HM Treasury plus Office of Financial Sanctions Implementation and Office of Tax Simplification along with the UK Debt Management Office, National Infrastructure Commission and the Government Internal Audit Agency who are recognised as executive agencies. Transactions between entities included in the reporting boundary are eliminated on consolidation. Unless otherwise stated, all entities have a 31 March reporting date. The Group includes, in addition to Core Treasury and Agencies:

Entity Name	Principal Activity
UK Asset Resolution Ltd (UKAR)	Financial institution
Financial Reporting Advisory Board	Advisory
Financial Services Compensation Scheme	Deposit guarantee scheme
UKGI Financing plc	Not trading – dormant shell
UK Financial Investments[6]	Not trading – dormant
UK Government Investments Ltd	Manage government shareholdings
Infrastructure Finance Unit Ltd	Provides infrastructure loans
IUK Investments Holdings Ltd	Investment in IUK Investments Ltd
IUK Investments Ltd	Investment in PF2 projects
Help to Buy (HMT) Ltd	Delivers the mortgage guarantee scheme
Office for Budget Responsibility	Independent fiscal watchdog
Royal Household Sovereign Grant	Public funding for the Royal Household
Royal Mint Advisory Committee	Advisory
HM Treasury UK Sovereign Sukuk plc	Issue of Sukuk

UKAR includes the consolidation of a number of Arm's Length Bodies relating to NRAM Ltd and B&B plc.[7]

For details on HM Treasury's ownership interests in other entities which are not consolidated, refer to Note 12 – Assets held at Fair Value through Other Comprehensive Income.

The Money Advice Service

On 1 January 2019 the Money Advice Service (MAS) transferred from HM Treasury to the Department for Work and Pensions (DWP) under a Machinery of Government change. Usually this would result in restatement of prior year comparators as if MAS had always fallen within DWP's accounting boundary. As this body is not material to either group, neither HM Treasury nor DWP are restating.

The impact of this transfer on the Group's opening balances is detailed below.

[6] On 31 March 2018 UK Financial Investments Ltd (UKFI) ceased trading and transferred its activities to its parent UKGI, which has assumed responsibility for continuing UKFI's mandate.

[7] http://www.ukar.co.uk/media-centre/press-releases/2019

In £m	SOFP 31 March 2018	Transfer of MAS	SOFP (excl MAS) 31 March 2018
Non-current assets			
Fixed assets	159	(1)	158
Current assets			
Cash and cash equivalents	1,986	(38)	1,948
Trade and other receivables	578	(2)	576
Total assets	**91,989**	**(41)**	**91,948**
Current liabilities			
Trade and other payables	(663)	36	(627)
Total liabilities	**(3,648)**	**36**	**(3,612)**
Assets less liabilities	**88,341**	**(5)**	**88,336**
Equity			
General fund	80,790	(5)	80,785
Total equity	**88,341**	**(5)**	**88,336**

The impact of the departure of MAS on the Group Statement of Comprehensive Income is detailed below.

	Statement of Comprehensive Income	
In £m	**2018-19**	**2017-18**
Other operating income	-	(70)
Total operating income	-	**(70)**
Staff costs	-	14
Purchase of goods and services	-	65
Total operating expenditure	-	79
Net income after tax	-	**9**

1.3 Adoption of new accounting standards

Adoption of IFRS 9

The Group has adopted IFRS 9 with effect from 1 April 2018. As required by the FReM, prior periods have not been restated. Changes have been processed at the date of initial application on 1 April 2018 and recognised in the opening equity balances.

The following table shows the classification of financial assets on transition to IFRS 9 on 1 April 2018.

In £m	IAS 39 classification	IFRS 9 classification	Core Treasury and Agencies IAS 39 carrying amount 31 March 2018	Core Treasury and Agencies IFRS 9 carrying amount 1 April 2018	Group IAS 39 carrying amount 31 March 2018	Group IFRS 9 carrying amount 1 April 2018
Financial Assets						
Cash and cash equivalents	Loans & Receivables	Amortised Cost	5	5	1,986	1,986
Trade and other receivables	Loans & Receivables	Amortised Cost	997	997	1,141	1,141
FVOCI financial assets	Available for sale	FVOCI	34,940	34,940	26,412	26,412
Loans and advances	Loans & Receivables	Amortised Cost	13,409	13,409	3,267	3,267
Loans to banking customers	Loans & Receivables	FVOCI	-	-	12,250	12,795
Loan hedging asset	Fair value macro-hedge	Fair value macro-hedge	-	-	421	421
Derivative financial assets	FVP&L (mandatory)	FVP&L (mandatory)	40,778	40,778	40,778	40,778
Total assets in scope of IFRS 9			**90,129**	**90,129**	**86,255**	**86,800**

UKAR's business model for its loans to banking customers is one of 'held to collect and sell', as these assets are managed in order to maximise taxpayer value with strategic asset sales undertaken when suitable market opportunities are identified. The cash flows on the loans satisfy the definition of solely payments of principal and interest ('SPPI'). Therefore loans to banking customers are carried at Fair Value through Other Comprehensive Income (FVOCI).

Under IFRS 9, allowances are made for credit losses on loans on an 'expected loss' basis, and are generally higher than allowances for credit losses under the IAS 39 'incurred loss' approach.

UKAR carries out fair value macro-hedging of equity release mortgages. As IFRS 9 does not address macro-hedging, UKAR continued to apply the IAS 39 macro-hedge accounting rules.

The Group has made an irrevocable election to classify as FVOCI a group of strategic equity investments that were previously classified as AFS assets under IAS 39. The Group continues to hold all other non-lending financial assets at amortised cost as they are used in normal day-to-day operations and the cash flows satisfy the definition of SPPI.

Derivative financial liabilities continue to be carried at fair value through profit or loss ('FVP&L') as the cash flows do not satisfy the definition of SPPI. The accounting treatment of the Group's other financial liabilities is not affected by the implementation of IFRS 9 and they continue to be carried at amortised cost.

There were no financial assets or liabilities reclassified to amortised cost, and no assets reclassified out of FVP&L to FVOCI, as a result of the transition to IFRS9.

Under IFRS 9, an impairment provision is required to be held against undrawn loan commitments, based on expected credit losses.

Adoption of IFRS 15

The Group has adopted IFRS 15 with effect from 1 April 2018. As required by the FReM, prior periods have not been restated.

IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard requires revenue to be recognised at the point of control passing to the customer; over time or at a point in time. Furthermore, it requires an assessment to be undertaken for each performance obligation within the contract or service provided and this may impact the timing of when revenue is recognised.

The Group has assessed the impact of IFRS 15 using the five-step model framework defined in the standard and determined that there is no significant impact on the financial statements.

SoFP reconciliation as at 1 April 2018

The Group adopted IFRS 9 and IFRS 15 with a transition date of 1 April 2018. In accordance with the FReM, comparatives are not restated at the same date. The Group's Statement of Financial Position (SoFP) opening balances are also adjusted on 1 April 2018 to reflect the transfer of MAS to DWP. See also Note 1.2.

The following tables show the adjustments recognised for each line item of the financial statements affected. Those assets and liabilities whose categorisation and measurement are unaffected by the introduction of IFRS 9 are grouped as 'Other'.

Group

In £m	SOFP 31 March 2018 (excl MAS)	IFRS 9 adjustments Reclassification	Remeasurement	SOFP 1 April 2018
Non-current assets				
Available for sale financial assets	26,412	(26,412)	-	-
Assets held at FVOCI	-	26,412	-	26,412
Loans to banking customers	11,807	(11,060)	-	747
Loans to banking customers (at FVOCI)	-	11,060	(884)	10,176
Assets not impacted by IFRS9	4,937	-	-	4,937
Current assets				
Loans to banking customers	443	(443)	-	-
Loans to banking customers (at FVOCI)	-	443	1,429	1,872
Assets not impacted by IFRS9	48,349	-	-	48,349
Total assets	**91,948**	**-**	**545**	**92,493**
Current liabilities				
Trade and other payables	(627)	-	(104)	(731)
Liabilities not impacted by IFRS9	(729)	-	-	(729)
Non-current liabilities				
Liabilities not impacted by IFRS9	(2,256)	-	-	(2,256)
Total liabilities	**(3,612)**	**-**	**(104)**	**(3,716)**
Assets less liabilities	**88,336**	**-**	**441**	**88,777**
Equity				
General fund	80,785	22,462	(27)	103,220
Available for sale reserve	6,244	(6,244)	-	-
Fair value reserve	-	(16,218)	468	(15,750)
Revaluation reserve	47	-	-	47
Equity not impacted by IFRS9	1,260	-	-	1,260
Total equity	**88,336**	**-**	**441**	**88,777**

Core Treasury and Agencies

In £m	SOFP 31 March 2018	IFRS 9 adjustments Reclassification	Remeasurement	SOFP 1 April 2018
Non-current assets				
Available for sale financial assets	34,940	(34,940)	-	-
Assets held at FVOCI	-	34,940	-	34,940
Assets not impacted by IFRS9	8,849	-	-	8,849
Current assets				
Assets not impacted by IFRS9	46,524	-	-	46,524
Total assets	**90,313**	**-**	**-**	**90,313**
Total liabilities	**(2,151)**	**-**	**-**	**(2,151)**
Assets less liabilities	**88,162**	**-**	**-**	**88,162**
Equity				
General fund	73,339	22,462	-	95,801
Available for sale reserve	14,776	(14,776)	-	-
Fair value reserve	-	(7,686)	-	(7,686)
Revaluation reserve	47	-	-	47
Total equity	**88,162**	**-**	**-**	**88,162**

No adjustments were required on adoption of IFRS 15.

Equity investments classified as AFS financial assets under IAS 39 have been reclassified as FVOCI under IFRS 9. The related AFS reserve in equity has been reclassified as a fair value reserve. Given that there were no transitional remeasurement adjustments to this group of assets, the 31 March 2019 FVOCI assets are presented in Note 12 with the 31 March 2018 AFS assets presented as comparative figures.

Fair value gains in respect of equity assets in FVOCI are recognised in other comprehensive income and accumulated in the fair value reserve, and these are not recycled to profit or loss. Previously, under IAS 39, impairments of such assets were recognised in profit or loss, and gains and losses accumulated in reserves were recycled to profit or loss on disposal. An impairment in profit or loss of £22.4bn recognised prior to 1 April 2018 under IAS 39 (and therefore accumulated in retained earnings) has been transferred to the fair value reserve to ensure that this reserve reflects cumulative gains and losses on such assets since initial recognition.

The £545m remeasurements of loans to customers in the Group SOFP comprise an increase of £34m in impairment provisions and an increase of £579m as the loans are now carried at fair value under IFRS 9. Further detail of these adjustments are provided in UKAR's single company accounts. Deferred tax of £104m has been provided in respect of these adjustments.

£747m of the loans to customers balance represents equity release mortgages valued in accordance with IFRS 4 and so unaffected by transition from IAS 39 to IFRS9.

1.4 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2018. The Group has not early-adopted any new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016, and applies to the public sector for annual reporting periods beginning on or after 1 April 2020. The Group does not intend to early adopt IFRS 16.

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Group's expectation is that the adoption of IFRS 16 will result in an increase in reported assets (in the form of right-of-use assets) and reported liabilities (representing the obligation to make future lease payments). It is expected that for leases where the underlying asset has a low value, or a lease term of 12 months or less, that payments will be expensed as they are made.

This standard is not expected to have a material impact on the Group's financial statements.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement). The Group does not intend to early adopt IFRS 17.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

This standard is not expected to have a material impact on the Group's financial statements.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the Group.

1.5 Significant judgements and estimates

Expected credit losses and impairments on loans and advances

The allowance for expected credit losses on loans and advances held at amortised cost is management's estimate of losses expected at the reporting date, on the basis of a probability-weighted evaluation of a range of possible outcomes, based on historic, current and forward-looking information.

For those loans where recovery is being sought from an administrator, the expected credit losses are dependent on a similar evaluation of the possible timing and amount of repayment. A sensitivity analysis of capital recoveries for these loans is included in Note 28.2 – Financial risk, on Credit risk. In addition to assessing the amount of repayment, timing is also considered for interest free loans.

Impairments are recognised to reflect the cost of all interest free loans. The impairment loss equals the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the Treasury discount rate applicable at inception of the loan. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

Expected credit losses on loans to banking customers

UKAR Group does not categorise any loans to banking customers as 'stage 1' (see Note 1.12). This is because ascertaining which loans have experienced a significant increase in credit risk since inception would be onerous and in some cases the information concerning credit quality at inception (which would have been in 2018 or earlier) may be incomplete. IFRS 9 permits the categorisation to omit stage 1 if the assessment of change in credit risk would involve 'undue cost and effort'.

In respect of loans to banking customers, loan valuations are reviewed monthly and individual expected credit losses are assessed by reference to an individual review of the underlying asset and use of a probabilistic model to provide both probabilities of defaults and property forced sale discounts across a portfolio of products.

Collective expected credit losses on loans are calculated using a statistical model. Forward-looking assessments are made which are dependent on economic assumptions including interest rates, unemployment and house price inflation, as well as other factors such as net mortgage advances and mortgage arrears. Economic assumptions are sourced from specialist economic analysts based on an initial management view provided by UKAR and approved by UKAR's Board. Under each scenario, expected losses are derived based on assumptions for the probability of cases falling into arrears, redemption rates, sales and losses, monthly payment rates and post-term end performance. These assumptions have been based on historical performance at segment level. In respect of impairment provisioning, the UKAR Group utilises four macroeconomic scenarios: a base scenario, a downside scenario, a severe downside scenario, and an upside scenario. The relative weighting of these four scenarios is a key area of management judgement. In making this judgement, management take into consideration the guidance provided by the independent source who prepared the economic scenarios as well as that of a forum of subject matter experts from across the business. These judgements are made by UKAR and reviewed by UKGI.

These key assumptions are based on historic and current observed data trends and forward-looking information and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. A sensitivity analysis for impairment of loans to banking customers is included in Note 28 – Financial risk.

A case is considered to be credit-impaired when it is three months in arrears or there are other indicators of credit impairment e.g. bankruptcy, forbearance, possession or for sale with a Law of Property Act receiver. In addition all cases that are past their term end are treated as credit-impaired. Generally a loan remains in stage 3 until it has been up to date for 3 consecutive months.

Fair value of loans to banking customers

Under IFRS 9 the Group's loans to customers are carried at fair value. Consistent with IFRS 13 'Fair Value Measurement' an 'income approach' has been adopted to valuations. Fair value is calculated using models which discount expected future cash flows to present value using market interest rates, the inputs to which require judgements. A meeting of subject matter experts reviews the fair value modelling assumptions on a quarterly basis. Expected future cash flows take account of estimated future losses and assumed redemptions, and are consistent with the cash flows used in the base scenario for impairment. Discount rates represent the blended rate between the cost of debt and the cost of equity and are determined by management incorporating the experience gained of market structures and pricing from recent sales transactions. At 31 March 2019 and 2018 the discount rates fell into the following ranges:

Discount rates range	2019	2018
Residential loans	261 - 305 bps	182 - 243 bps
Commercial loans	749 bps	354 bps
Unsecured loans	not applicable	482 bps

The valuation is regarded as Level 3 (see note 29) as certain significant inputs to the valuation are defined as 'unobservable', i.e. inputs for which market data are not available; the most significant unobservable inputs are the expected future cash flows. The increase in the commercial loans discount rate compared to 31 March 2018 reflects the outcome of the sale of commercial loans during the year.

Detail about the key sensitivities is contained in note 28.2.

Impairment of FVOCI financial assets (available-for-sale financial assets 2017-18)

During 2017-18 HM Treasury determined whether an impairment loss had been incurred in respect of RBS shares, by assessing whether there had been a significant or prolonged decline in its fair value below original cost price. Significant was deemed to be 20% and prolonged as 9-12 months.

Following the transition to IFRS 9 on 1 April 2018 FVOCI equity instruments are no longer assessed for impairment as all changes in fair value are taken to reserves.

Provisions

Recognition and valuation of provisions rely on the application of professional judgment, historical experience, and other factors expected to influence future events. A provision is recognised where the likelihood of a liability crystallising is probable and where such provision can be measured with reasonable certainty. Provision balances which contain regular, homogeneous transactions are often derived from financial models. Estimates and assumptions applied in these models are routinely evaluated and reviewed.

Valuation of unlisted equity investments

Net asset value has been used as a proxy for fair value in the valuation of HM Treasury's unlisted equity investments. Net assets are considered to be a good proxy for fair value for unlisted entities because the underlying assets of each entity are held at fair value with reference either to market value or, when this is not available, discounted cashflows.

1.6 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

Performance obligations and timing of revenue recognition

The Group's revenue is primarily derived from providing services, with revenue recognised at a point in time when the service has transferred to the customer. The significant income streams of the Group include levies received by FSCS and loan commitment fees from Pool Re. The levies received by FSCS are not accounted for in accordance with IFRS 15 and hence the accounting policy is detailed separately below.

For loan commitment fees, the service being provided is the commitment to provide a loan. The performance obligation is that of standing ready to provide the loan and is satisfied over time as the commitment is available.

Levies

FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match compensation costs net of recoveries recognised as income during the period. Any excess funds are ultimately repayable to the levy payer (with shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with the funding rules set by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).

1.7 Tax

Value Added Tax

Many activities of HM Treasury are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Corporation Tax

The charge for taxation is driven by UKAR's results for the year but includes HM Treasury UK Sovereign Sukuk plc and other subsidiary companies that fall within the charge to Corporation Tax.

1.8 Operating segment reporting

In accordance with the relevant reporting requirements, including IFRS 8, the SOPS and supporting notes reflect net resource and capital outturn in line with the control totals voted by Parliament. The figures within SoPS 1.1 provide the income and expenditure totals associated with key business activities within the Group and therefore reflect the HM Treasury Business plan and the management information reported to the Board during the period.

1.9 Pensions

The Group operates several retirement benefit plans for its employees, including defined benefit plans, defined contribution plans and post-retirement healthcare benefits.

Defined benefit schemes

Pension benefits are provided through Civil Service pension arrangements as detailed in the Remuneration Report.

HM Treasury recognises the expected cost of future pension liabilities in a systematic and rational basis over the period during which it benefits from employees' service by payment to Civil Service pension schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

The FSCS, UKAR (including B&B and NRAM), and the Royal Household also operate defined benefit schemes that are separate from the Civil Service pension schemes and accounted for under IAS 19.

Defined contribution schemes

A defined contribution plan is a pension arrangement where the employer pays fixed contributions into a separate fund. The costs for the defined contribution schemes are recognised as an expense in the SoCNE as incurred. For defined contribution plans, the employer has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The FSCS, UKAR and the Royal Household operate defined contribution pension schemes. HM Treasury also operates a defined contribution scheme for staff who transferred from Partnerships UK to Infrastructure UK. Contributions payable by HM Treasury are recognised as an expense in the year in which they are incurred.

One of the Royal Household's pension schemes, managed by the government, is not a funded scheme. The Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis and therefore this scheme is treated as a defined contribution scheme.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with financial institutions net of bank overdrafts. Highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value are also included. Such investments are normally those with less than three months' maturity from the date of acquisition.

1.11 Assets held for sale

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition, they are being actively marketed for sale at a reasonable price and sale is considered to be 'highly probable'. Financial assets within the scope of IFRS 9 are excluded from the measurement principles under IFRS 5 and continue to be measured at their IFRS 9 value. Assets held for sale are carried at the lower of their previous carrying amount and their fair value less costs to sell, other than assets for which the IFRS 5 measurement principles do not apply.

1.12 Financial instruments: financial assets

Initial recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, which is the date on which the department commits to purchase or sell the asset. Financial assets are recognised initially at their fair value plus, in the case of a financial asset not at FVP&L, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets carried at FVP&L are initially recognised at fair value and transaction costs are expensed in the SoCNE.

Subsequent measurement

After initial recognition, financial assets are measured at their fair values except for those assets which are designated as measured at amortised cost using the effective interest rate (EIR) method. The basis for designation as fair value or FVOCI is based on criteria set out in IFRS 9. This is discussed in more detail in Note 1.3.

Fair value measurement

The Group measures certain financial instruments at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Note 1.5
Disclosures of fair value measurement hierarchy	Note 29
Financial Instruments	Note 30

Movements in fair value are recognised in the SoCNE, except in the case of instruments categorised as FVOCI, in which the fair value movements are taken to the Fair value reserve, until realised when they are reclassified to the General Fund.

Derivative financial assets- Derivatives are recognised at fair value. Derivatives are measured initially at fair value and subsequently re-measured to reflect changes in fair value. Fair values are obtained from quoted market prices in active markets and, where these are not available, from other valuation techniques including discounted cash flow models.

Classification – for year ended 31 March 2019

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Classification of financial assets is determined by the objectives of the business model under which the assets are managed and the contractual cash flow characteristics of those assets.

The business model may be considered to be one of holding the asset to collect the cash flows arising; holding the asset to collect the cash flows arising or to sell it; or holding the asset to sell it. IFRS 9 requires the business model to be assessed on the date of first application of IFRS 9, i.e. 1 April 2018.

The contractual cash flow characteristics of an asset may be considered to be 'solely payments of principal and interest' (SPPI) on the principal amount outstanding or not to be SPPI.

Financial assets may be measured at amortised cost, FVP&L, or FVOCI. The AFS category has ceased to exist.

Almost all of the accounting requirements for financial liabilities were carried forward from IAS 39 to IFRS 9. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes (i.e. the effect) in own credit risk.

The measurement classifications of financial assets are as follows:

	SPPI	Not SPPI
Hold to collect	Amortised cost	FVP&L
Hold to collect and sell	FVOCI	FVP&L
Hold to sell	FVP&L	FVP&L

IFRS 9 permits an entity to make an irrevocable election to classify certain equity instruments at FVOCI rather than through profit and loss. The Group has made this election for a group of strategic investments which were previously classified as AFS assets under IAS 39 and for which FVOCI classification is more appropriate.

Classification – for year ended 31 March 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The classification of financial assets depends on the purpose for which the financial assets were acquired. Financial assets are classified on initial recognition into the following categories: at FVP&L, loans and receivables, and AFS financial assets.

Financial assets at fair value through profit and loss	Financial assets and liabilities at FVP&L are financial assets held for trading or designated as at FVP&L. Derivatives, including separate embedded derivatives, are also classified as held for trading unless they are designated as hedges and subject to hedge accounting.
Loans and receivables	Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Those maturing in less than 12 months from the balance sheet date are disclosed within current assets, whist those with a maturity beyond 12 months are recorded within non-current assets.
Available-for-sale financial assets	AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, held to maturity investments or financial assets at FVP&L.

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Loans and advances	Note 13
Loans to banking customers	Note 14
Assets held at FV through OCI	Note 12

Identification and Measurement – for year ended 31 March 2019

Impairment identification

IFRS 9 replaces the IAS 39 'incurred loss' model for impairment provisioning with a forward looking 'expected credit loss' (ECL) model. IFRS 9 requires that expected losses are calculated using a range of forward looking economic scenarios, weighted by the estimated probability of each scenario.

The Group recognises either a 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI.

Each financial asset is categorised as 'stage 1', 'stage 2' or 'stage 3':

- stage 1 assets are those for which there has been no significant increase in credit risk since the asset's origination
- stage 2 assets are those for which there has been a significant increase in credit risk since the asset's origination
- stage 3 assets are those which are in default

In respect of stage 1 assets, the impairment provision reflects the next 12 months' expected losses. In respect of stage 2 and 3 assets, the impairment provision reflects full lifetime expected losses. In respect of stage 3 assets, interest income is recognised only in respect of the balance net of impairment.

For trade receivables, contract receivables and lease receivables, the Group recognises impairment losses using the simplified approach required by FReM. Under this approach, lifetime ECL is recognised for all assets.

Assets carried at amortised cost - For financial assets carried at amortised cost, the Group first considers whether an impairment is required for those assets considered significant in their own right. For those assets which are not considered individually significant, these are assessed for evidence of impairment on a collective basis.

Loans and advances - Evidence considered when assessing an impairment loss includes the probability of future delinquency in contractual payments of principal, interest or cash flow difficulties experienced by the borrower, the likelihood of breach of loan covenants or conditions or any future deterioration in the value of collateral.

Loans to banking customers - For loans to banking customers, an assessment is made as to whether an impairment provision should be made on an individual or collective basis. Loans where an individual assessment is made include all loans in possession or held for sale with a Law of Property Act ('LPA') receiver and any others which management consider to be individually impaired.

All loans that have been assessed as having no individual impairment are then grouped together with those of similar characteristics and assessed collectively. For each loan category an assessment is made of forecast cash flows against contractual cash flows over the life of the loan. Both cash flows are discounted, using the loan's EIR. Where there is a shortfall on the discounted forecast cash flow compared to the discounted contractual cash flow, a provision is made.

Assets held at fair value through other comprehensive income - In the case of equity investments held at fair value through other comprehensive income (FVOCI), a decline in the fair value of the asset is reflective of a reduction in the expected returns on the investment. This reduction in fair value is shown within other comprehensive income through the fair value reserve.

Impairment measurement

Assets carried at amortised cost- The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate applicable at the inception of the loan. The carrying amount of the asset is reduced in the SoFP by the amount of this expected credit loss and the loss is recognised in the SoCNE. The present value of estimated future cashflows is based on a probability-weighted evaluation of a range of possible outcomes, based on historic, current and forward-looking information.

FVOCI assets – For loans to banking customers (debt instruments held at FVOCI) any impairment is measured as the difference between discounted contractual cash flows and discounted forecast cash flows, assessed in accordance with the ECL model outlined above. The amount of this expected credit loss is recognised in the SoCNE and does not reduce the carrying amount of the loan in the SoFP. Impairments are not recognised for equity investments held at FVOCI as a reduction in expected returns will be reflected in a decline in fair value, shown within other comprehensive income through the fair value reserve.

Identification and Measurement – for year ended 31 March 2018

Impairment identification

The Group assessed, at each reporting date, whether there was objective evidence that a financial asset or a group of financial assets was impaired. An impairment existed if one or more events that had occurred since the initial recognition of the asset (an incurred 'loss event'), had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In the case of available-for-sale assets, an impairment would be recognised if there were a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. In this case, significant is more than a 20% decline and prolonged is 9-12 months.

Impairment measurement

Assets carried at amortised cost- The amount of any impairment loss identified was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the Treasury discount rate applicable at the inception of the loan (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset was reduced in the SoFP and the loss was recognised in the SoCNE.

Collective impairment was reflected by reducing the carrying value of the total loans by applying an impairment allowance.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed.

Available-for-sale assets- Where there was evidence of impairment, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the SoCNE, were removed from equity and recognised in the SoCNE. Impairment losses recognised in the SoCNE were not subsequently reversed until this related financial asset was de-recognised.

De-recognition – for years ended 31 March 2018 and 31 March 2019

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Group has transferred substantially all the risks and rewards of ownership. The investments in FVOCI assets have been recognised on a tranche by tranche basis where different lots of the same security have been purchased at a different price levels. The gain or loss on these securities will be accounted for on a first in first out basis when they are eventually disposed of.

1.13 Financial Instruments: financial liabilities

Recognition

Financial liabilities are initially recognised on the date on which they originate.

Measurement

Financial liabilities are measured at amortised cost using the effective interest rate (EIR) method or at fair value through profit or loss (FVP&L). The Group does not hold any financial liabilities at FVtP&L.

Classification

Financial liabilities are classified on initial recognition as either at FVP&L, or financial liabilities measured at amortised cost:

Financial liabilities at fair value through profit or loss	Financial liabilities at FVP&L are liabilities held for trading or designated as at FVP&L.
Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Trade and other payables, borrowings and bank overdrafts are classified as financial liabilities measured at amortised cost.

Derivative financial liabilities

Derivatives are measured initially at fair value and subsequently re-measured to reflect changes in fair value. Fair values are obtained from quoted market prices in active markets and, where these are not available, from other valuation techniques including discounted cash flow models.

Derecognition

Financial liabilities are derecognised if the Group's obligations specified in the contract expire, are discharged or cancelled.

1.14 Provisions, contingent liabilities and contingent assets

Provisions are carried in respect of certain known or forecast future expenditure. As per IAS 37, provisions are recognised when there is a present obligation arising from past events, it is probable that a transfer of economic benefits will be required, and a reliable estimate can be made. Where the future payment amount is unknown provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. In calculating provisions, future payments may be subject to discount rates depending on the expected timing of cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

Contingent liabilities and contingent assets are not recognised as liabilities or assets in the SoFP but are disclosed in the notes to the Accounts. A contingent liability is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events; or it is a present obligation arising from past events but is not recognised because either an outflow of economic benefits is not probable to settle the obligation or the amount of the obligation cannot be reliably estimated. A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of HM Treasury. Where the time value of money is material, the contingent liabilities and assets are stated at discounted amounts.

In addition to contingent liabilities disclosed in the accounts in accordance with IAS 37, HM Treasury discloses within its accountability report, for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities outside the scope of IAS 37 which have been reported to Parliament in accordance with the requirements of Managing Public Money.

1.15 Debt and equity securities in issue

Issued securities, including capital instruments, are classified as liabilities where the contractual arrangements result in the issuer having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the issuer. Issued securities include ordinary and preference share capital. Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary.

On initial recognition, debt issued is measured at its fair value of directly attributable issue and transaction costs. Subsequent measurements are at amortised cost using the EIR method to amortise attributable issue and transaction costs, premium and discounts over the life of the instrument. These costs are charged along with interest on the debt to interest expense and similar charges. Unamortised amounts are added to or deducted from the carrying value of the instrument.

Equity instruments (including share capital) are initially recognised at net proceeds, after deducting transaction costs and any related income tax.

1.16 Hedging activities – Fair value hedge accounting

Hedging activities are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions. The Group has adopted fair value hedge accounting. Hedging activities only relate to UKAR.

For more information refer to UKAR’s Annual Report and Accounts.

IFRS 9 does not deal with macro-hedging, the Group therefore continues to apply the existing IAS 39 macro-hedge accounting rules, consistent with FReM interpretations.

A fair value hedge is used to hedge exposures to variability in fair values, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the SoCNE, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Fair value hedge accounting is used on one-to-one relationship and portfolio hedging bases, as described below.

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided the hedge arrangement meets the IAS 39 classification of highly effective, the associated hedged item is carried on the SoFP at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the SoCNE, mitigating the fair value movements on the associated derivative financial instruments.

Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge is classified under IAS 39 as highly effective the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the carrying value of the hedged items is not adjusted; instead the difference between the carrying value and the fair value in respect of the hedged risk is carried on the SoFP.

1.17 Embedded derivatives

Derivatives may be embedded in another contractual agreement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in the SoCNE unless they form part of the qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SoFP together with the host contract.

The exception to this is where the host contract is a financial asset within the scope of IFRS 9, in which case the entire hybrid contract is accounted for in accordance with the requirements of IFRS 9 as laid out in Note 1.12.

1.18 Financial guarantees

Financial guarantee liabilities and associated receivables are initially recognised in the financial statements at fair value on the date the guarantee was given. The period over which the receivables and the associated liabilities have been recognised is over the length of these guarantees. Guarantee arrangements are re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantees are adjusted if necessary.

The fair value of financial guarantee liabilities at initial recognition is estimated as the fair value of the guarantee fee income.

Subsequent measurement of liabilities under financial guarantees is measured at the higher of: the initial measurement, less amortised fee income recognised in the SoCNE as the service is provided; and the amount of the loss allowance for expected credit losses at the reporting date. Any increase in the liability relating to guarantees is taken to the SoCNE.

1.19 Off-Balance Sheet loan commitments

Off-Balance sheet loan commitments are disclosed in Note 25 - Commitments. They comprise commitments to advance cash sums, and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

Under IFRS 9 an impairment provision for expected credit losses is required to be held against undrawn loan commitments. The impairment provision for each loan takes into account the expected drawdown on the loan commitment.

1.20 Foreign currencies

Transactions which are not denominated in pounds sterling are translated at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated at the closing rate of exchange on the reporting year end date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the SoCNE.

2. Other operating income

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18[8]**	**2018-19**	**2017-18[8]**
Fees and charges	(205)	(288)	(205)	(290)
Levies	-	-	(503)	(497)
Recoveries and recharges	(9)	(7)	(38)	(52)
Other operating income	(22)	(20)	(43)	(78)
Total	**(236)**	**(315)**	**(789)**	**(917)**

3. Staff costs and numbers

Total staff costs for the Group at 31 March 2019 were £198m (2017-18: £198m), comprising £168m salaries and wages (2017-18: £167m), £17m social security (2017-18: £17m) and £13m staff pension costs (2017-18: £14m). Staff pension costs are less than social security costs due to UKAR receiving refunds of £12m from their defined benefit pension scheme, which is in surplus[9]. For more information and for staff numbers refer to the Remuneration and Staff Report.

4. Purchase of goods and services

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18**	**2018-19**	**2017-18**
UK coinage: metal and manufacturing costs	46	94	46	94
Professional and office services	49	43	217	231
Other purchase of goods and services	33	30	105	141
Total	**128**	**167**	**368**	**466**

UK coinage: metal and manufacturing costs decreased in 2018-19 following the introduction of the new £1 coin in 2017-18 and the particularly large number of coins issued in the same year.

Other purchase of goods and services: there is a decrease in 2018-19 costs due to MAS no longer being part of the Treasury Group. As prior year comparatives have not been restated, there is £65m of MAS debt advice services in the 2017-18 Group balance. For more information refer to Note 1.2.

[8] On adoption of IFRS 15 some of the other operating income lines were regrouped. For consistency in presentation, the 2017-18 balances have been re-presented using the 2018-19 groupings.

[9] See UKAR's 2018-19 accounts for further information.

5. Other operating expenditure

In £m	Core Treasury and Agencies 2018-19	Core Treasury and Agencies 2017-18	Group 2018-19	Group 2017-18
FSCS compensation costs	-	-	371	397
Movement in provisions	315	290	448	357
Other operating expenditure	125	133	41	50
Total	**440**	**423**	**860**	**804**

Movement in provisions is detailed in Note 20.

6. Finance income

In £m	Core Treasury and Agencies 2018-19	Core Treasury and Agencies 2017-18	Group 2018-19	Group 2017-18
Interest and fee income from loans	(154)	(263)	(573)	(795)
Dividend income	(1,034)	(96)	(1,034)	(96)
Amortisation of loans	(93)	(83)	-	-
Total	**(1,281)**	**(442)**	**(1,607)**	**(891)**

Interest and fee income from loans decreased by £222m mainly due a reduction in interest income to FSCS and UKAR following the disposal of B&B mortgage assets and repayment of associated loans.

Dividend income increased by £938m largely due to dividends of £976m from RBS.

7. Finance expense

In £m	Core Treasury and Agencies 2018-19	Core Treasury and Agencies 2017-18	Group 2018-19	Group 2017-18
Impairment (reversals) of financial assets	3	(187)	(43)	(174)
Interest expense	-	-	9	17
Interest element of the PFI contract	8	9	8	9
Total	**11**	**(178)**	**(26)**	**(148)**

Impairment reversals decreased by £190m at core and agencies level primarily due to the reversal of impairments on intercompany loans during 2017-18, which was not required in 2018-19. The £131m decrease at group level is due to a reduction in impairment reversals of loans to banking customers. In both cases there is a significantly smaller amount of underlying loans held at the end of 2018-19. See also Note 13 Loans and Advances and Note 14 Loans to Banking Customers.

8. Revaluation of financial assets and liabilities in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Fair value (gain)/loss on derivatives	(14,031)	368	(14,031)	368
Fair value (gain)/loss on financial assets	-	1	1	(1)
Hedging impacts on sale of loans	-	-	389	-
Hedge ineffectiveness	-	-	(2)	(17)
Total	**(14,031)**	**369**	**(13,643)**	**350**

For an explanation of the change in the fair value on derivatives refer to Note 16 – Derivative financial assets.

9. Gain on disposal of assets in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Net transfer from reserves and recognised as income in year	-	(414)	(96)	(414)
Net gains recognised in year	-	(13)	(356)	(44)
Total gains on disposal of assets	**-**	**(427)**	**(452)**	**(458)**

Following the introduction of IFRS 9 fair value movements through reserves are no longer recycled through the income statement on disposal and instead reclassified to the General Fund. (Note 1.12 – Financial instruments: financial assets).

Net gains recognised in-year are made up of gains on disposal of UKAR loans (Note 14 – Loans to Banking Customers).

10. Trade and other receivables

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18[10]**	**2018-19**	**2017-18[10]**
Current receivables				
Trade receivables	22	9	34	13
Accrued interest and dividend income	911	194	909	91
Pool Re accrued income	220	264	220	264
Levies receivable	-	-	56	95
Guarantee fees receivable	18	23	8	13
Sale of loans	-	-	4,474	-
Other	28	37	46	102
Total current	**1,199**	**527**	**5,747**	**578**
Non-current receivables				
Pool Re accrued income	219	264	219	264
Guarantee fees receivable	75	82	75	81
Deposit with the National Loans Fund	-	-	200	200
Other	124	124	12	18
Total non-current	**418**	**470**	**506**	**563**
Total receivables	**1,617**	**997**	**6,253**	**1,141**

[10] 2017-18 has been re-presented as the Net pension asset is no longer included in this note and is now presented separately on the SoFP. See Note 11.

The £4.5bn sale of loans balance in 2018-19, is a receivable related to the sale of UKAR's NRAM mortgage assets in March 2019, which was received in April 2019. See Notes 14 and 33.

The increase in accrued interest and dividends receivable is largely due to RBS declaring its first dividends in a decade during 2018-19, of which £826m was unpaid at 31 March 2019.

Pool Re income is receivable three years in arrears every March. The receivable from Pool Re includes all income accrued since January 2017.

11. Net pension asset

Defined contribution schemes

The Financial Services Compensation Scheme (FSCS), UK Government Investments Ltd (UKGI) and the Royal Household (RH) operate defined contribution schemes. The RH also operates an unfunded defined benefit scheme which is accounted for as a defined contribution scheme as the RH is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis.

Defined benefit schemes

The FSCS and RH operate defined benefit schemes, which are accounted for as such. UKAR operates several retirement benefit plans for its current and former employees, including defined benefit pension plans, defined contribution pension plans and post-retirement healthcare benefits. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual.

The amount recognised in the Statement of Financial Position relating to Bradford & Bingley's (B&B) defined benefit scheme is a net asset of £439m and a net liability for post-retirement medical benefits of £7m (2017-18: net asset of £356m and a net liability for post-retirement medical benefits of £8m) and the amount recognised relating to NRAM's defined benefit scheme is a net asset of £214m (2017-18: net asset of £188m).

In 2018-19 UKAR contributed £70m to address the deficit in B&B's defined benefit scheme (2017-18: £64m) and £30m to NRAM's defined benefit scheme (2017-18: £30m). The latest formal triennial valuation of the B&B scheme, prepared by the scheme actuaries as at 30 June 2018 and agreed in May 2019, showed a deficit of £22.3m on a Trustee's valuation basis. The latest formal triennial valuation of the NRAM scheme, prepared by the scheme actuaries at 5 April 2018 and agreed in May 2019, showed a surplus of £37.2m on a Trustee's valuation basis.

A reconciliation of the net pension asset for the UKAR, FSCS and RH pension schemes is shown in the table below. Further details of these schemes, including valuation assumptions for the defined benefit schemes, are included in their respective annual report and accounts.

In £m	Group 2018-19	2017-18
Reconciliation of fair value of employer asset		
Balance at 1 April	2,080	2,289
Interest income	54	55
Contributions paid by employer	102	96
Remeasurements:		
- return on plan assets excluding interest income	43	(27)
Administrative expenses	(1)	(1)
Transfer payments	(48)	(233)
Benefits paid from plan	(70)	(99)
Balance at 31 March	**2,160**	**2,080**
Reconciliation of defined benefit obligations		
Balance at 1 April	(1,545)	(1,821)
Current service costs	(1)	(1)
Interest cost	(40)	(44)
Remeasurements:		
- effect of GMP equalisation	(8)	-
- effect of changes in demographic assumptions	62	-
- effect of changes in financial assumptions	(77)	64
- effect of experience adjustments	(19)	(78)
Actuarial (gains)/losses	48	2
Transfer payments	71	233
Benefits paid from plan	-	100
Balance at 31 March	(1,509)	**(1,545)**
Closing net pension asset/(liability)	**651**	**535**

12. Assets held at Fair Value through Other Comprehensive Income

Current year

In £m	At 1 April 2018	Additions, disposals & transfers	Fair value adjustment	Impairments	At 31 March 2019
Listed entities					
RBS ordinary shares	21,828	(2,507)	(773)	-	18,548
Unlisted investments					
Bank of England share capital	4,482	1,180	(118)	-	5,544
Asian Infrastructure Investment Bank	87	411	(114)	-	384
Other shareholdings	9	-	1	-	10
Group entities					
UKAR	8,533	-	344	-	8,877
IFUL	-	69	-	-	69
IUK share capital	1	-	(1)	-	-
Total Core Treasury and Agencies	**34,940**	**(847)**	**(661)**	-	**33,432**
Intra-group eliminations	(8,534)	(69)	(343)	-	(8,946)
Other group shareholdings	6	63	(2)	-	67
Total Group	**26,412**	**(853)**	**(1,006)**	-	**24,553**

Equity investments classified as Available for Sale financial assets under IAS 39 in the 2017-18 Accounts have been reclassified as being Fair Value through Other Comprehensive Income (FVOCI) under IFRS 9.

On adoption of IFRS 9, the Group has made an irrevocable election to classify the equity investments at FVOCI rather than through profit or loss because this is considered to be more appropriate. Financial assets measured at FVOCI represents the Group's strategic equity investments, which are not held for trading.

RBS ordinary shares: In continuation of the government's objective to return financial sector assets acquired during the financial crisis to the private sector, on 5 June 2018, HM Treasury sold a tranche of 7.7% of RBS shares with fair value of £2.5bn, reducing HM Treasury's remaining shareholding to 62.1%. The cumulative lifetime loss on disposal of this tranche of shares of £3.6bn has been released from the fair value reserve to the General Fund (see Statement of Changes in Taxpayers' Equity). The decrease in fair value in the remaining RBS shareholding is due to unfavourable market moves, which saw the share price decrease from 258.8p on 31 March 2018 to 247.0p on 31 March 2019.

Bank of England share capital: in March 2019 HM Treasury made a £1.2bn capital injection to the Bank of England to bring the Bank's capital base up to a new target level, in line with the reforms to the bank's financial framework[11] announced in June 2018. (See also Contingent Liabilities not required to be disclosed under IAS 37 - page 101).

[11] https://www.gov.uk/government/publications/financial-relationship-between-the-treasury-and-the-bank-of-england

Asian Infrastructure Investment Bank: £314m of the Asian Infrastructure Investment Bank additions relate to the transfer to HM Treasury of the portion of the UK's AIIB shareholding previously held by Department for International Development (DfID) at the carrying value on DfID's books. This transfer was made at no cost, and was treated as a capital grant in kind from DfID to HM Treasury. The remainder of the additions represent 2018-19 capital subscriptions made by HM Treasury.

For more information see Note 28 Financial Risk, and Note 29 Financial Instruments Fair Value Hierarchy.

Prior year (Available-for-sale assets in 2017-18)

In £m	At 1 April 2017	Additions, disposals & transfers	Fair value adjustment	Impairments	At 31 March 2018
Listed entities					
RBS ordinary shares	20,420	-	1,408	-	21,828
Lloyds Banking Group ordinary shares	935	(935)	-	-	-
Unlisted investments					
Bank of England share capital	4,756	-	(274)	-	4,482
Asian Infrastructure Investment Bank	98	-	(11)	-	87
Other shareholdings	9	-	-	-	9
Group entities					
UKAR	8,093	-	440	-	8,533
IUK share capital	-	3	1	(3)	1
Total Core Treasury and Agencies	**34,311**	**(932)**	**1,564**	**(3)**	**34,940**
Intra-group eliminations	(8,093)	(3)	(441)	3	(8,534)
UKAR investment securities	23	(59)	(18)	54	-
Other group shareholdings	-	8	1	(3)	6
Total Group	**26,241**	**(986)**	**1,106**	**51**	**26,412**

Group shareholdings

In accordance with the Government Financial Reporting Manual (FReM) additional details of significant shareholdings are shown below:

In £m	2018-19 Stake %	2018-19 Total net assets	2018-19 Entity's reported profit/(loss)	2017-18 Stake %	2017-18 Total net assets	2017-18 Entity's reported profit/(loss)
Bank of England	100	4,350	109	100	4,482	129
RBS ordinary shares	62	46,490	2,084	70	49,093	(1,415)

The reported profit/(loss) and net assets of the above entities is disclosed for the reporting period to the end of February for the Bank of England and end of December for RBS.

13. Loans and advances

13.1 Group

Current year

In £m	At 1 April 2018	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2019
Loans	3,261	-	-	(2)	3,259
Statutory debt	6	-	(2)	(2)	2
Total	**3,267**	**-**	**(2)**	**(4)**	**3,261**
Current	-				1,613
Non-current	3,267				1,648

The first repayment of the Ireland loan was made on 15 April 2019 and further repayments are due in 2019-20 and 2020-21.

Prior year

In £m	At 1 April 2017	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2018
Loans	3,376	3	(118)	-	3,261
Statutory debt	11	-	(5)	-	6
Investment securities held as loans	260	-	(425)	165	-
Total	**3,647**	**3**	**(548)**	**165**	**3,267**

In 2017-18, all Group loans and advances were non-current assets.

13.2 Core Treasury and Agencies

Current year

In £m	At 1 April 2018	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2019
Working capital facility	120	-	(120)	-	-
Loans	10,631	-	(5,886)	(2)	4,743
Statutory debt	2,658	-	(2,302)	92	448
Total	**13,409**	**-**	**(8,308)**	**90**	**5,191**
Current	5,174				3,571
Non-current	8,235				1,620

Following UKAR asset sales during the year, HM Treasury received from B&B scheduled loan repayments of £4.7bn and scheduled statutory debt repayments of £2.3bn.

Prior year

In £m	At 1 April 2017	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2018
Working capital facility	2,011	-	(1,891)	-	120
Loans	23,566	9	(12,944)	-	10,631
Statutory debt	2,391	-	(6)	273	2,658
Total	**27,968**	**9**	**(14,841)**	**273**	**13,409**
Current	12,592				5,174
Non-current	15,376				8,235

14. Loans to banking customers

14.1 Group

Current year

In £m	At 1 April 2018	Advances	Redemptions & repayments	Fair value movements (inc impairments)	At 31 March 2019
Residential mortgages	12,321	4	(6,414)	(388)	5,523
Commercial loans	216	-	(212)	(2)	2
Unsecured loans	258	-	(306)	48	-
Total	**12,795**	**4**	**(6,932)**	**(342)**	**5,525**
Current	1,872				778
Non-current	10,923				4,747

Residential mortgages decreased by £6.8bn due primarily to a sale of a portfolio of £983m of B&B and NRAM equity release mortgages in September 2018, and in March 2019, a portfolio of £4.9bn of NRAM mortgage assets. A portfolio of £61m of NRAM and B&B commercial loans were also sold in December. These sales were part of an on-going programme of aimed at returning UKAR's B&B and NRAM mortgage books to the private sector. The balance of the movement consists of mortgage redemptions and repayments.

As detailed in Note 1.3, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at Fair Value through Other Comprehensive Income (FVOCI). Differences between the current year balances at 1 April 2018 and prior year balances at 31 March 2018 are due to remeasurement following the implementation of IFRS 9.

Prior year

In £m	At 1 April 2017	Advances	Redemptions & repayments & transfers	Fair value movements (inc impairments)	At 31 March 2018
Residential mortgages	18,888	8	(7,328)	179	11,747
Commercial loans	258	-	(18)	7	247
Unsecured loans	318	-	(51)	(11)	256
Total	**19,464**	**8**	**(7,397)**	**175**	**12,250**
Current	555				443
Non-current	18,909				11,807

14.2 Allowance for impairment

Current year

	Residential mortgages	Commercial loans	Unsecured loans	Total
	£m	£m	£m	£m
At 31 March 2018	350	12	56	**418**
IFRS 9 adjustments	16	-	18	**34**
	366	12	74	**452**
At 1 April 2018				
Stage 2	176	-	18	**194**
Stage 3	67	12	56	**135**
Equity release[12]	123	-	-	**123**
	366	12	74	**452**
Sale of assets:				
Stage 2	(27)	-	(12)	**(39)**
Stage 3	(13)	(11)	(48)	**(72)**
Equity release	(119)	-	-	**(119)**
	(159)	(11)	(60)	**(230)**
Impairments				
Stage 2	(28)	-	(6)	**(34)**
Stage 3	23	3	(2)	**24**
Equity release	(3)	-	-	**(3)**
	(8)	3	(8)	**(13)**
Write-offs				
Stage 2	-	-	-	**-**
Stage 3	(36)	(4)	(6)	**(46)**
Equity release	(1)	-	-	**(1)**
	(37)	(4)	(6)	**(47)**
At 31 March 2019				
Stage 2	121	-	-	**121**
Stage 3	41	-	-	**41**
Equity release	-	-	-	**-**
	162	**-**	**-**	**162**

Of the write-offs in the above table £45.8m were still subject to enforcement action at 31 March 2019.

Prior year

In £m	At 1 April 2017	Sale of assets	Impairments & reversals	Write-offs	At 31 March 2018
Residential mortgages	561	(11)	(150)	(50)	350
Commercial loans	12	-	-	-	12
Unsecured loans	75	-	(6)	(13)	56
Total	**648**	**(11)**	**(156)**	**(63)**	**418**

As detailed in Note 1.3, the Group has adopted IFRS 9 with effect from 1 April 2018. As required by the FReM, prior periods have not been restated. Therefore, the

[12] Equity release mortgages are accounted for under IFRS 4

allowances for credit losses at 31 March 2019 are measured on a different basis from the allowances at 31 March 2018, as discussed in Note 1.3.

15. Loan hedging asset

In £m	Group 2018-19	Group 2017-18
Current	-	15
Non-current	-	406
Total	**-**	**421**

The loan hedging asset relates exclusively to UKAR's loans to banking customers. This was terminated during 2018-19 following the sale of the underlying loans.

16. Derivative financial assets

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Balance at 1 April	40,778	51,175	40,778	51,177
Cash movements	(9,685)	(10,029)	(9,685)	(10,030)
Fair value gain/(loss)	14,031	(368)	14,031	(369)
Balance at 31 March	**45,124**	**40,778**	**45,124**	**40,778**

All derivative financial assets are current.

Derivative financial assets increased by £4.3bn due to an increase in the value of HM Treasury's BEAPFF derivative asset, and represent the fair value adjustment of £14.0bn and cash transfers of £9.7bn which were surrendered to the Consolidated Fund.

For more information refer to Note 8 – Revaluation of financial assets and liabilities in the SoCNE and Note 28 – Financial risk.

17. Cash and cash equivalents

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Balance at 1 April	5	2	1,986	2,655
Net change in cash balances	56	3	(897)	(669)
Total	**61**	**5**	**1,089**	**1,986**
The following balances were held at 31 March				
Government Banking Service	61	5	462	836
Bank of England	-	-	538	571
Commercial banks and cash in hand	-	-	89	579
Total	**61**	**5**	**1,089**	**1,986**

UKAR has provided collateral pledges of £1m (2017-18: £465m) deposited in respect of derivative contracts which is carried on the SoFP. The cash collateral pledged was returned to the Group following termination of its final remaining derivative contracts at the end of March 2019.

Detail on the cash movements can be found in the SoCF.

18. Assets held for sale

In £m	Group 2018-19	Group 2017-18
Current	-	4,992
Non-current	-	-
Total	**-**	**4,992**

Assets held for sale in 2017-18 comprised a portfolio of B&B mortgage assets which were reclassified from Loans to banking customers (see Note 14).

These assets were disposed of during 2018-19 and raised proceeds of £5.3bn from assets with a carrying value of £5.0bn, the sale was recognised in April 2018.

19. Trade and other payables

	Core Treasury and Agencies		Group	
In £m	**2018-19**	**2017-18**	**2018-19**	**2017-18**
Current payables				
Trade payables	4	5	9	11
Accrued expenditure	38	25	114	134
Pool Re payable to Consolidated Fund	220	264	220	264
Amounts due to levy payers	-	-	128	167
Sukuk certificates	-		200	-
Corporation tax payable	-	-	46	4
PFI contract	3	3	3	3
Other	68	13	99	80
Total current	**333**	**310**	**819**	**663**
Non-current payables				
Pool Re payable to Consolidated Fund	219	264	219	264
Amounts due to levy payers	-	-	28	40
Sukuk certificates	-	-	-	200
PFI contract	110	113	110	113
Deferred tax	-	-	112	84
Other	-	-	7	3
Total non-current	**329**	**377**	**476**	**704**
Total payables	**662**	**687**	**1,295**	**1,367**

Pool Re payable to the Consolidated Fund reflects payments yet to be received from the reinsurance companies (see other accrued income in Note 10 – Trade and other receivables).

20. Provisions

20.1 Group

In £m	Equitable Life	Oil & gas	Customer redress	HTB ISA	Other	Total
Balance at 1 April	492	299	124	478	57	**1,450**
Provided during the year	-	118	76	268	83	**545**
Provisions not required	(5)	-	(19)	-	(4)	**(28)**
Unwinding of discount and changes in the discount rate	(51)	(17)	-	-	(1)	**(69)**
Provisions utilised in year	(32)	(43)	(94)	(128)	(52)	**(349)**
Balance at 31 March	**404**	**357**	**87**	**618**	**83**	**1,549**
Within one year	37	95	79	618	73	**902**
Between one and five years	133	241	8	-	10	**392**
Later than five years	234	21	-	-	-	**255**

20.2 Core Treasury and Agencies

In £m	Equitable Life	Oil & gas	HTB ISA	Other	Total
Balance at 1 April	492	299	478	28	**1,297**
Provided during the year	-	118	268	3	**389**
Provisions not required	(5)	-	-	-	**(5)**
Unwinding of discount and changes in the discount rate	(51)	(17)	-	(1)	**(69)**
Provisions utilised in year	(32)	(43)	(128)	(10)	**(213)**
Balance at 31 March	**404**	**357**	**618**	**20**	**1,399**
Within one year	37	95	618	10	**760**
Between one and five years	133	241	-	10	**384**
Later than five years	234	21	-	-	**255**

Movement in provisions in Note 5 – Other operating expenditure, is made up of: Provided during the year, Provisions not required, and Unwinding of discount and changes in the discount rate above. Further detail on provisions can be found below:

Equitable Life	The Equitable Life Payments Scheme is for eligible policy holders who purchased an Equitable Life pension policy between 1 September 1992 and 31 December 2000. In 2010 the government committed to pay in the region of £1.5bn to policy holders in the scheme; as at the reporting date £1.2bn has been paid. The scheme was closed to new entrants from 31 December 2015 but continues to make payments to 'with annuities' policyholders.
Oil and gas	This provision relates to claims on Decommissioning Relief Deeds (the deeds). The deeds were signed between members of the oil and gas industry and HM Treasury. The deeds indemnify the industry for changes in tax codes or the default of their partners in decommissioning North Sea oil fields, allowing them to claim relief from HM Treasury potentially otherwise available to the field from HMRC through the tax system. HM Treasury recognises a provision when a claim is notified and the amount can be measured reliably. The value of the provision of £357m represents the best estimate of the outstanding costs to settle.

	During the year, HM Treasury was required to make a further tranche of payment on an existing claim. The payment totalled £43m and was paid directly to the claimant. For more information on the scheme and potential other claims, refer to Contingent liabilities not required to be disclosed under IAS 37 from page 101.
Customer redress	Recognised by UKAR as an estimate of expected customer compensation claims, primarily relating to Payment Protection Insurance and Consumer Credit Act non-compliance. Further details are available in UKAR's Annual Report and Accounts.
Help to Buy (HTB) ISA	The Help to Buy ISA scheme commenced on 1 December 2015 and offers first time buyers government bonuses to be claimed on completion of a successful property purchase. The government will award a 25% bonus based on an individual's monthly savings in a HTB ISA account. There is a minimum £400 bonus and a maximum £3,000 bonus. The scheme will close to new entrants in November 2019, and all bonuses must be claimed by December 2030. The amount provided in year was £268m. At year end, there were 576k scheme participants, compared to 520k in the prior year. The increase in the amount provided is due to the increase in the value of the eligible deposits held (from £4.1k per person to £4.7k per person, as well as the increase in scheme participants). There is significant variability over the timing of when the provided funds would be drawn on by homebuyers, dependant on factors including the housing market and the level of savings accrued prior to joining the scheme, so although homebuyers have the ability to draw on the bonus at any point, this is likely to be spread over the lifetime of the scheme.
Other	Includes provisions for funding of the Asian Infrastructure Investment Bank's Special Fund, UKAR restructuring, and FSCS compensation.

21. Debt securities in issue

	Group	
In £m	**2018-19**	**2017-18**
Current	204	4
Non-current	-	200
Total	**204**	**204**

22. Derivative financial liabilities

	Group	
In £m	**2018-19**	**2017-18**
Balance at 1 April	472	527
Movements in year	(472)	(55)
Balance at 31 March	**-**	**472**

All derivative financial liabilities are non-current.

Derivative financial liabilities were used by UKAR as hedging instruments to reduce the risk arising from interest rate and exchange rate risk. Following the continued winddown of UKAR the derivatives have reduced in value to nil due to disposal of the related hedged instruments.

23. Financial guarantees

In £m	Core Treasury and Agencies 2018-19	Core Treasury and Agencies 2017-18	Group 2018-19	Group 2017-18
UK guarantees	84	92	84	92
Help to Buy guarantees	49	63	49	63
Deposit guarantees	10	12	-	-
Total	**143**	**167**	**133**	**155**
Current	33	36	23	26
Non-current	110	131	110	129

The financial risks and management policies associated with financial guarantees are detailed in Note 28 – Financial risk which sets out the maximum exposure to HM Treasury as a result of issuing these guarantees.

UK guarantees	The UK Guarantees scheme was announced on 18 July 2012. The scheme aims to support infrastructure projects that may have stalled because of adverse credit conditions. As at 31 March 2019, six projects were guaranteed with no new projects entering the scheme during the reporting period.
Help to Buy: mortgage guarantee scheme	The Help to Buy: mortgage guarantee scheme was launched on 8 October 2013. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. The Scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2016 continued to enter the scheme until 30 June 2017.
Deposit guarantees	HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with B&B with effect from 2008 and certain borrowings, derivative transactions, and wholesale deposits for NRAM plc (now NRAM Ltd) with effect from 2010. The guaranteed B&B borrowings and deposits have been disposed of during 2018-19 and therefore the guarantee in respect of these is no longer required.

For more information see the Contingent liabilities not required to be disclosed under IAS 37 section from page 101.

24. Non-cash transactions

In £m	Core Treasury and Agencies 2018-19	Core Treasury and Agencies 2017-18	Group 2018-19	Group 2017-18
Adjustment for non-cash transactions				
Net provisions provided in year	316	290	450	357
Depreciation and amortisation	3	8	10	13
Non-voted – banking and gilts registration services	7	7	7	7
Other non-cash adjustments	1	-	(39)	109
Total	**327**	**305**	**428**	**486**

25. Commitments

In £m	Core Treasury and Agencies 2018-19	Core Treasury and Agencies 2017-18	Group 2018-19	Group 2017-18
Capital commitments				
Multilateral development banks	94	174	94	174
Other capital commitments	334	397	340	399
Total	**428**	**571**	**434**	**573**
Financial commitments				
Loan commitments	14,384	14,294	824	1,055
Other financial commitments	-	-	112	60
Total	**14,384**	**14,294**	**936**	**1,115**

HM Treasury has entered into the following commitments.

AIIB	The multilateral development banks commitment of £94m relates to future capital commitment to the Asian Infrastructure Investment Bank (AIIB). The government is committed to honouring the investment in AIIB announced by the Chancellor in March 2015. The AIIB was set up in December 2015 to support financing for infrastructure projects across Asia. The UK's investment, like that of all other shareholders in the bank, is in the form of 20% paid-in capital and 80% callable capital. The paid-in capital is made in five annual instalments of US$122m. HM Treasury, on behalf of the UK government, paid the initial instalment of US$122m in January 2016. The second and third instalments were paid by DfID in February 2017 and January 2018 respectively. Following the enactment of a transfer of functions order, the final two annual instalments of US$122m are again made by HM Treasury. The fourth instalment was paid in December 2018 and so the remaining outstanding final instalment is a future capital commitment of the core department, with HM Treasury recognising the UK's full investment in the AIIB. See also contingent liabilities not required to be disclosed under IAS 37 from page 101.
DIIF	Other capital commitments are mainly £334m relating to The Digital Infrastructure Investment Fund (DIIF). The DIIF is committed to provide a total of £400m worth of investment to the relevant fund managers over a four year period spanning five financial years from 2017-18 to 2021-22. As at 31 March 2019, £334m is undrawn. The drawn amounts as at 31 March are recognised as Investments held at FVOCI in Note 12.
GLA	HM Treasury has provided a £0.8bn (2017-18: £0.8bn) standby refinancing facility to Transport for London – Greater London Authority for the Northern Line extension as part of the UK Guarantees scheme.
Consumer credit	Additionally, at group level, loan commitments represent contractual amounts of £74m (2017-18: £400m) to which UKAR is committed for extension of credit to its banking customers.
Pool Re	HM Treasury has a commitment to provide a loan to Pool Re and Pool Re nuclear in event of losses following a terrorist event exceeding their available resources. The maximum potential loan is unquantifiable and therefore not included in the above table. See also contingent liabilities outside the scope of IAS 37 from page 101.
Other financial commitments	Other financial commitments includes £85m of authorised and contracted commitments for the reservicing of Buckingham Palace.

Intra-group	HM Treasury also provides a working capital facility to B&B and facility commitment to NRAM. As at 31 March 2019, the total facility available for B&B was £11.4bn (2017-18: £11.5bn) and for NRAM £2.1bn (2017-18: £2.1bn). The amount currently drawn on these facilities are £nil (2017-18: £0.1bn) and £nil (2017-18: £nil) respectively. As these are intra-group, they are eliminated at group level.

26. PFI contract

In May 2000, HM Treasury entered into a 35-year PFI contract with Exchequer Partnership for HM Treasury's building at 1 Horse Guards Road. The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements: imputed finance lease charges and service charges.

Finance lease obligations

	Core Treasury and Agencies	
In £m	**2018-19**	**2017-18**
Within one year	11	11
Between one and five years	45	45
Later than five years	150	162
Gross present value of future obligations	206	218
Finance charges allocated to future periods	(94)	(102)
Total	**112**	**116**

Minimum service charges

	Core Treasury and Agencies	
In £m	**2018-19**	**2017-18**
Within one year	16	15
Between one and five years	71	67
Later than five years	356	370
Total	**443**	**452**

HM Treasury is committed to paying minimum service charges in future years as shown above. The total amount charged in the SoCNE for the service element (including contingent rent) was £15m (2017-18: £14m).

27. Contingent liabilities

HM Treasury has entered into the following guarantees and indemnities. All meet the definition of contingent liabilities under IAS 37 and are disclosed below accordingly. Remote contingent liabilities and those within the scope of other standards such as IFRS 9 do not require disclosure under IAS 37, however they are required to be disclosed in accordance with Managing Public Money and the FReM. They have been separately disclosed from page 101.

UKAR	The Group's lending and other consumer credit business is governed by consumer credit law and other regulations. Claims upheld in favour of customers in relation to potential breaches of requirements could result in costs to the Group. It is not possible to provide any meaningful estimate or range of the possible cost.
NRAM Ltd	The Group holds a number of contingent liabilities in relation to NRAM's operations: In July 2015, the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with Consumer Credit Act (CCA) customers despite receiving the same incorrect documentation as CCA customers. As a result, the £268m provision relating to this matter was released. Whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the Consumer Credit Act, there is a risk that individual customers could make claims against NRAM. This could result in costs to NRAM where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost. NRAM Limited provided certain warranties and indemnities to Cerberus in respect of the sale to Cerberus of certain loans and the shares in NRAM plc. The sale agreement set various time limits for bringing claims under the warranties. For most of the warranties this time limit is 5 May 2018 or 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023. The buyer has not made any claims under the warranties.
Bradford & Bingley plc	The Group holds a number of contingent liabilities in relation to B&B's operations: HM Treasury has confirmed to the FCA its intention to take appropriate steps to ensure that B&B will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the FCA which may vary as circumstances demand. If this contingent liability crystallised, it would result in a transaction between HM Treasury and B&B, which would be eliminated at group level. In addition, the B&B plc Transfer of Securities and Property etc Order 2008 requires HM Treasury to give a guarantee or to make other arrangements for the purposes of securing that the assets of the remaining section of the B&B Pension Scheme are sufficient to meet its liabilities. As such, HM Treasury guarantees to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. As at 31 March 2019 there is no contingent liability to report (2017-18: £nil). The B&B Pension Scheme is showing an accounting surplus but a funding deficit when measured on the Trustees' actuarial basis; however, this deficit is currently covered by UKAR's operational surpluses.
NRAM Ltd and Bradford & Bingley plc	HM Treasury provided certain market standard time and value capped warranties confirming regulatory, legislative and contractual compliance to purchasers of UKAR's NRAM and B&B assets. Each of the following sales gave rise to a contingent liability with the following maximum values: • B&B mortgage assets in March 2017: £0.18bn • B&B loan book assets in April 2018: £0.3bn • B&B and NRAM loan book assets in September 2018: £49m

	• B&B and NRAM commercial loans in December 2018: £2.9m, plus additional indemnities in force until December 2022 with maximum value £61m. • NRAM together loans in March 2019: £1bn For information on the remote contingent liabilities related to these transactions, see Contingent liabilities outside the scope of IAS 37 – from page 101.
FSCS	Compensation payments may become due as a result of claims made to the FSCS by customers of authorised financial services firms which have failed. To qualify for compensation customers must be eligible under FSCS rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook on Depositor Protection and Policyholder Protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims FSCS will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation FSCS will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims FSCS may receive or claims FSCS have received but not yet decided. FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost effective to pursue which will offset some of the compensation it will pay out.
Legal action	HM Treasury is currently engaged in litigation activity as the defendant. This may result in costs or damages being ordered against HM Treasury. HM Treasury has not disclosed all of the information that is ordinarily required under IAS 37 on the grounds that it may be prejudicial to legal privilege and the outcome of the litigation. This election is made in accordance with IAS 37.92.

28. Financial risk: management objectives and policies and sensitivity analysis

28.1 Introduction

HM Treasury is responsible for responding to economic risk on behalf of the government. Economic risk can include changes in regional, national and international economies and can be triggered by external events such as macroeconomic events, conflict, natural disasters or by changes in government policy and legislation. Depending on the nature of the change an economic risk can have positive or negative impacts.

In the recent past, HM Treasury has reacted to uncertainty in the global and national economies by creating policy solutions that contribute to the UK's fiscal and economic recovery. These policy solutions include the financial stability interventions, which are designed to:

- stabilise and restore confidence in the financial system
- protect depositors' money
- protect taxpayers' interests
- ensure continued lending to creditworthy borrowers

HM Treasury's Accounts include a number of financial assets and liabilities. These financial assets and liabilities expose the Treasury to financial risks, which are: market risk, liquidity risk and credit risk. These risks are discussed below.

The HM Treasury Board is ultimately responsible for the establishment and oversight of the Group's risk management programme. Risk management forms a core part of day-to-day operations for HM Treasury's policy teams, sub-committees and UK Government Investments Limited (UKGI) - which manages the government's investments in Royal Bank of Scotland (RBS) and UK Asset Resolution Limited (UKAR).

UKGI, under the UKGI Framework Agreement, is responsible to HM Treasury for providing oversight. For RBS, UKGI aims to:

- Engage with the board and management team of the bank to build shareholder value
- Ensure that analytical frameworks used to assess value for money and wider policy, operational and legal implications remain robust
- Maintain an ongoing dialogue and communication with existing and prospective investors in RBS.

For UKAR, UKGI aims to actively engage with UKAR in the ongoing orderly run-down of its closed mortgage books with focus on maximising value for the taxpayer. The UKAR Board has responsibility for the design and management of the risk framework for UKAR financial instruments.

The largest concentration of financial risk outside Core Treasury is in UKAR. UKAR is a wholly-owned subsidiary of HM Treasury which was set up to manage the government-owned assets of NRAM Ltd (formerly Northern Rock Asset Management plc) and B&B plc. These assets represent loans to banking customers in the form of residential, commercial and wholesale mortgages. Further information on the financial risks of UKAR can be found in the UKAR annual report.[13]

The remainder of this note covers the following:

- Group
    - UKAR: market risk, liquidity risk, credit risk
    - UKAR sensitivity analysis: Impairment of loans to banking customers, Fair value of loans to customers
    - Group – credit risk
- Core Treasury and Agencies
    - Market risk
    - Liquidity risk
    - Credit risk

13 http://www.ukar.co.uk

28.2 Group

This section focuses on the risks associated with UKAR and then credit risk for the remainder of the Group.

Market risk- UKAR

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk exists in loans to banking customers and comprises three types of risk: interest rate risk, foreign currency risk and other price risk. Where relevant this is discussed below.

Loans to banking customers represents residential, commercial and wholesale mortgages attributable to the government owned businesses of NRAM and B&B. UKAR is the holding company for both businesses.

Interest rate risk- UKAR

Following the sale of the majority of UKAR's equity release mortgages in September 2018 as detailed in Note 14, interest rate risk is not considered significant to UKAR. Exposure to movements in interest rates is monitored by UKAR's Finance function.

Liquidity risk - UKAR

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

UKAR closely monitors its liquidity position against its liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

The table below looks at UKAR's liquidity position as used by management to monitor its liquidity risk, evaluated by comparing its financial assets and liabilities on a stand-alone basis, including balances with HM Treasury, into relevant maturity groupings.

Current year

In £m	On demand	Up to 3 months	3-12 months	Over 1 year	At 31 March 2019
Total financial assets	823	4,503	78	5,215	10,619
Total financial liabilities	(1,974)	(54)	(204)	-	(2,232)
Net liquidity gap	(1,151)	4,449	(126)	5,215	8,387
Net liquidity gap excluding HMT loans	823	4,449	(126)	5,215	10,361

Prior year

In £m	On demand	Up to 3 months	3-12 months	Over 1 year	At 31 March 2018
Total financial assets	1,826	5,063	93	12,257	19,239
Total financial liabilities	(10,274)	(84)	(4)	(672)	(11,034)
Net liquidity gap	(8,448)	4,979	89	11,585	8,205
Net liquidity gap excluding HMT loans	1,826	4,979	89	11,585	18,479

The total financial liabilities above include the loans and working capital advances that HM Treasury has provided to the UKAR Group. HM Treasury expects these items to be repaid out of cash flows generated from UKAR asset sales. It is not possible to predict the maturity dates of the loans. Consequently, these items have been included in the table above as if they were repayable on demand. Excluding the loans and working capital advances from HM Treasury the UKAR Group has a positive liquidity gap.

The table below analyses UKAR's cash flows for derivative and non-derivative financial liabilities into relevant maturity groupings:

In £m	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Non-derivatives: at 31 March 2018	10,575	84	5	201	1	10,866
Derivatives: at 31 March 2018	-	10	29	148	476	663
Non-derivatives: at 31 March 2019	2,045	54	204	1	2	2,306
Derivatives: at 31 March 2019	-	-	-	-	-	-

Credit risk- UKAR

Credit risk is the largest risk UKAR faces. The most significant credit risk for UKAR is the exposure to retail, commercial and wholesale counterparties failing to meet their obligations.

As no new lending is being undertaken, UKAR's ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity. Credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from: changes in the underlying economic environment; assumptions about the future trends in the economy; changes in the specific characteristics of individual loans; and the credit risk strategies developed to add value to the book whilst mitigating credit risk.

A credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. UKAR closely monitors its credit risk against its credit policies and employs credit behaviour scoring and fraud detection techniques to support loss minimising strategies.

The UKAR board has approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures are continually monitored and controlled. The credit limit structure adopts a risk based matrix whereby lower rated counterparties are afforded lower overall levels of limit.

Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation is also used in the limit assignment process. Counterparties are assigned maximum limits in accordance with the ratings matrix, based on the lowest rating afforded to any part of the counterparty group.

UKAR operates primarily in the UK and adverse changes to the UK economy could impact all areas of the UKAR Group's business. Residential loans to customers are all secured on property in the UK, 55% (2017-18: 31%) of residential loans to customers are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £5.5bn (2017-18: £11.7bn) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 40% (2017-18: 34%) of the book.

Total loans to customers	**At 31 March 2019**		
In £m	**Stage 2: Lifetime ECL**	**Stage 3: Lifetime ECL**	**Total**
Up to date	4,910	205	5,115
1-3 months in arrears	124	125	249
Greater than 3 months in arrears	-	210	210
Total	**5,034**	**540**	**5,574**

Of the total loans to customers, £3.8m of up-to-date loans in Stage 2 are commercial loans and £ 0.1m of up-to-date loans in Stage 3 are unsecured loans. All other amounts are residential mortgages. Included in Stage 3 loans above are £56.3m of loans that are in a cure period. The table does not cover the £8m of Equity Release Mortgages included within Note 14.

	At 31 March 2018			
In £m	**Residential mortgages**	**Commercial loans**	**Unsecured loans**	**Total**
Neither past due nor impaired	11,002	235	254	11,491
Past due, but not impaired				
- less than 3 months	543	-	10	553
- 3 to 6 months	212	-	3	215
- over 6 months	127	-	39	166
Impaired	213	24	6	243
Total loans to customers	**12,097**	**259**	**312**	**12,668**
Impairment allowances	(350)	(12)	(56)	(418)
Total loans to customers net of impairment allowances	**11,747**	**247**	**256**	**12,250**

Impaired loans are those which are 12-months or more in arrears, in possession or held for sale with an LPA receiver, and others which management consider to be individually impaired.

Residential mortgages: collateral held and loan to value

For residential mortgages, UKAR holds collateral in the form of mortgages over residential properties. The fair value of this collateral, estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the reporting date is as follows:

	At 31 March 2019		
In £m	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Up to date	8,421	353	8,774
1-3 months in arrears	196	203	399
Greater than 3 months in arrears	-	321	321
Total	**8,617**	**877**	**9,494**

If the collateral amount on each individual loan were capped at the amount of the balance outstanding, and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	At 31 March 2019		
In £m	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Up to date	4,864	202	5,066
1-3 months in arrears	125	124	249
Greater than 3 months in arrears	-	206	206
Total	**4,989**	**532**	**5,521**

The corresponding collateral values at 31 March 2018 were as follows:

In £m	Uncapped	Capped
Neither past due nor impaired	16,843	10,070
Past due, but not impaired	1,368	878
Impaired	269	198
Total collateral held in respect of residential mortgages	**18,480**	**11,146**

The indexed loan to value (LTV) of residential mortgage balances, weighted by loan balance, falls into the following ranges:

%	At 31 March 2019	At 31 March 2018
To 50% LTV	15	13
50% to 75% LTV	50	52
75% to 100% LTV	31	32
Over 100% LTV	4	3
Total	**100**	**100**

Residential mortgage and unsecured loans: arrears and possessions

Arrears and possessions are monitored for residential and unsecured loans as follows:

		At 31 March 2019		At 31 March 2018	
		Residential mortgages	Unsecured Loans	Residential mortgages	Unsecured Loans
Arrears 3 months and over					
- Number of cases (proportion of total cases)	No.	1,189 (2.74%)	-	3,174 (3.48%)	2,782 (9.39%)
- Asset value (proportion of book value)	£m	181 (3.24%)	-	481 (4.32%)	45 (17.36%)
- Total value of payments overdue (portion of book)	£m	6 (0.11%)	-	22.6 (0.20%)	12.6 (4.92%)
Possessions					
- Number of cases (proportion of total cases)	No.	216 (0.50%)	-	406 (0.44%)	-
- Asset value (proportion of book value)	£m	31 (0.56%)	-	55 (0.49%)	-
- Total value of payments overdue (portion of book)	£m	1 (0.02%)	-	3 (0.03%)	-
Arrears 3 months and over and possessions					
- Number of cases (proportion of total cases)	No.	1,405 (3.24%)	-	3,580 (3.92%)	2,782 (9.39%)
- Asset value (proportion of book value)	£m	212 (3.80%)	-	536 (4.81%)	45 (17.36%)
- Total value of payments overdue (portion of book)	£m	7 (0.13%)	-	26 (0.23%)	13 (4.92%)
Payments overdue in respect of all arrears and possessions (portion of book)	£m	9 (0.16%)	-	31 (0.28%)	13 (5.20%)
Loan impairment provision: as % of total balances	%.	2.9	-	2.0	17.8
Loan impairment provision: new possessions	No.	887	-	1,004	-

Sensitivity analysis: impairment of loans to banking customers

In regard to impairment of loans to banking customers, the most significant degree of UKAR management judgement relates to the relative weightings of the scenarios themselves, incorporating different views of the House Price Index and Unemployment as indicated above. UKAR's specialist economic analysts provide an independent view on the weighting of the scenarios, which are calculated based on the February 2019 Bank of England Fan Charts. The Bank of England's Monetary Policy Committee publishes fan charts to give a graphical representation of the uncertainty around the economic outlook of potential future outcomes from its central forecast. In order to demonstrate this sensitivity, the impact on the reported IFRS 9 impairment provision of applying 100% of a particular scenario is shown below.

If the probability weighting of each of the scenarios were uprated to 100% the impact on the Group's total loan impairment loss allowance would be as follows:

	Impact on total impairment loss allowance
Base scenario	Decrease of £32.2m

Downside scenario	Increase of £15.5m
Severe downside scenario	Increase of £173.6m
Upside scenario	Decrease of £46.3m

Sensitivity analysis: fair value of loans to customers

The modelled fair value of the Group's loans to customers is most sensitive to the assumptions which are used to derive the discount rates applied in the calculation and the respective cash flows. For the purposes of sensitivity, consideration has been given by UKAR's management to movements in the discount rate and changes to the cashflows based on the alternative economic scenarios. The impacts due to a change in the weighted average discount rate are as follows:

Change in discount rate	Impact on fair value of loans to banking customers
1% increase	Decrease of £248.1m
1% decrease	Increase of £270.1m

The cashflows are most sensitive to changes in the underlying economic scenarios. The impacts due to a change in scenario are as follows:

Fair value based on	Impact on fair value of loans to banking customers
Upside scenario	Increase of £78.0m
Downside scenario	Decrease of £294.5m
Severe downside scenario	Decrease of £466.7m

Credit risk- Group

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

HM Treasury Group is exposed to credit risk through loans and advances provided by the government to external counterparties. Adverse changes in the credit quality of borrowers or a general deterioration in economic conditions could affect the recoverability or value of loans, and therefore the financial performance of the Group. If a borrower is not able to meet its principal and interest obligations, the loan is in default. A loan will be written off if the borrower is in a default position and there is no restructuring or other plan that would give a reasonable expectation of recovery.

These loans include loans to external counterparties which were made at a time when they could not obtain financing from the financial markets and loans provided to make payments to deposit holders in failed institutions. For example, the bilateral loan to Ireland forms part of an international financial package to support the Irish economy and banking system.

Where level 1 fair values cannot be obtained because they are not quoted in active markets, fair value is estimated by discounting future cash flows receivable at relevant market rates of a comparable maturity (Discounted Value), as shown in the table below.

In £m by counterparty	2018-19 Carrying Value	2018-19 Discounted Value[14]	2017-18 Carrying Value	2017-18 Discounted Value
Loans to Ireland	3,227	3,353	3,227	3,394
FSCS recoverables: financial institutions	27	28	28	28
Other loans	5	7	6	17
Loans sub-total	**3,259**	**3,388**	**3,261**	**3,439**
Statutory debt: Dunfermline	2	2	3	3
Statutory debt: other institutions	-	-	3	3
Statutory debt sub-total	**2**	**2**	**6**	**6**
Total	**3,261**	**3,390**	**3,267**	**3,445**

Bilateral loan to Ireland	Under the terms of the Loans to Ireland Act 2010 this loan forms part of the international finance package to support the Irish economy and banking system. In December 2018, the Ireland Loan Governance Board made a positive assessment, forecasting 100% recovery. The first repayment was received on 15 April 2019, the remaining repayments are due over 2019 - 2021.
FSCS recoverables	FSCS recoverables: financial institutions includes the amounts that FSCS considers recoverable from the administration of failed institutions. In 2018-19 this relates to Heritable and Kaupthing Singer & Friedlander (KSF). Further information is available in the FSCS Annual Report and Accounts.
Statutory debt	Outstanding statutory debt loans include Dunfermline, KSF and Heritable. Statutory debt is managed by specialist external administrators and impairment reviews are performed during the year and at reporting date.

HM Treasury has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the administrators. A sensitivity analysis of the level of capital recovery for statutory debt loans is shown below:

	At 31 March 2019			At 31 March 2018	
	Total amount lent £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2018-19 +/- 5% £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2017-18 +/- 5% £m
Stat Debt: Dunfermline[15]	1,555	100/(100)	-/-	100/(100)	-/-
Stat Debt: KSF	494	86/(87)	(21)/-	86/(87)	(30)/-
Stat Debt: Heritable	92	98/(98)	(2)/-	98/(98)	(2)/-
Total			(23)/-		(32)/-

[14] There are no current market prices available.

[15] HM Treasury expects to recover 100% of the principal claim in Dunfermline by the end of September 2019 following final receipts from the administrators of the estate. Recovery of gross amounts including interest and costs has also been partly achieved through a capped levy on the financial services industry.

28.3 Core Treasury and Agencies

Market risk

Market risk is the risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market price. Other price risk and liquidity risks are sub-sets of market risk and discussed below.

Market risk at the Core Treasury level primarily relates to the impact of moves in market interest rates on the Bank of England Asset Purchase Facility Fund (BEAPFF). The BEAPFF is a quantitative easing mechanism that was set up in 2009 to purchase gilts financed by the creation of central bank reserves, initially to the sum of £200bn. The £200bn was loaned by the Bank of England to a subsidiary company, BEAPFF Ltd, to manage the quantitative easing program.

Beginning in August 2016, lending and additional asset purchases were undertaken by BEAPFF Ltd. A Term Funding Scheme (TFS) was introduced to provide term funding to banks at rates close to Bank Rate and a new Corporate Bond Purchase Scheme (CBPS) was set up to purchase high-quality private sector assets. The drawdown window for the TFS closed on 28 February 2018 and no further drawings could be made after that date. At that time the drawdown from the scheme had reached £127bn.

In June 2018 HM Treasury and the Bank of England announced reforms to the Bank's financial framework to boost transparency, reinforce Bank resilience and independence and strengthen the financial system. The new arrangements include a more transparent capital and income framework for the Bank, requiring an upfront injection of £1.2bn to bring the Bank's capital base up to a new target level.

Alongside the injection, the Bank has taken the TFS onto its own balance sheet from the BEAPFF. This reduced the maximum size of HM Treasury's indemnity for the BEAPFF by £140bn to £445bn, as summarised in the table below:

In £ billion	31 March 2019	31 March 2018
Government bond purchases	435	435
Corporate bond purchases	10	10
Term Funding Scheme (up to)	-	140
Total quantitative easing package	**445**	**585**

Further information can be found in BEAPFF Ltd's Annual Report and Accounts and the 'Contingent liabilities not required to be disclosed under IAS 37' disclosure on page 101.

The portfolio of gilts and corporate bonds held by the BEAPFF is valued at market rates and is sensitive to fluctuations in gilt yields and credit spreads. Moves in market rates, over and above those caused by the operations of the BEAPFF itself, are driven by multiple factors including actual or expected monetary and fiscal policy changes, changes in the market's risk premia assessments, and movements in related international markets.

HM Treasury provides an indemnity to the Bank of England for any losses or profits from operating the BEAPFF. The derivative is valued on the basis of the difference between the fair value of BEAPFF Ltd's assets and liabilities. The assets mainly comprise the portfolio of financial assets but include some cash holdings. Cash generated from coupon income and redemptions is primarily used to finance the Bank of England loan and reinvested in portfolio assets. Surplus cash is transferred to HM Treasury on a quarterly basis. The company's liabilities are represented by the Bank of England loan and accrued interest on the loan.

It is difficult to predict the movement in the BEAPFF derivative as the fair value of its financial assets is re-priced in response to market changes. At 31 March 2019, the BEAPFF's assets exceeded its liabilities by £45.1bn, driven by market-value gains within its portfolio and interest income received. When there is an excess of assets over liabilities, the derivative value is represented by a liability on BEAPFF's SoFP and by a corresponding asset on HM Treasury's SoFP (see Note 16 – Derivative financial assets). Quarterly transfers of surplus cash between the BEAPFF and HM Treasury under the indemnity agreement impact the value of the BEAPFF's net assets and so also the value of the derivative. However, the derivative does not mature and become payable until the scheme is unwound, at which time the outstanding value of the derivative would be settled.

Should the fair value of the BEAPFF's assets fall below that of its liabilities, the indemnity would conversely entail BEAPFF Ltd recognising a derivative asset and HM Treasury a derivative liability. That liability would not be payable until the scheme is unwound. If there were a shortfall of cash in this scenario, HM Treasury would fund this by way of quarterly cash transfers, as set out in the deed of indemnity and in line with the current quarterly arrangement with BEAPFF.

Therefore, although HM Treasury benefitted from the operations of the BEAPFF as at 31 March 2019 to the extent that gains in fair value were reflected in a derivative asset, the indemnity may generate a liability and require payments of cash to the BEAPFF in future periods. These would be accounted for via HM Treasury's Supply Estimate: quarterly cash payments would be classified as non-budget, but any residual settlement of the derivative on wind-up would be Annually Managed Expenditure (AME).

The Bank of England manages risk associated with BEAPFF on HM Treasury's behalf. Subject to the policy objectives, the aim is to minimise overall risk through the appropriate choice of portfolio and risk management practices. A set of high-level financial risk parameters is in place for the Company's operations, agreed to by HM Treasury and the Bank of England, relating to eligible asset classes, investment limits, credit risk and counterparties.

From August 2016, oversight arrangements for the BEAPFF were strengthened. This includes enhanced information sharing between the Bank and Treasury to monitor the operation and performance of the facility and regular risk oversight meetings of Treasury and senior Bank officials. Whilst the Monetary Policy Committee (MPC) retains independence for setting monetary policy, the Treasury can provide views to the MPC on the design of the schemes within the BEAPFF as they may affect the government's broader objectives.

Market risk associated with the BEAPFF derivative arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets due to market changes. Interest rate risk is monitored in the form of a delta, which is the decline in the valuation of BEAPFF Ltd's underlying assets from a 1 basis point increase in market interest rates. The delta at 31 March 2019 is £0.5bn (2017-18: £0.5bn).

Credit risk for the BEAPFF is smaller in comparison to market risk, as most BEAPFF assets are high quality gilts with a low default risk. Risk is also monitored through value at risk. Value at risk estimates the potential loss that might arise if existing positions were unchanged for 10 business days under normal market conditions, given the historic volatility of the returns on different types of assets, and the correlation between their returns. The value at risk at 31 March 2019 is £12.0bn (2017-18: £9.4bn).

The amount due to or from HM Treasury under the indemnity does not indicate whether the public sector as a whole made a profit or loss from the operations of the BEAPFF. The bulk of assets held by BEAPFF Ltd are gilts and are liabilities of the broader public sector.

Other Price Risk

Price risk is the risk of a decline in the value of a security or a portfolio. Price risk relates to HM Treasury's shareholding in listed entities, currently only RBS.

HM Treasury purchased shares in RBS as part of the financial stability interventions. The shares in RBS were not purchased for commercial reasons. The purchase of the shares and the resulting injection of capital were necessary to ensure the financial survival of the entity and to avoid a collapse of the UK banking sector.

The fair value of the UK listed shares fluctuates due to changes in market prices. Market prices for a particular share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market.

UKGI, under the UKGI Framework Agreement, is responsible for the development and execution of an investment strategy for disposing of the investment in RBS in an orderly and active way, within the context of protecting and creating value for the taxpayer.

The analysis below shows the impact on net operating income and reserves based on a 10% and a 25% increase/decrease in the market price of the share investment in RBS. The amounts have been calculated in accordance with IFRS 9 for 2018-19 and IAS 39 for 2017-18.

	Net Operating Income		Reserves	
In £m	2018-19	2017-18	2018-19	2017-18
Increase +10%	-	-	1,855	2,183
Increase +25%	-	-	4,637	5,457
Decrease -10%	-	-	(1,855)	(2,183)
Decrease -25%	-	(2,412)	(4,637)	(3,045)
Investment in RBS			18,548	21,828

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

HM Treasury’s liquidity management controls include monitoring cash flows to ensure that daily cash requirements are met and re-assessing the net cash requirement on a regular basis and reporting this to Parliament through Estimates. HM Treasury is not exposed to significant liquidity risk because it can apply for Parliamentary approval for additional cover to pay for any liquidity gap.

Due to the magnitude of the financial stability interventions, liquidity requirements can fluctuate significantly.

HM Treasury’s liquidity risk principally relates to BEAPFF. Monthly cash inflows are generated from gilt coupon interest and maturity proceeds which are offset by further gilt purchases, monthly loan interest payments to the Bank of England and HM Treasury cash payments. The Treasury will be required to make payments to the BEAPFF if the Bank Rate rises and exceeds the coupon rate for the gilt holdings (as the interest paid on the APF loan would exceed the interest earned from the coupon payments) or if the losses from gilt sales exceed the cash reserves held by the BEAPFF in an active unwind scenario.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

HM Treasury is also exposed to credit risk for guarantees provided to group entities and external counterparties.

HM Treasury offers guarantees to support the government’s policy objective to support significant infrastructure and lending to small and medium businesses projects which have been affected by a shortage of financing or other risk issues. Guarantee fees are paid to compensate Treasury for its expected losses under the schemes. The schemes are not entered into for commercial gain however fees are set at commercial rates where required by state aid rules. The guarantees do not involve direct cash support but they do expose HM Treasury to potential liabilities if the guarantees are called.

The Infrastructure and Projects Authority (IPA) which reports to both the Cabinet Office and HM Treasury, monitors the guarantees on an ongoing basis and assesses the likelihood of a pay out by the Treasury. The IPA’s Head of Portfolio Management undertakes day to day oversight of guarantees, including early warning monitoring and planning mitigating action. If a pay-out is required, HM Treasury is legally entitled to recover as much as possible from the borrower. As in prior years, a call on any of the guarantees resulting in a significant pay-out is considered unlikely and therefore the credit risk exposure is deemed to be immaterial.

Maximum exposure for financial guarantees is disclosed under contingent liabilities not required to be disclosed under IAS 37 from page 101.

Project	Description	Maximum exposure in £m[16] March 2019	March 2018	Projected end date
INEOS Grangemouth[17]	INEOS is a €285m guarantee that underpins private funding to build Europe's largest ethane storage tank at Grangemouth petrochemical plant in Scotland. The guarantee was announced on 17 July 2014.	254	259	Jul-2019
Help to Buy guarantees[18]	The Help to Buy: mortgage guarantee scheme was launched on the 8 October 2013 to address the shortage of high loan-to-value mortgages by offering lenders the option to purchase a guarantee on mortgages where the borrower has a deposit of between 5% and 20%. The scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2016 continued to be accepted into the scheme until 30 June 2017.	1,419	1,434	Dec-2023
Deposit guarantees[19]	Wholesale borrowings and deposits with B&B and borrowings, derivative transactions, and wholesale deposits in respect of NRAM.	213	213	Sept-2025
Speyside	Speyside is a guarantee for bonds worth up to £45.6m for the Scottish Speyside Biomass Power project in Moray Scotland. The guarantee for the bonds was issued on 18 August 2014.	46	48	Jun-2028
Countesswells	Countesswells is an £86m guarantee supporting a major property development in Aberdeen that will deliver new housing, schools healthcare and parks over the next 15 years. The guarantee was announced on 22 March 2016.	86	86	Mar-2031
Mersey Gateway	The Mersey Gateway is a £257m guarantee that underpins the issuance of bonds to fund the construction of a 1km long cable-stayed, dual-three lane bridge over the River Mersey between Widnes and Runcorn plus associated changes to approach road. The guarantee was announced on 10 March 2014. HM Treasury remains exposed until the bonds are repaid in March 2043.	267	267	Mar-2043
University of Gloucestershire	University of Gloucestershire is a £40m guarantee for the construction of a new student village at the University of Gloucestershire, which will have over 570 new rooms. In addition, the guarantee also covers refurbishment activities on the existing media centre including a gym, dining hall, students' union office, and over 1,000 square metres of office space for university staff. The guarantee for the bonds was issued on 4 February 2014.	41	39	Sep-2051

16 Maximum exposure is calculated at the principal amount of the borrowing guaranteed, plus one year's interest.

17 The amount guaranteed is €285m. This is converted to GBP at the reporting date using the exchange rate per www.xe.com

18 Per the May 2019 service review board papers compiled using March 2019 data.

19 Eliminated on consolidation.

University of Northampton	University of Northampton is a guarantee supporting up to £292m worth of public bonds (£232m) and Local Authority loans (£60m) to fund the Waterside Project, which will see the University relocating into a brand new purpose-built facility in the town's centre. The guarantee was announced on 13 November 2014.	306	308 Mar-2056

29. Group financial instruments - fair value hierarchy

	2018-19			2017-18		
In £m	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets: fair value through OCI						
Investments – listed entities	18,548	-	-	21,828	-	-
Investments – unlisted entities	-	5,999	-	-	4,578	-
Loans to banking customers[20]	-	-	5,525	-	-	-
Derivative financial assets and liabilities						
Derivative financial assets	-	45,124	-	-	40,778	-
Derivative financial liabilities	-	-	-	-	(472)	-
Financial assets: amortised cost						
Loans and advances	-	3,390	-	-	3,445	-
Loans to banking customers	-	-	-	-	-	12,056
Financial liabilities and guarantees: amortised cost						
Debt securities in issue	-	(210)	-	-	(219)	-

Introduction	All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole. There were no reclassifications between the hierarchies.
Level 1	The value is determined using quoted prices (unadjusted) in active markets for identical assets and liabilities the entity can access at the measurement date.
Level 2	The value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly. Unlisted entities use net assets as a proxy for their fair value. Derivatives are calculated by reference to discounted future cash flows using observable market parameters including swap rates, interest rates and currency rates, or by reference to underlying net asset value. Loans and advances are estimated by discounting expected future cash flows using market interest rates. Debt securities in issue are based on quoted prices or lead manager prices where available, or by using discounted cash

[20] Following the introduction of IFRS 9, loans to banking customers that were held at amortised cost in 2017-18 are held at fair value through OCI in 2018-19

	flows, applying independently sourced market parameters, including interest rates and currency rates. Net assets are considered to be a good proxy for fair value for unlisted entities because the underlying assets of each entity are held at fair value with reference either to market value or, when this is not available, discounted cashflows. The fair value of the BEAPFF derivative is calculated by reference to the underlying net assets which are all in turn measured at fair value with reference to market information or discounted cashflows.
Level 3	Values are not based on observable market data, or have significant unobservable inputs. Fair value is estimated by discounting expected future cash flows using market interest rates. The fair value at 31 March 2018 has been calculated using models which the Group has developed in order to implement IFRS 9 with effect from 2018-19. These models incorporate the experience gained of market structures and pricing from recent sales transactions that represent a more accurate assessment of fair value than previous methods.
Other	These assets cannot be classified within the fair value hierarchy because the FReM requires them to be held at historic cost. These amounts are not shown in the table above on the basis of materiality, 2018-19: £6m (2017-18: £6m).

30. Financial instruments – assets and liabilities

The accounting policies for financial instruments have been applied to the line items below. The carrying amount below represents fair value unless stated otherwise.

30.1 Group

In £m	2018-19 Fair Value	2018-19 Carrying Value	2017-18 Fair Value	2017-18 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	1,089	-	1,986
Trade and other receivables[21]	-	6,228	-	1,663
Loan hedging asset[22]	-	-	-	421
Loans and advances	3,390	3,261	3,445	3,267
Assets held for sale	-	-	-	4,992
Loans to banking customers[23]	-	-	12,056	11,503
Financial assets: fair value through OCI				
Equity assets held at FV through OCI	-	24,553	-	26,412
Loans to banking customers	-	5,525	-	-
Financial assets: fair value through SoCNE				
Derivative financial assets	-	45,124	-	40,778
Financial liabilities and guarantees: amortised cost				
Trade and other payables[24]	-	(1,124)	-	(1,239)
Debt securities in issue	(210)	(204)	(219)	(204)
Financial guarantees	-	(133)	-	(155)
Financial liabilities: fair value through SoCNE				
Derivative financial liabilities	-	-	-	(472)

Loans to customers include loans of varying rates and maturities. Fair value is estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market.

21 Trade and other receivables are shown net of non-financial assets.

22 The fair value of the loan hedging asset is £nil.

23 Excludes equity release mortgages accounted for under IFRS 4. For further details see UKAR's Annual Report and Accounts 2018-19. Following the introduction of IFRS 9, loans to banking customers that were held at amortised cost in 2017-18 are held at fair value through OCI in 2018-19.

24 Trade and other payables are shown net of non-financial liabilities.

30.2 Core Treasury and Agencies

In £m	2018-19 Fair Value	2018-19 Carrying Value	2017-18 Fair Value	2017-18 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	61	-	5
Trade and other receivables[25]	-	1,596	-	988
Loans and advances	5,319	5,191	15,990	13,409
Financial assets: fair value through OCI				
Assets held at FV through OCI	-	33,432	-	34,940
Financial assets: fair value through SoCNE				
Derivative financial assets	-	45,124	-	40,778
Financial liabilities and guarantees: amortised cost				
Trade and other payables[26]	-	(660)	-	(682)
Financial guarantees	-	(143)	-	(167)

31. Related party transactions

The entities listed in Note 1.2 – Basis of consolidation, are regarded as related parties to HM Treasury. The Treasury has had material transactions with UKAR and FSCS during the year, including material loan balances and repayments (Note 13 – Loans and advances).

Although the Bank of England, the Royal Mint, Local Partnerships and RBS fall outside the accounting boundary, their share capital is either wholly owned or partially owned by HM Treasury. Dividends and other income received from these bodies are material and are recorded in the SoCNE.

RBS participates in the Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme and pays guarantee fees which are recognised as income in HM Treasury's Accounts.

In addition, HM Treasury and its Group entities have transactions with other government departments and central government bodies.

No Minister, Board member, key manager or other related party has undertaken any material transaction with HM Treasury during the year. Details of compensation for key management personnel can be found in the Remuneration Report section of the Accountability Report.

32. Auditor's remuneration

Remuneration for the audit of the Treasury Group accounts was a notional cost of £360k (2017-18: £360k). In addition, £1,101k (2017-18: £1,141k) was charged by the NAO for other audit services, of which £125k (2017-18: £122k) was notional. £54k (2017-18: £94k) was paid to the NAO in respect of non-audit services.

25 Trade and other receivables are shown net of non-financial assets.

26 Trade and other payables are shown net of non-financial liabilities.

33. Events after the reporting period

33.1 Sale of UKAR mortgage assets and settlement of intra-group debt

During March 2019, UKAR sold a portfolio of NRAM's "together" loans for £4.9bn. The final payment of £4.5bn was received after the year end. UKAR used these proceeds to repay the £1.5bn balance remaining on the loan from HM Treasury to NRAM and to repay the £0.4bn balance of B&B's statutory debt.

33.2 Settlement of legal case

In June 2019 HMT reached a settlement agreement in a long-standing legal case. The terms of the agreement, including the amount of the settlement, are subject to confidentiality restrictions.

33.3 Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

Chapter 4
Trust Statement

Foreword to the Trust Statement

Introduction

The Trust Statement reports the revenue, expenditure, assets and liabilities related to the fines collected by HM Treasury from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and issued by the Office of Financial Sanctions Implementation (OFSI) for the financial year 2018-19. The costs of running HM Treasury are reported in the Core Treasury and Agencies' balances in the financial statements.

Section 109 of the Financial Services Act 2012 requires the FCA to pay its penalty receipts to HM Treasury after deducting its enforcement costs and requires HM Treasury to pay these receipts to the Consolidated Fund. Further information on penalties applied by the FCA is available on the FCA website.[1]

Similarly, the PRA is required to pay any enforcement fines it levies in excess of enforcement costs to HM Treasury, which is required to pay those receipts to the Consolidated Fund. Further information on penalties applied by the PRA is available on the PRA website.[2]

The Policing and Crime Act 2017 empowered the Treasury to impose penalties for serious sanctions breaches on individuals and bodies. The penalty powers apply to offences committed after 1 April 2017. This process is led and managed by OFSI, which is part of HM Treasury.

Basis for the preparation of the Trust Statement

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for this Trust Statement is set out in section 2 of the Exchequer and Audit Departments Act 1921. The HM Treasury accounts direction requires the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and

1 https://www.fca.org.uk/

2 https://www.bankofengland.co.uk/prudential-regulation

disclosure requirements given in the Government Financial Reporting Manual (FReM), Managing Public Money and other guidance issued by HM Treasury.

HM Treasury conducts an annual reconciliation of budgeted enforcement costs against actual by reference to the published accounts of the FCA and PRA (now part of the Bank of England and so included within its accounts) to gain assurance that the penalty receipts and enforcement costs are accurate and accounted for correctly.

The governance statement and statement of Accounting Officer responsibilities applicable to both the Trust Statement and the Treasury's financial statements is included within the main body of the report from page 68.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under the Exchequer and Audit Departments Act 1921. The auditor's remuneration for this is included in HM Treasury's Annual Accounts. No non-audit work was carried out by the auditors for HM Treasury on the Trust Statement. Non-audit work carried out by the auditors for the HM Treasury Group is included in HM Treasury's Annual Accounts.

Financial review

HM Treasury has received £67m in fine income from the FCA (2017-18: £24m), nil from the PRA (2017-18: nil) and £0.01m from OFSI (2017-18: nil) in the period ended 31 March 2019.

HM Treasury Trust Statement

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

Opinion on financial statements

I have audited the financial statements of HM Treasury Trust Statement for the year ended 31 March 2019 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the HM Treasury Trust Statement gives a true and fair view of the state of affairs of the collection of fines and penalties net of enforcement costs paid to HM Treasury by the Financial Conduct Authority, Prudential Regulatory Authority and Office of Financial Sanctions Implementation as at 31 March 2019 and of the net revenue for the year then ended; and

- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the HM Treasury Trust Statement in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

We are required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the HM Treasury Trust Statement's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the audit of the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HM Treasury's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Performance Report, Accountability Report and the Foreword to the Trust Statement. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the Performance Report, Accountability Report and the Foreword to the Trust Statement 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 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.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

3 July 2019

Statement of Revenue and Expenditure
for the period ended 31 March 2019

In £m	Note	2018-19	2017-18
Net fine income	2	67	24
Net revenue for the Consolidated Fund		**67**	**24**

The notes on pages 195 and 196 form part of this statement.

Statement of Financial Position
as at 31 March 2019

In £m	Note	2018-19	2017-18
Current assets			
Receivable from the FCA/PRA		58	7
Cash and cash equivalents		-	-
Total assets		**58**	**7**
Balance on Consolidated Fund account	3	**58**	**7**

The notes on pages 195 and 196 form part of this statement.

Tom Scholar
Permanent Secretary

27 June 2019

Statement of Cash Flows
for the period ended 31 March 2019

In £m	Note	2018-19	2017-18
Net cash flow from operating activities	A	16	20
Cash paid to the Consolidated Fund		(16)	(20)
Increase in cash in this period		**-**	**-**

A: Reconciliation of net cash flow to movement in net funds

In £m	2018-19	2017-18
Net revenue for the Consolidated Fund	67	24
(Increase)/Decrease in non-cash assets	(51)	(4)
Net cash flow from operating activities	**16**	**20**

Notes to the Trust Statement

1. Statement of accounting policies

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements.

1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921
- the 2018-19 FReM issued by HM Treasury
- reference to International Financial Reporting Standards as adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes

The financial information presented is rounded to the nearest £m.

1.2 Adoption of new accounting standards

The Trust Statement has applied IFRS 9 and IFRS 15 for the first time from 1 April 2018. The Trust Statement has taken the transition option to not retrospectively adopt these standards, therefore the comparative information throughout these financial statements has not been restated.

Due to the nature of its financial instruments, the transition to IFRS 9 has not had a material impact on the Trust Statement financial statements.

Similarly, the transition to IFRS 15 has not had a material impact on the Trust Statements financial statements.

1.3 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2018.

The financial impact of adopting the following standards is still being assessed; however, their application is not expected to have a material impact on the Trust Statement financial statements in the period of their initial application. The Trust Statement does not intend to early-adopt any of the following standards.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and applies to the public sector for annual reporting periods beginning on, or after, 1 April 2020.

IFRS 17 Insurance contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on, or after, 1 January 2021 (subject to EU endorsement).

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the Trust Statement.

1.4 Accounting convention

The Trust Statement has been prepared on an accruals basis under the historical cost convention.

1.5 Revenue recognition

Fine income is accounted for in accordance with the FReM adaptation of IFRS 15 Revenue from Contracts with Customers, net of enforcement costs. It is recognised when the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HM Treasury.

1.6 Receivables

Receivables are accounted for in accordance with the requirements of IFRS 9 Financial Instruments. Accrued revenue receivable represents the amount due from the FCA and PRA, where penalties have been received by the regulators but the cash has not transferred to HM Treasury as at the reporting date.

2. Net fine income

In £m	2018-19	2017-18
Fine income from Financial Conduct Authority	67	24
Fine income from Prudential Regulation Authority	-	-
Fine income from sanctions penalties	-	-
Net fine income	**67**	**24**

Detailed information on fines collected can be found in the audited accounts of the FCA and the Bank of England (of which the PRA is now part).

There was £15k of income (2017-18: nil) in relation to penalties from sanctions breaches issued by OFSI.

3. Balance on the Consolidated Fund Account

In £m	2018-19	2017-18
Balance on Consolidated Fund Account as at 1 April	7	3
Net revenue for the Consolidated Fund	67	24
Less amount paid to the Consolidated Fund	(16)	(20)
Balance on Consolidated Fund Account as at 31 March	**58**	**7**

4. Events after reporting date

There were no events after the reporting date.

Chapter 5
Better Regulation

The Better Regulation Framework principles have been embedded across the department and balanced with the Treasury's financial stability objectives. The Treasury has a constructive relationship with the Better Regulation Executive within the Department for Business, Energy and Industrial Strategy (BEIS), ensuring that the framework delivers on this agenda whilst maintaining a system that is proportionate for all government departments.

The Small Business, Enterprise and Employment (SBEE) Act 2015 requires transparency on all regulatory provisions introduced during the Parliament and for the government of the day to publish a Business Impact Target (BIT) in respect of qualifying regulatory provisions that come into force or cease to be in force during the Parliament. The Government announced on 20 June 2018 that the BIT for this Parliament would be aligned with the commitment in the 2017 Conservative Party manifesto to regulate more efficiently, saving £9 billion.

The government has now published its first annual report on the progress made against the Business Impact Target since the start of this Parliament, during which departments and ministerial and listed regulators delivered £2.94 billion of net savings towards the target during the period from 9 June 2017 to 20 June 2018.

The Enterprise Act 2016 extended the provisions of the SBEE Act to bring a list of regulators in scope of the BIT. The list includes the Financial Conduct Authority and the Payment Systems Regulator, who must now also publish information on regulatory provisions that have been brought into force during the reporting period.

Deregulatory measures from the previous fiscal year

During the previous fiscal period (April 2018 and March 2019), the Treasury has delivered the following deregulatory measures:

- Amended the UK definition of investment advice in the Regulated Activities Order, bringing it in line with the Markets in Financial Instruments Directive II definition for regulated firms. The intention behind the measure is to allow firms to provide more useful information to support customer decision-making without fear of inadvertently crossing the boundary into regulated advice. The change allows firms to deliver guidance services such as on the merits of, and the risks associated with, buying and selling particular investments. It delivers £415.1 million annual savings to businesses, which is the most significant contribution towards the BIT since the start of this Parliament.

- Introduced the Bank Creditor Hierarchy Directive that creates a new class of debt, providing an alternative route for building societies to meet loss absorbing capacity requirements. This delivers £12.4 million annual savings to businesses.
- Implemented Article 1(3) and Article 3(2) of the Prospectus Regulation, which raised the threshold below which issuers of securities – such as shares and bonds – are exempt from the obligation to produce a prospectus. This change delivers £9 million annual savings to businesses.

Chapter 6
Sustainability Report

The Treasury is committed to sustainable policies, whether they relate to its economics and finance ministry objectives, or are part of the environment in which the department works.

In its Departmental Business Plan, the Treasury has committed to:

- assess and manage environmental, social and economic impacts and opportunities in its policy development and decision making;
- deliver the actions in the business plan to increase environmental sustainability; and
- implement the department's plan to deliver on the Greening Government Commitments (GGC).

Sustainable economic growth

The Treasury is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside the objectives of tackling climate change, and the sustainable use of natural resources.

As part of its role as the UK's economics and finance ministry, the Treasury is central to ensuring these aims are accounted for in policy appraisal and pursued through policies that deliver value for money and are affordable.

The department also has a key role in supporting the work of other departments on sustainability issues. For example, the Treasury's Energy, Environment and Agriculture team lead on a range of environmental issues including:

- Spending proposals from DEFRA and BEIS on energy and climate issues, including decarbonisation and domestic climate change adaptation;
- Achieving the UK's climate change policy aims and objectives consistent with fiscal and economic objectives.

The Treasury asks all departments to adhere to the Green Book guidance when providing a business case for a policy, programme or project. The supplementary guidance to the Green Book covers the practical application of techniques for valuing environmental impacts in policy appraisal.

In March 2018, the Treasury updated the Green Book to include a broad range of guidance on policy impacts on the environment and natural capital, land values, energy efficiency and greenhouse gasses. This is improving the way in which government departments evaluate the environmental impacts of their policies, giving a more sophisticated picture of the environmental costs and benefits.

In addition, the Treasury has identified where its commitments, policies and programmes contribute to the delivery of the government's Sustainable Development Goals.

Commitment	Sustainable Development Goal (SDG)
Continue with the fiscal rules which will guide the UK to a balanced budget by the middle of the next decade The near-term rules are to get cyclically-adjusted public sector net borrowing below 2% GDP, and get debt as a share of GDP falling, by 2020-21	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Implement a breathing space scheme, in order to provide someone in problem debt the right to legal protections from creditor action for up to sixty days while they receive debt advice and enter an appropriate debt solution.	Contributes to SDG 1: End poverty in all its forms
Make longer-term reforms to the business rates system to address concerns about the way it currently works, conducting a full review of the system to make sure it is up to date	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Support small businesses through business rate relief, and by reducing the bureaucracy and regulation that prevents small businesses from flourishing	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
The National Productivity Investment Fund is set to deliver £37 billion of high-value investment to 2023-24 in economic infrastructure, R&D, and housing	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Support industry-led efforts to improve the gender balance in financial services through the Women in Finance Charter, which has over 330 signatories across the sector	Contributes to SDG 5: Achieve gender equality and empower all women and girls

Treasury Green Champions Network

The Treasury Green Champions Network brings together staff from across HMT to identify ways of making the HMT estate more environmentally sustainable. The network's activities include:

- working with building suppliers and HMT's corporate centre to identify ways of improving the environmental sustainability of the building and services it offers;
- raising the profile of environmental issues across the department by sharing blog posts and through running group awareness-raising sessions; and

- ensuring the department participates in the Year of Green Action, which seeks to connect people with nature, protect the environment and enhance nature.

Biodiversity and the Treasury estate

During 2018-19 the Treasury continued with its planting scheme in the courtyards of the Horse Guards Road building, designed to improve local biodiversity and attract more pollinators to the environment. The plants are provided by contractors as part of the building's PFI contract, and have a low carbon footprint as they are obtained from British growers.

Regular checks are carried out to measure wildlife activity within the courtyards, checking for active pollination, and any new or declining species. We have replaced chemical controls with biological pest controls, reducing the risk to beneficial insects.

Sustainable Procurement

Sustainable Procurement involves the management of internal demand, improving product and service specifications, selecting suppliers with robust sustainability credentials and working with existing and prospective suppliers to improve their performance. Specific examples include:

- using Crown Commercial Service (CCS) frameworks which include sustainability factors as a key criterion for award
- working with CCS we endeavour to make our offers as sustainable as possible, embedding relevant measures through the procurement cycle, including working collaboratively with our suppliers post-award to drive improvements
- evaluation criteria also include social and economic factors in addition to environmental factors
- highlighting contract opportunities suitable for SMEs on Contracts Finder
- returning annual sustainable procurement data to Defra to meet GGC requirements.

Performance against the Greening Government Commitments[1]

The table below shows how the Treasury performed against the 2009-15 Greening Government commitments and includes the updated GGC targets for the period 2016-2020.

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[1] Data is included for the Treasury which is defined for sustainability reporting purposes as core Treasury in 1HGR and travel data for Debt Management Office (DMO) and Treasury in Rosebery Court. The Government Internal Audit Agency (GIAA), officially created on 1 April 2015, was exempted from sustainability reporting in 2015-16, and data relating to it will be available in future reporting periods. Space in 1HGR is leased by Cabinet Office, Northern Ireland Office and UK Export Finance, for reporting purposes this space is excluded from the Treasury data. For 2015 to 2016, any shared costs for 1HGR are apportioned between

Target	2009-10 Baseline	2015 Target (% reduction)	Performance in 2015 (% reduction)	2020 Target (% reduction)
Greenhouse Gas Emissions	4,216	25%	62%	69%
Domestic Flights	411	20%	5%	30%
Waste	485	25%	74%	Reduce amount of waste going to landfill[2]
Paper usage	27,030	10%	42%	50%

In 2018-19 the Treasury continued its strong performance against its greening government commitment targets, and in many areas is exceeding the new targets well ahead of the 2020 deadline. In particular, we have reduced greenhouse gas emissions by 80% and paper consumption by 54% from the 2009-10 baseline figures. Treasury's performance against each target is set out below.

Over 2017-18 and 2018-19, HM Treasury has pursued a programme of activity to reduce the use of single use plastics and consider where alternatives can be used. Treasury introduced a discount in the café and restaurant for customers who bring a reusable cup or container to purchase their drink or meal.

Where possible all plastic containers in the canteen and other outlets have been replaced. Treasury has also updated office tea points to incorporate a design that removes plastic cups entirely.

Summary of performance against GGC targets in 2018-19

Target 1: Reduce greenhouse gas emissions by 69%[3]

Cut carbon emissions from central government offices

The Treasury has reduced greenhouse gas emissions by 80% from its 2009-10 baseline figure of 4,216 tCO_2e, exceeding the updated target of reducing greenhouse gas emissions by 69% by 2020. In 2018-19, the Treasury switched to a renewable electricity tariff.

the Treasury and other government departments, with Treasury averaging a 47% share over the year. In 2014 to 2015 the Treasury held a 46% share, in prior years, when only the Cabinet Office leased space in 1HGR, the Treasury's share was 64%

[2] Reduce amount of waste going to landfill to less than 10%; reduce the overall amount of waste generated and increase the proportion recycled

[3] Our reported greenhouse gas emissions only include emissions from our estate operations (gas, electricity and heating) and domestic travel as required by GGC. Costs shown relate to the Treasury's 1HGR building with the exception of travel costs which include both core Treasury and DMO

Energy and CO_2 emissions

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Electricity (mWh)	2,844	2,750	2,642	2,988	2,544	2,668
Gas (mWh)	87	35	31	29	25	26
Whitehall District Heating System (mWh)	1,082	1,005	710	768	742[4]	658
Total CO_2 emissions (tCO_2e)[5]	**1,679**	**1,751**	**1,517**	**1,245**	**1,042[4]**	**825**

Energy costs (£000s)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Electricity	302	268	271	591	638	690
Gas	2	1	1	2	3	3
Whitehall District Heating System	155	148	180	214	222	304
Total	**459**	**417**	**452**	**807**	**863**	**997**

Cut domestic business travel flights by 30%

We have reduced the number of domestic flights. These are down 31% from the 2009/10 baseline, slightly exceeding the updated target of reducing domestic flights by 30%. This is, in part, down to the department educating staff on the use of video and audio conferencing in place of travelling to meetings where possible as well as to review its travel policies.

Travel and CO_2 emissions

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Fleet[6] (km)	21,119	35,156	34,813	43,428	29,796	28,886
Domestic rail (km)	536,316	731,257	636,084	601,652	628,612	894,669
Domestic flights (km)	204,640	314,809	255,425	142,095	147,049	195,382
Standard taxis[7] (km)	5,147	10,266	19,745	10,441	11,558	10,913
Hybrid taxis (km)	9,773	10,275	12,401	12,261	14,411	12,077
No. of domestic flights	314	372	389	229	201	283
Total CO_2 emissions (tCO_2e)	**67**	**92**	**79**	**50**	**53**	**79**

4 The 2017-18 report included an incorrect figure for use of the Whitehall District Heating System. This was reported as 122 mWh but should have read 742 mWh. This was due to the quarter 1 being reported as an actual figure when it should have been reported in '000s. This also impacted the total CO2 emissions (tCO2e) figure for 2017-18 which has been updated from 1,015 to 1,042.

5 In line with DEFRA guidelines the Treasury has not weather-corrected its building data and has applied the recommended conversion factors which were revised for 2015-16.

6 Fleet emissions relate to private individuals' cars used for business purposes. Emissions do not include the government car service. In 2016-17 the CO_2 conversion factor changed and there was increased travel to Norwich due to a one-off project.

7 Standard taxis include private hire, petrol or diesel and include people carriers or saloon cars. This does not include black cabs.

Travel Costs £000

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Fleet (including Government Car Service)	235	274	309	252	221	274
Rail	351	410	339	310	327	406
Domestic flights	52	56	63	63	23	47
Taxis	57	47	74	57	75	55
Total	**695**	**787**	**785**	**682**	**646**	**782**

Target 2: Reduce the amount of waste going to landfill to less than 10%

By continuing to recycle all waste where facilities exist and otherwise sending waste for energy-recovered incineration, the Treasury has reduced its waste significantly from its 2009-10 baseline figure of 485 tonnes to 141 tonnes in 2018-19. This has been achieved with no waste being sent to landfill.

Waste (tonnes)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Waste incinerated with energy recovery	57	78	72	78	57	54
Waste recycled	84	69	51	75	73	78
Waste sent for anaerobic digestion	5	6	5	6	10	9
ICT waste recycled	-	-	-	-	-	-
ICT waste reused	-	-	-	-	-	-
Total	**146**	**153**	**128**	**159**	**140**	**141**

Ensure that redundant ICT equipment is re-used or responsibly recycled

Treasury ICT waste is re-used or disposed of responsibly in line with government standards. The Treasury uses an ICT contract take back scheme and when required, a ‘call-off’ disposal contract which meets the ISO 14001:2004 environmental management standard.

Reduce paper use by 50%

The department moved to a closed loop paper contract in June 2012. Under this contract, used printer paper is recycled and returned to the department for reuse. The spike in paper consumption in 2016-17 was as a result of a bulk order at the end of 2016-17. In 2018-19, a behavioural change programme was launched to encourage staff to reduce paper consumption.

Paper consumption (reams)

Reams	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
A4	11,225	14,052	15,358	15,794	12,696	12,200
A3	237	139	218	560	110	125
Total (A4 Equivalent)	**11,699**	**14,330**	**15,794**	**16,914**	**12,916**[8]	**12,450**

Target 3: Reduce water consumption

In 2018-19 the Treasury's water consumption in 1HGR, calculated per FTE equivalent, was 9m³/FTE. The installation of further water meters across the estate in 2017-18 as part of a review of water consumption has allowed the introduction of focused improvement measures in 2018-19, including the installation of push button (timed flow) showers. The spike in costs in 2017-18 was due to being undercharged in the previous year.

Water consumption (m^3)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total consumption	11,465	11,327	9,498	11,577	11,541	12,408
Per FTE	11	10	8	10	9	9

Water cost (£000s)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total cost	23	23	36	44	76	65

[8] The 2017-18 figure given in the 2017-18 Annual Report and Accounts was incorrect. The figure in the Report last year was 12,806. This has been corrected to 12,916, which reflects total A4 equivalent reams, rather than total reams.

Chapter 7
The Treasury Group

Treasury Group Executive Agencies

Name	Function	Accounting Officer
UK Debt Management Office (DMO)	Established as an Executive Agency of the Treasury in 1998, the DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.	Sir Robert Stheeman is the Accounting Officer and Chief Executive.
Government Internal Audit Agency (GIAA)	Established as an Executive Agency of the Treasury on 1 April 2015, this body provides internal audit services to government departments.	Elizabeth Honer is the Accounting Officer and Chief Executive.
National Infrastructure Commission (NIC)	The Commissioners provide expert, impartial advice to the government on infrastructure, develop the national infrastructure assessment as well as specific studies and engage with the public and private sectors to consult on future infrastructure needs and solutions.	Phillip Graham is the Accounting Officer and Chief Executive.

Treasury Group Non-Departmental Public Bodies

Name	Function	Accounting Officer
Office for Budget Responsibility (OBR)	Created in 2010, the OBR provides independent and authoritative analysis of the UK's public finances.	Robert Chote is the Accounting Officer and Chairman.

Treasury Group Levy Funded Bodies

Name	Function	Accounting Officer
Financial Services Compensation Scheme (FSCS)	A single scheme to provide compensation in the event of authorised financial services firms being unable or likely to be unable to meet claims against it. The FSCS is operationally independent from the Treasury.	Mark Neale is the Accounting Officer and Chief Executive.

Treasury Group companies

Name	Function	Accounting Officer
UK Government Investments Limited (UKGI)	UKGI began operating on 1 April 2016 as a government company and is wholly owned by HM Treasury. UKGI is responsible for managing the government's financial interest in a range of state-owned businesses.	Mark Russell is the Accounting Officer and Chief Executive.
UK Asset Resolution Ltd (UKAR)	UKAR is the holding company established in October 2010 to bring together the business of Bradford & Bingley and NRAM. In October 2013 UKAR Corporate Services Ltd (UKARcs), a subsidiary of UKAR became responsible for the administration of the government’s Help to Buy mortgage guarantee scheme and subsequently also the Help to Buy ISA scheme on behalf of the Treasury until admin March 2019 when the schemes were outsourced.	Ian Hares is the Accounting Officer and Chief Executive.
UKGI Financing plc	Currently dormant	James Neilson is the Accounting Officer and a director.
Infrastructure Finance Unit Ltd	Incorporated in February 2009, the principal activity of the company was to provide loan finance to PFI projects. In 2017-18 outstanding PFI loans were repaid and it has since been used as the vehicle for operating the Digital Infrastructure Investment Fund.	Charles Roxburgh is the Accounting Officer. The company’s directors are directors of the Infrastructure Project Authority (IPA).
IUK Investments Holdings Ltd	The IUK Investments group, comprising IUK Investments Holdings Ltd and its subsidiary IUK Investments Ltd, was established in March 2013 to hold PF2 investments in major infrastructure projects.	Charles Roxburgh is the Accounting Officer. The company’s directors are directors of the IPA.
Help to Buy (HMT) Ltd	Incorporated in September 2013, the company’s sole activity is to operate the Help to Buy: Mortgage Guarantee Scheme.	Anna Caffyn is the Accounting Officer and a director.

HM Treasury UK Sovereign Sukuk plc	Incorporated in May 2014, the company's sole activity has been to issue in July 2014 and service £200m Sukuk certificates.	Mario Pisani is the Accounting Officer and a director.

Treasury Group additional bodies

Name	Function	Accounting Officer
Sovereign Grant	The Treasury is responsible for the upkeep of the Sovereign Grant payments which support HM The Queen in her official duties. Introduced in 2012 this funding replaced the Civil List and the three grants in aid for travel, communications and the maintenance of the Royal Palaces.	The keeper of the Privy Purse and the Treasurer's Office has overall responsibility for the Sovereign's financial affairs. This post is currently held by Sir Michael Stevens KCVO who is also the accounting officer for the Sovereign Grant.
The Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations. (RMAC)	RMAC was established in 1922 by King George V to raise the standard of numismatic art and this remains its primary concern, it is responsible for recommendations on all new designs for UK coins and official medals.	As Chief Executive of the Royal Mint, Anne Jessop is also the Accounting Officer for the RMAC.
Office of Tax Simplification (OTS)	As an independent office of the Treasury, the OTS provides the government with independent advice on simplifying the tax system.	As Director General Tax and Welfare in the Treasury, Beth Russell is Accounting Officer for the OTS.
Office of Financial Sanctions Implementation (OFSI)	The Office of Financial Sanctions Implementation helps to ensure that financial sanctions are properly understood, implemented and enforced in the United Kingdom.	As Accounting Officer for the Treasury, Tom Scholar is also Accounting Officer for OFSI.

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