HM Treasury

Annual Report and Accounts

2019-20

HC 746

September 2020

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This is part of a series of departmental publications which, along with the Main Estimates 2020-21 and the document Public Expenditure: Statistical Analysis 2020, present the government's outturn for 2019-20 and planned expenditure for 2020-21.

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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 2019 to March 2020 (inclusive), and is split into 4 main sections:

- the Performance Report includes a summary of progress and key milestones achieved during 2019-20 (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 reports 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 2020, and additional information designed to enable readers to understand these results

- the Trust Statement provides a record of fine and levy income collected by Treasury on behalf of government during the financial year

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Foreword by the Exchequer Secretary to the Treasury

I joined HM Treasury as a Minister just before the COVID-19 pandemic took its devastating hold on our country. Since then, officials have supported the Chancellor of the Exchequer to launch an unprecedented package of public spending and an ambitious plan for jobs to support the economy through these unchartered waters.

At Spring Budget 2020, shortly before the end of the financial year, we announced the first stage of the government's economic response, with £12 billion of support for businesses, households and public services. We introduced the Coronavirus Job Retention Scheme, and the Self-Employed Income Support Scheme, which have paid the wages of millions of people in every region and nation of the United Kingdom. We announced more than £300 billion of guarantees for supporting businesses to access finance. In the months from April 2020, the Treasury has continued its leadership in supporting the economy in withstanding – and ultimately recovering from – the impacts of the pandemic, most notably through the Plan for Jobs set out by the Chancellor of the Exchequer at the Summer Economic Update on 8 July 2020. HM Treasury's economic decision-making in this global crisis has been held up as an exemplar by our peers around the world. The department has delivered on the government's commitment to safeguard our economy, public services, and society from the effects of the pandemic.

Turning back to the Spring Budget, the Chancellor announced measures not only to mitigate the effects of the COVID-19 pandemic, but to support this government's ambition to level up the economy and ensure equality of opportunity across the entirety of our United Kingdom. This included: £100 billion higher day-to-day spending on public services in cash terms; £640 billion for infrastructure over the next five years; an increase to National Insurance Contribution thresholds from £8,632 to £9,500; an increase of the National Living Wage; and £400 million to tackle rough sleeping.

HM Treasury has further supported the government's commitments throughout the financial year. The Department played a key role in preparing for the UK's withdrawal from the European Union in January 2020, while also launching and delivering a fast-tracked Spending Review. HM Treasury has delivered on the government's green agenda, with the launch of the Net Zero Review to support the government's commitment to achieve net zero emissions by 2050; and continuing work on the Independent Review into the Economics of Biodiversity, led by Professor Sir Partha Dasgupta. In May 2019, the Office for Financial Sanctions Implementation imposed its first multimillion-pound monetary penalty, taking an important step towards our commitment to crack down on global illicit finance.

COVID-19 still represents a significant challenge to the UK economy. The Treasury will continue to maintain the highest standards of advice and professionalism, and I have confidence that it will continue to rise dynamically and rigorously to the challenges ahead.

Kemi Badenoch
Exchequer Secretary to the Treasury
22 September 2020

Chapter 1
Performance report

Performance overview

HM 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. Most recently, in response to the COVID-19 pandemic, the Treasury has been at the heart of the government's economic response to the crisis, developing and implementing unprecedented packages of support to help millions of people, families and businesses.

Led by The Rt Hon Rishi Sunak MP, Chancellor of the Exchequer, the Treasury is committed to taking a balanced approach to supporting the economy, maintaining financial and macroeconomic stability while investing in Britain's future; spending taxpayers' money responsibly while maintaining long-term fiscal sustainability; 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: The Rt Hon Stephen Barclay MP (Chief Secretary), The Rt Hon Jesse Norman MP (Financial Secretary), Kemi Badenoch MP (Exchequer Secretary), John Glen MP (Economic Secretary), and The Rt. Hon. The Lord Agnew of Oulton (Minister of State, joint with the Cabinet Office).

In order to achieve the goals above, in 2019, the Chancellor of the Exchequer at the time (the Rt. Hon. Philip Hammond MP) set the Department three policy objectives for 2019-20:

- 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 1,600 people enable the Treasury to operate as a high-performing organisation. As part of their commitment to continued corporate 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.

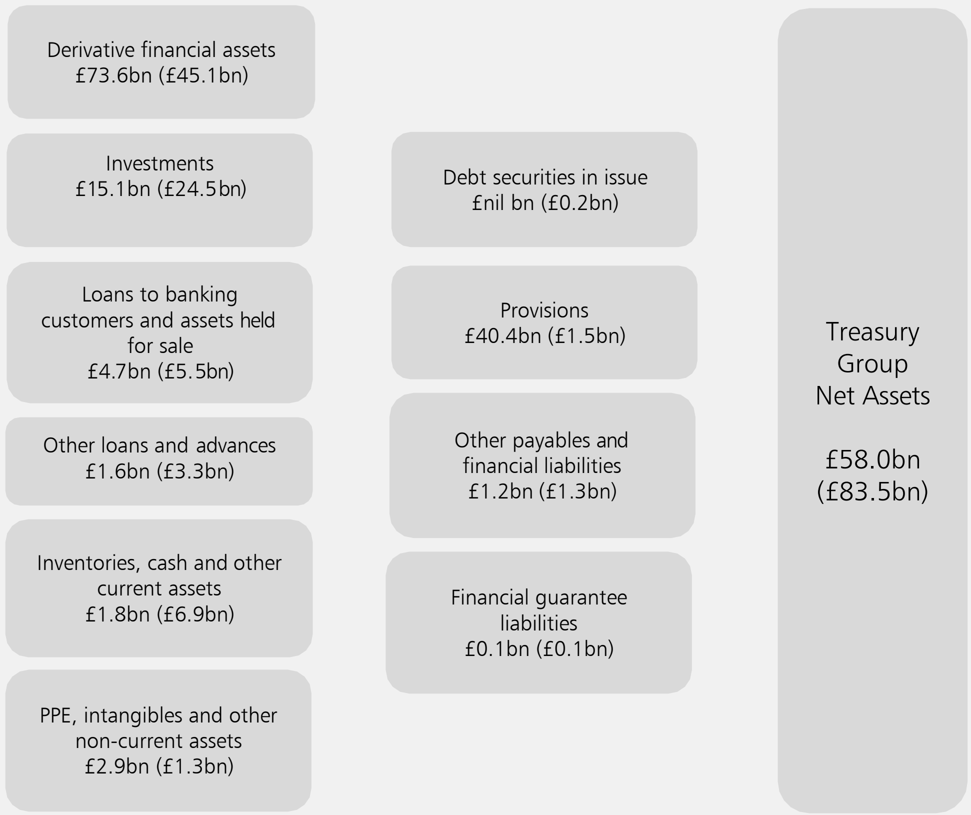
COVID-19

At the time of writing, COVID-19 represents an exceptional and critical ongoing risk to the state of the economy, our public services, and public health. The Treasury began developing and delivering measures to mitigate the impacts of the pandemic, as part of the government's wider response to the virus, prior to the end of the Financial Year; these measures continue to provide unprecedented support to people, families and businesses across the UK.

These interventions are outlined in more detail at page 21, and information is provided throughout this report. Due to the ongoing nature of COVID-19, some portions of this report provide information extending beyond the period April 2019-March 2020, in order to better contextualise the support that the Treasury has implemented in response to the pandemic.

The Treasury's finances

Figure 1A: Treasury Group Financial Position as at 31 March 2020 (31 March 2019)[1]



Total assets £99.7bn (£86.6bn) Total liabilities £41.7bn (£3.1bn)

Figure 1A shows the total assets, liabilities & net asset position for 31 March 2020 and the prior year.

Treasury Group financial performance in 2019-20

In £m	2019-20 Estimate	2019-20 Outturn
Resource DEL	369	354
Resource AME	61,100	709
Capital DEL	190	139
Capital AME	(2,096)	(2,064)

[1] Further information on the Treasury Group's Consolidated Statement of Financial Position can be found in the Financial Statements in Chapter 3. Prior year (2018-19) comparatives are shown in brackets.

Going concern

In common with other government departments, the financing of the Department's future service provision and liabilities are to be met by future grants of Supply and the application of future income, approved annually by Parliament. Parliament has authorised spending for 2020-21 in the Central Government Main Supply Estimates and there is no reason to believe that future approvals will not be made. It has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Figure 1B: Treasury Group average number of persons employed 2019-20

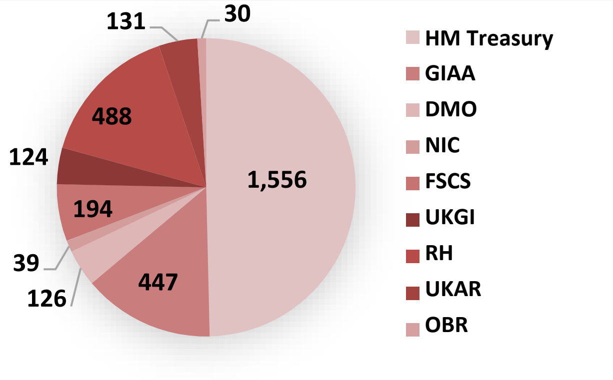


Figure 1B shows the average number of employees across the numerous Treasury Group entities

Figure 1C: Core Treasury grade split at 31 March 2020

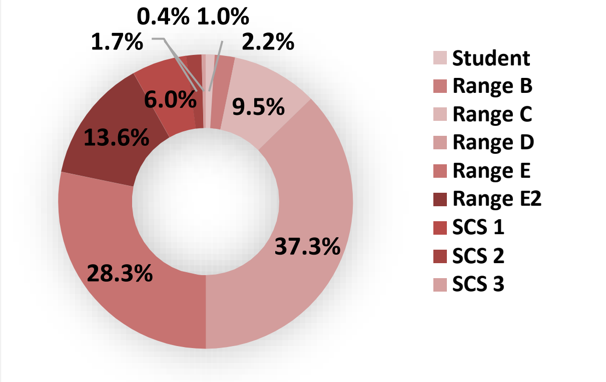


Figure 1C shows the grade split from student to SCS 3 across the Treasury Group

Treasury key performance indicators April 2019 – March 2020

Objective 1: Place the public finances on a sustainable footing[2]

The key performance indicators provided under Objective 1 have evolved from the 2018-2019 Annual Report and Accounts, and are based on the government fiscal rules as at the Spring Budget 2020 by the Chancellor of the Exchequer. At Spring Budget 2020, the Chancellor announced a review of the fiscal rules. Further information about these rules is provided on page 15. Next steps on this review will be announced in due course.

[2] Information provided in the KPIs for the 2019-20 performance year is based on the Office for Budget Responsibility (OBR) Economic and Fiscal Outlook (EFO), published in March 2020, which includes COVID-19 impacts. Further updates, included to indicate the latest COVID-19 information beyond the performance year, is based on the OBR's July 2020 Fiscal and Sustainability Report and is correct as at 14 July 2020.

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 is measured on a cash rather than an accrued basis. PSND is the key measure of the country's overall debt.	In the most recent Office for Budget Responsibility (OBR) Economic and Fiscal Outlook (EFO), published in March 2020, the OBR forecast that PSND would fall from 77.4% of GDP in 2020-21 to 75.3% of GDP in 2024-25. The outturn for PSND in 2019-20 has been affected by the economic and fiscal implications of COVID-19 and stands at 93.3% of GDP. This represents an increase on PSND in 2018-19, when it was 80.7% of GDP, largely driven by changes to the estimated level of GDP. On 14 July 2020, the OBR published their Fiscal sustainability report, which provides three economic scenarios to estimate the impact of COVID-19 on the economy and public sector finances. Under the OBR's central scenario, it is estimated that PSND would be 104.1% of GDP in 2020-21 as a result of both the fiscal implications of the economic disruption and the fiscal and monetary support measures. *Source*: Office for National Statistics and 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'.	In 2019-20, PSNB fell to 2.8% of GDP from 10.2% of GDP in 2009-10. The OBR's March forecast was for PSNB to fall from 2.4% of GDP in 2020-21 to 2.2% of GDP in 2024-25. However early outturn data for 2020-21 suggests the impact of COVID-19 will significantly increase PSNB this year. In the OBR's latest COVID-19 scenario analysis, it is estimated that PSNB would be 16.4% of GDP in 2020-21. *Source*: Office for National Statistics and Office for Budget Responsibility

Current budget deficit as a percentage of GDP	
The current budget deficit is the difference between government's day-to-day spending and its revenue. It is measured on an accrued basis.	In 2019-20, the current budget deficit fell to 0.6% of GDP from 7.2% of GDP in 2009-10. Spring Budget 2020 was delivered within a set of fiscal rules, including a rule to have the current budget at least in balance by the third year of the rolling five-year forecast period. The OBR's March EFO confirmed the Budget was delivered within this rule, with the current budget forecast to be in surplus by 0.5% of GDP in 2022-23, improving further to a surplus of 0.8% of GDP in 2024-25. In the OBR Fiscal sustainability report, current budget increases to 16% of GDP in the central scenario, without accounting for the Summer Economic Update package. *Source:* Office for National Statistics and Office for Budget Responsibility

Public sector net investment (PSNI) as a percentage of GDP	
The level of government investment as a percentage of GDP.	In 2019-20 PSNI was 2.2% of GDP. The government aims to increase investment, but ensuring that PSNI does not exceed 3% of GDP on average over the rolling five-year forecast period. The OBR's March EFO confirmed that the Budget was delivered within this rule. PSNI was forecast to average 2.9% of GDP over 2020-21 to 2024-25. In the OBR Fiscal sustainability report, PSNI is 3.1% of GDP in 2020-21 the central scenario. *Source:* Office for National Statistics and Office for Budget Responsibility

Debt Interest to Revenue Ratio	
The cost of servicing government debt as a proportion of government revenues	Spring Budget 2020 also set out that, if the debt interest to revenue ratio was forecast to remain over 6% for a sustained period, the government would take action to ensure the

gives an indication of the affordability of the government's debt burden.	debt-to-GDP ratio is falling. The OBR's March EFO forecast the debt interest to revenue ratio to remain below 6% over the 5-year forecast period. Source: Office for Budget Responsibility

Objective 2: Ensure the stability of the macroeconomic environment and financial system, enabling strong, sustainable growth[3]

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 2019. At the 2020 Spring Budget, the OBR forecast the UK's economy to grow by 1.1% in 2020 and 1.8% in 2021. Due to the outbreak of COVID-19, and the steps taken to contain it, forecasts have been downgraded. The central scenario of the OBR's Fiscal Sustainability Report, published 14 July, suggests that GDP could fall by 12.4% in 2020 before recovering slowly and regaining its pre-virus peak by the end of 2022. However real GDP is still expected to be 3% lower in Q1 2025 than in the OBR's March forecast. The Bank of England's illustrative scenario, published May 7, suggests a GDP fall of 14% for 2020 as a whole, with the economy subsequently growing by 15% in 2021. *Source:* Office for National Statistics and Office for Budget Responsibility, Bank of England

CPI inflation	
The rate of inflation shows the average change in the prices of goods and services bought by households.	CPI inflation was 1.8% in 2019, down from 2.5% in 2018. At Spring Budget 2020, the OBR forecast that CPI inflation would climb slightly above target over the forecast period, reaching 2.1% in 2021 before returning to target in 2024. The central scenario of the OBR's July Fiscal Sustainability Report has assumed that the effect on inflation is modest. The net effect is a

3 Post-performance year figures on GDP and the labour market are correct as at 24 August 2020.

	temporary drop in CPI inflation to 0.3% in Q4 2020, followed by a gradual rise to 2% by 2023. *Source:* Office for National Statistics and Office for Budget Responsibility

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

UK employment rate	
This shows the headline measure of progress on employment.	In the three months to the end of June, the UK employment rate (16-64) was 76.4%, a near record high. Other indicators, however, have pointed towards a deterioration in the labour market, with vacancies in July 2020 45% lower than in July 2019 and the number of paid employees falling by 2.5% between March and July. In the OBR's Fiscal Sustainability Report (central scenario), employment falls from 32.8 million in 2019 to a low point of 30.9 million in 2021. After this, employment rises, surpassing its 2019 level by 2024. In the OBR's Fiscal Sustainability Report (central scenario), unemployment rises steeply to 12% in Q4 2020. The OBR then assume that the subsequent decline in unemployment will be gradual, with the unemployment rate remaining elevated until the end of the forecast period, remaining above 5% at the end of 2024. Source: Office for National Statistics, HMRC PAYE Real Time Information Data, and Office for Budget Responsibility

Business investment as a share of GDP	
Business investment as a share of GDP affects the UK's productivity and the long-term	Business investment totalled 9.6% of GDP (or £211.6 billion) in 2019. In 2019, business investment increased by 0.6% in real terms. In its July Fiscal Sustainability Report (central scenario), the OBR assumes business investment

sustainable growth rate.	will fall by 24% in 2020, and will then recover slowly, reaching its pre-COVID level by Q3 2022. *Source:* Office for National Statistics and Office for Budget Responsibility

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. In 2019, productivity growth was flat, while in Q1 2020, output per hour fell 0.4% compared to the same quarter a year ago. The OBR assumes that the COVID-19 crisis has a negative effect on productivity in the medium and long run, with output per hour in 2024 around 5% below the level forecast in March. *Source:* Office for National Statistics

Snapshot of Treasury activity in 2019-20

Month	Milestones
April	10 Apr: Cap on public sector exit payments set at £95,000
May	23 May Independent investigation into London Capital and Finance collapse launched. 23 May The Rt. Hon. Jesse Norman MP appointed Financial Secretary to the Treasury.
June	1 June Plans to regulate the pre-paid funeral sector announced. 17 June 10th UK-China Economic and Financial Dialogue. 19 June New Breathing Space scheme announced to help vulnerable people with problem debt. 27 June HM Treasury publishes 2019-20 Single Departmental Plan.
July	2 July HM Treasury launches the Green Finance Strategy 24 July The Rt. Hon. Sajid Javid MP appointed as Chancellor of the Exchequer and the Rt. Hon. Rishi Sunak MP appointed as Chief Secretary to the Treasury. 27 July Simon Clarke MP appointed Exchequer Secretary to the Treasury.
August	1 August HM Treasury announces that funding for preparations for the UK's withdrawal from the EU will be doubled for 2019-20. 9 August Fast-tracked Spending Round announced for September.
September	4 September Spending Round 11 September Sir Amyas Morse appointed to lead Loan Charge Review. 19 September HM Treasury announces the establishment and inaugural meeting of the expert Advisory Panel into the independent global review into the Economics of Biodiversity
October	14 October The Chancellor of the Exchequer announces the Autumn Budget date as 6 November 2019. He subsequently wrote to the Treasury Select Committee on 25 October confirming this Autumn Budget would no longer go ahead.

Month	Milestones
November	2 November Net Zero Review launched.
December	12 December General Election 2019. 20 December Andrew Bailey appointed Governor of the Bank of England.
January	24 January Christopher Woolard appointed interim Chief Executive Officer of the Financial Conduct Authority 31 January UK commences its withdrawal from the European Union.
February	13 February The Rt. Hon. Rishi Sunak MP appointed as Chancellor of the Exchequer, the Rt. Hon Stephen Barclay MP appointed as Chief Secretary to the Treasury, Kemi Badenoch MP appointed Exchequer Secretary to the Treasury 14 February The Rt. Hon. The Lord Agnew of Oulton appointed Minister of State for the Cabinet Office and HM Treasury. 18 February The Office for Financial Sanctions Implementation imposes its first multimillion-pound monetary penalty.
March	11 March Spring Budget announced: the first stage of the government's economic response to COVID-19, with £12 billion of support for businesses, households and public services. Other announcements included: £100 billion higher day-to-day spending on public services in cash terms; £640 billion for infrastructure over the next five years; an increase to National Insurance Contribution thresholds from £8,632 to £9,500; an increase of the National Living Wage; a review of business rates; £5.2 billion on flood defence; £500 million for the rollout of super-fast electric vehicle charging; £640 million for the Nature for Climate Fund; £400 million to tackle rough sleeping; and £640 million for the Scottish government, £360 million for the Welsh government, and £210 million for the Northern Ireland Executive. 16 March Andrew Bailey takes up post as Governor of the Bank of England. 20 March The Chancellor announced the Coronavirus Job Retention Scheme, and increased both the Universal Credit standard allowance and Working Tax Credit basic element by £1,000. 24 March The UKAR announced that a process to explore a sale of the residual asset portfolios and legal entities, due to take place in 2020, has been postponed due to COVID-19. 26 March The Chancellor announced the Self-Employed Income Support Scheme.

Performance analysis

Objective 1: Place the public finances on a sustainable footing

Lead minister:	The Rt Hon Rishi Sunak MP, Chancellor of the Exchequer
Lead officials:	James Bowler until 11 March 2020, Cat Little since 12 March 2020, 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 PSNB as a percentage of GDP Current budget deficit as a percentage of GDP PSNI as a percentage of GDP Debt interest to revenue ratio
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. This includes the government's shareholding in the Royal Bank of Scotland (RBS) and UK Asset Resolution (UKAR).	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,	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

the OBR is an Executive Non-Departmental Public Body (NDPB) sponsored by the Treasury.	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

Over the last reporting year, with public finances in a more secure position, the government supported the economy in the short-term, and acted over the medium-term to drive growth and improve public services. However, with COVID-19 now the most significant fiscal issue facing the economy, this section focuses on the fiscal response and how the department is managing the fiscal risks associated with the pandemic.

At Spring Budget 2020, the Chancellor of the Exchequer adopted new fiscal rules. These rules aimed to ensure that the government is only borrowing to invest over the medium term, and to limit public sector net investment to an average of 3% of GDP, to keep control of borrowing and debt.

The Treasury will review the fiscal framework ahead of the next Budget to ensure it remains appropriate for the macroeconomic context, while ensuring the sustainability of the public finances.

The government's fiscal rules as set out in Spring Budget 2020 are:

- to have the current budget at least in balance by the third year of the rolling five-year forecast period;
- to ensure that public sector net investment (PSNI) does not exceed 3% of GDP on average over the rolling five-year forecast period; and
- if the debt interest to revenue ratio is forecast to remain over 6% for a sustained period, the government will take action to ensure the debt-to-GDP ratio is falling.

The OBR's March Economic and Fiscal Outlook (EFO)[4] forecast showed that:

- the current budget was expected to be in a surplus of 0.5% of GDP in 2022-23;
- public sector net investment was expected to average 2.9% of GDP over the OBR's five-year forecast period; and that
- the debt interest to revenue ratio was expected to remain below 6%.

Since that forecast was published, COVID-19 has had a significant impact on the UK economy and the public finances. The government has announced unprecedented financial support for public services, business and workers to protect against the current economic emergency. These policy interventions will limit the adverse impact of COVID-19 on the economy and, in so doing, will help to ensure the public finances remain sustainable over the medium term.

HMT has strengthened its processes to monitor closely the fiscal position through the crisis, both in terms of latest data as it becomes available and its surveillance and management of fiscal risks. Further details on plans to put the public finances back on a sustainable footing over the medium-term will come at the next Budget, alongside an updated OBR forecast.

Fiscal transparency and risk management

The Treasury remains committed to improving the UK's already high levels of fiscal transparency. In 2016 the International Monetary Fund (IMF) conducted 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 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.

The OBR published its first Fiscal Risks Report in July 2017 in accordance with the 2015 revisions to the Charter of Budget Responsibility. The report highlighted the key risks to the public finances over a medium (five year) and long-term (50 year) horizon. This put the UK at the forefront of international practice in fiscal risk disclosure and management. The IMF said that the Fiscal Risks Report "raises the bar on the assessment and quantification of fiscal risks to a new level that other countries should look to meet"[5]. In response to the Fiscal Risks Report – as required by the Charter – the government published the 'Managing fiscal risks' report' in July 2018.

These reporting requirements provide a mechanism for Parliament and the public to scrutinise the government's strategies for managing these risks and hold it to

[4] The OBR's March Economic and Fiscal Outlook (EFO) was published on 11 March 2020, and was followed by a supplementary forecast on 13 March 2020. The supplementary forecast was a technical update to the OBR's 11 March forecast, and did not include an assessment of the full impact of COVID-19.

[5] 'United Kingdom : Fiscal Transparency Evaluation', IMF, November 2016

account for their implementation. In July 2019, the OBR published its second Fiscal Risks Report. The government delivered a response during summer 2020.

Government Finance Function

HM Treasury plays a critical role in leading the work of the Government Finance Function. The Government Finance Function, as one of 12 functions operating across the Civil Service, is integral to HM Treasury, helping the government to achieve its fiscal and economic objectives by:

- Investing in its people to ensure a resilient, diverse and expert finance community;
- Establishing robust financial systems, standards and policies, and sharing knowledge and best-practice across government;
- Developing frameworks, guidance and tools to facilitate more informed, effective and insightful planning, performance and risk management.

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. An FLG sub-group exists to enable departmental finance directors and HMT to collaboratively develop the approach to Public Spending events such as the Spending Review. The Finance Strategy Board (FSB) provides greater oversight of how the strategy is delivered and ensures effective join up across the Function and government, championing and influencing the wider functional agenda and supporting the Civil Service Board.

The Function has delivered tangible value in a number of areas in direct support of HMT objectives:

- Published the Government Finance Standard, setting out expectations for the effective management and use of public funds.
- Enhanced training and development offer through the Government Finance Academy and a clear people offer that focuses on diversity and inclusion; career frameworks; resourcing; talent management; and reward and recognition.
- Designed and launched a set of common processes and procedures in 12 areas of finance, based on the Global Design Principles, to promote convergence and best practice across government.
- Established a range of knowledge and process networks together with Centres of Excellence (CoEs).
- Conducted a series of projects to improve understanding of finance data across government.

- Defining expectations of Finance Business partners, setting standards and promoting a consistent approach across government through Excellence in Finance Business Partnering.

- Refreshed the standards and principles covering risk management (the Orange Book).

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

Lead minister:	The Rt Hon Rishi Sunak MP, Chancellor of the Exchequer
Lead officials:	Mark Bowman, Director General International and EU Katharine Braddick, Director General Financial Services Clare Lombardelli, Director General and 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

Following a period of growth, with UK GDP growing 1.4% in the year to Q4 2019, and a joint-record high UK employment rate of 76.6% in the three months to March 2020, COVID-19 had a significant impact on the UK economy towards the end of the period covered by this report. The crisis continues to pose a significant threat to the UK's macroeconomic stability. The UK entered recession in the first half of 2020, with GDP falling by 2.2% in Q1 2020, and by 20.4% in Q2, following the introduction of social distancing measures. Following a 20% fall in April, GDP grew by 2.4% in May and by 8.7% in June, leaving the economy around 17% below its

February level. Illustrative scenarios from the Office for Budget Responsibility and Bank of England point towards a large reduction in GDP in 2020, and a steep rise in unemployment over the coming months.

As outlined below, the government has implemented a range of support for workers, businesses and public services, to protect against the current economic emergency, and mitigate the threat to macroeconomic stability. Both the OBR and the Bank of England have agreed that the actions taken by the government will help to mitigate the impact of the virus on the economy – and that without this package of measures, the state of the economy would be worse, with the temporary effects of the virus leaving permanent scars on the economy.

Furthermore, the Bank of England's independent Monetary Policy Committee has implemented a package of measures to respond to the economic shock from COVID-19 and meet the objectives set out in their remit. These include: a 50 basis point cut in Bank Rate to 0.25% on 11 March alongside the Budget and a further 15 basis point cut to 0.10% on 19 March; extending the maximum size of gilt and corporate bond purchases in the Asset Purchase Facility by £300bn; expanding the recently introduced Term Funding Scheme with additional incentives for SMEs to support monetary policy transmission and lending to the real economy; and numerous market functioning measures, including a new commercial paper facility, an increase in the frequency of the USD lending facility, and a contingent term repo facility.

In addition to these measures to support macroeconomic stability during the immediate crisis, the government's commitment to the macroeconomic framework, detailed below, will be vital in supporting economic recovery and underpinning macroeconomic stability in the medium and long term.

COVID-19 Response

Summary of 2020 COVID-19 interventions

In responding to economic impacts of the COVID-19 pandemic, the Treasury has developed and delivered an unprecedented package of support for public services, local authorities, workers and businesses to protect against the current economic emergency.

At Spring Budget on 11 March 2020, the Chancellor set out the first stage of the government's economic response providing support for businesses, households and public services. This included a COVID-19 Response Fund to ensure the NHS and other public services receive the funding they need to respond to the outbreak. Over the following weeks and months, the Chancellor announced a broad range of support measures, including the Coronavirus Job Retention Scheme (CJRS) and Self-Employed Income Support Scheme (SEISS), which have paid the wages of millions to keep them attached to the labour market, and a package tax holidays and deferrals and lending guarantees to support businesses. Some of the main schemes introduced are set out below. Detail about these measures extend beyond March 2020, to contextualise better the ongoing nature of the response.

While developing these schemes, the Treasury has worked in partnership with other government departments, particularly Her Majesty's Revenue and Customs, to enable support to be provided as quickly as possible. The Treasury has also worked with international institutions to support the international COVID-19 crisis responses.

Further information about COVID-19 and macroeconomic stability is provided on page 19, and aspects of response are detailed throughout this report as they pertain to particular areas of the Treasury's work.

Support for individuals and public services

On 20 March, the Chancellor announced the CJRS, allowing all UK employers to apply for a grant covering 80% of furloughed employees' wages, helping firms to keep millions of people in employment. Then, on the 26 March, the Chancellor announced the Self-Employment Income Support Scheme (SEISS), available to around 95% of those whose income derives mostly from self-employment.

In developing both schemes, the Chancellor engaged extensively with stakeholders including the Trades Union Congress, the Federation of Small Businesses, the CBI and other business groups.

A package of temporary welfare measures further supported the most vulnerable, including a £20 per week increase to the Universal Credit standard allowance and Working Tax Credit basic element, an increase in Local Housing Allowance rates so that it covers the lowers third of local rents, and an extension of statutory sick pay to those self-isolating due to COVID-19. On 8 April, the Chancellor announced a support for charities providing key services and supporting vulnerable people during the crisis.

In May 2020 the Chancellor set out how the CJRS and SEISS would continue and adapt over the coming year, with the CJRS to be extended until October 2020, encompassing greater flexibility as well as a slow taper in the level of the grant from August 2020, and a second grant round that was opened in August for those eligible for the SEISS.

Support for businesses

The Chancellor has introduce lending guarantees worth hundreds of billions of pounds to support businesses to access finance, delivered through three main schemes: the Coronavirus Business Interruption Loan Scheme (CBILS), and the Coronavirus Corporate Financing Facility (CCFF), which were opened with effect from Monday 23 March 2020, and the Coronavirus Large Business Interruption Loan Scheme (CLBILS) which opened on 20 April. From 27 April this was added to by the introduction of a Bounce Back Loan Scheme (BBLS) to enable rapid lending decisions to be made for small businesses.

To support businesses in sectors most affected by social distancing rules, the government introduced business rates holidays and grants for firms in the retail, hospitality and leisure sectors, alongside a wider scheme of grants for small businesses. It also offered tax deferrals, including for VAT, Statutory Sick Pay rebates, and a package to protect firms driving innovation in the UK.

At the Summer Economic Update on 8 July 2020, the Chancellor announced the government's Plan for Jobs to support economic activity and jobs as social distancing was relaxed. Measures announced included: the Eat Out to Help Out scheme, offering diners up to 50% off their restaurant bills up to a maximum of £10 per person, to support the hospitality sector; the Kickstart scheme, providing funding to employers to create job placements for 16 – 24 year olds; and the Coronavirus Job Retention Bonus, a one-off payment to employers of £1,000 for every employee they had previously furloughed and who remains continuously employed until 31 January 2021.

International cooperation

The Treasury is working closely with its G20 and G7 partners on the international economic response to COVID-19. This has included a commitment to provide Overseas Development Assistance to support the IMF's Catastrophe Containment and Relief Trust to provide debt relief to help the most vulnerable countries, and making new loans available for the Poverty Reduction and Growth Trust, providing lending to the world's most vulnerable countries, allowing them to support their healthcare systems and provide financial assistance to the poorest in their societies.

The department further supported the IMF's immediate response to COVID-19 through doubling the IMF's emergency financing support and implementing a new Short-Term Liquidity Line to provide support to economies facing liquidity pressures.

As well as this, the department worked with G20 partners to draft and develop the G20 Action Plan for response to COVID-19 which was agreed at the virtual

IMF Spring Meetings in April; and worked with other shareholders to agree the AIIB’s $10 billion and EBRD’s €4 billion COVID-19 response packages.

During the 2020-21 year, the Treasury is continuing to work with other government departments, local authorities, Public Health England, and with intergovernmental organisations and our partners overseas in efforts to respond to this pandemic.

Responsibility for schemes

Responsibility for COVID-19 schemes are as follows: the Coronavirus Corporate Financing Facility (CCFF) sits with HMT; the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS) sit with HMRC; the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS) sit with BEIS; commitments to the IMF's Catastrophe Containment and Relief Trust (CCRT) sit with DFID; and the UK’s loan to the IMF’s Poverty Reduction and Growth Trust (PRGT) is balance sheet neutral.

Summary of COVID-19 measures and potential financial implications

The most recent government costings of COVID-19 measures were set out at the Summer Economic Update on 8 July 2020.

Table A sets out the total estimated costs of government interventions announced prior to the Summer Economic Update.

Table B sets out estimated costs for further measures announced as part of the Plan for Jobs contained in the Summer Economic Update.

Updated costings on government interventions to address the pandemic will be published at the next Budget.

Table A: Costings of government interventions supporting the response to COVID-19 up to 8 July 2020

	£ billion
	Total[6]
Direct fiscal support	
Employment support[7]	69.0
Direct support for households[8]	8.0
Business support[9]	30.3
Further tax measures[10]	0.3
Public service spending, funding for charities, culture and vulnerable people[11]	51.1
Total direct fiscal support	158.7
Loans, guarantees and tax deferrals	
VAT and income tax self-assessment tax deferrals[12]	50.0
Loan support approved to date[13]	72.8
Total tax deferrals and approved loan support	122.8

[6] Unless otherwise specified these are Office for Budget Responsibility estimates contained in the policy monitoring database published 19 June. Excludes indirect effects. 2020-21 cost estimates.

[7] Includes Coronavirus Job Retention Scheme and Self-Employed Income Support Scheme.

[8] Includes increase in Universal Credit standard allowance and Working Tax Credit basic element by £1,000, removal of the minimum income floor, those on Contributory Employment and Support Allowance claiming from day one instead of day eight, increase in Local Housing Allowance to 30% of market rents and further operational welfare changes.

[9] Includes Coronavirus Statutory Sick Pay Rebate Scheme, Small Business Grant schemes, business rates reliefs, trade credit insurance, changes to off-payroll rules delay until April 2021 and bringing forward the implementation of the zero rate of VAT to all e-publications.

[10] Includes VAT zero rating for personal protective equipment, Customs Duty and VAT relief on imported donated medical equipment, domestic reverse charge VAT for construction services delay in implementation.

[11] This includes £15.7bn of public services spending, £0.8bn charities funding and £0.5bn for the Hardship Fund accounted for in the OBR's policy monitoring database. In addition, this includes £1.3bn to support culture announced on 6 July (total culture package is £1.5bn including the loan support which is not included in this line), and a further £32.9bn of public services funding announced on 8 July.

[12] VAT and income tax self-assessment deferrals based on HMRC tax data and OBR estimates of future deferrals.

[13] CCFF, CBILS, CLBILS, BBLS, Future Fund, Cultural Recovery Fund and bespoke loans and guarantees approved to date.

Table B: Costings for further policy interventions underpinning the 'Plan for Jobs' announced at the Summer Economic Update on 8 July 2020

	£ billion
	Total
Job Retention Bonus	
Job Retention Bonus[14]	Up to 9.4
Supporting jobs	
Kickstart Scheme[15]	2.1
Boosting worksearch, skills and apprenticeships[16]	1.6
Protecting jobs	
Reduced rate of VAT for hospitality, accommodation and attractions[17]	4.1
Eat Out to Help Out[18]	0.5
Creating jobs	
Infrastructure package[19]	5.6
Public sector and social housing decarbonisation	1.1
Green Homes Grant[20]	2.0
Stamp Duty Land Tax temporary cut[21]	3.8
Total support announced[22]	Up to 30

Remits

In line with the Bank of England Act 1998 (as amended by the Financial Services Act 2012), the Chancellor published the Financial Policy Committee remit and recommendations, and the Monetary Policy Committee remit at Budget 2020. The government is legally required to set out its economic policy within each of the published remits. The Chancellor stated at the Budget, within the Monetary Policy Committee's remit and Financial Policy Committee's remit and recommendations, that the government's economic objective continued to be strong, sustainable and balanced growth.

[14] This presents the maximum possible cost if the bonus is paid to all 9.4 million jobs furloughed at any point during the scheme, for claims received by 5 July. The final cost will depend on the number of qualifying furloughed employees that are retained. Costs will be lower than the maximum presented in this table.

[15] Final costs and timing of spending subject to take up.

[16] Includes the indicative cost of 100,000 incentive payments for new apprenticeship hires. Final costs will depend on the number of new apprentices hired and may be lower.

[17] Based on eligible spending in the Spring Budget 2020 VAT forecast. The final cost will depend on consumption levels.

[18] Based on 2018 ONS Annual Business Survey turnover for the relevant sectors, then grown with the Spring Budget consumption forecast. The final cost will depend on take up and could be lower or higher.

[19] Infrastructure spending announced by the Prime Minister on 30 June.

[20] Final costs will depend on take up.

[21] Based on eligible payments from Spring Budget 2020 property forecast. The final cost will depend on property transactions and price levels.

[22] This presents the maximum level of fiscal support available. As explained above, the final costs will be dependent on take up of the schemes, how the economy recovers and the number of rehires of furloughed workers qualifying for the Job Retention Bonus. In aggregate the final costs are likely to be lower than the maximum set out here. A small proportion of the costs may occur after 2020-21, especially where spending is dependent on take up.

The Chancellor re-confirmed the inflation target within the Monetary Policy Committee remit as 2% as measured by the 12-month increase in the Consumer Prices Index. He also set out the priorities for the Financial Policy Committee, whose primary objective is to monitor and remove systemic risks to protect and enhance financial stability, working with the Prudential Regulation Authority and Financial Conduct Authority where needed. He asked that the Financial Policy Committee have regard to the impact of their policies on the government's economic strategy and to seek to support the relevant elements where appropriate.

Letters of recommendations to the Financial Conduct Authority and to the Prudential Regulation Committee (as well as a holding remit for the Financial Policy Committee) were issued at the end of the last Parliament, on 4 November 2019. The letters to the Prudential Regulation Committee and Financial Conduct Authority set out the government's priorities for financial services and asked that the Prudential Regulation Committee and Financial Conduct Authority consider the impacts on these priorities as part of their assessment of the costs, burdens and benefits of potential rules or policies. These letters made recommendations about matters of government economic policy which the regulators should have regard to in the exercise of their general duties.

Financial stability

HM Treasury works closely with the Bank of England and the Financial Conduct Authority to monitor the implications of COVID-19 on the UK financial system through existing contingency planning co-ordination arrangements. The authorities are monitoring financial market developments and stand ready to respond if needed.

Maintaining financial stability is a key part of the government's economic strategy. Following the global financial crisis, the Financial Policy Committee was established as the UK's macroprudential authority tasked with monitoring risks to the stability of the financial system.

Since the publication of its remit, and in line with their statutory objectives, the Financial Policy Committee's efforts have focussed on the response to COVID-19, as demonstrated by its March 2020 Financial Policy Summary and Meeting Record and May Interim Financial Stability Report.

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

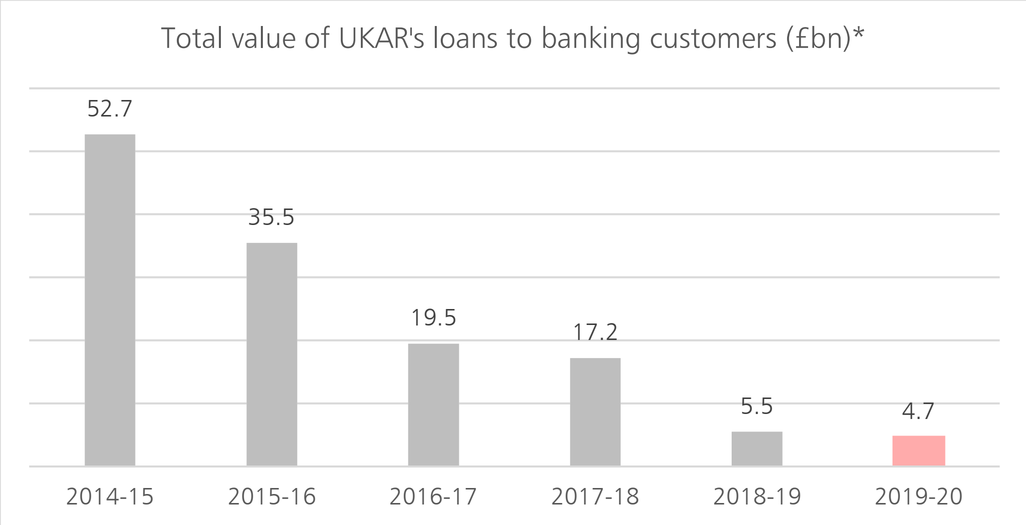
During 2019-20 the Treasury made further progress in returning financial sector assets acquired in 2008-09 to the private sector.

In August 2019, the Treasury sold its claim on the estate of Kaupthing Singer & Friedlander (KSF), an Icelandic bank that failed in 2008. This sale raised £17.8 million for the Exchequer and brought the Treasury and the Financial Services Compensation Scheme's involvement with KSF to a close.

The contract for £4.9 billion sale of NRAM mortgages and loans was signed at the end of March 2019 with cash being received in the following month. The Treasury aims to return its remaining UK Asset Resolution (UKAR) assets to private hands as soon as possible, subject to market conditions and achieving value for money. On 24 March, the UKAR announced that a process to explore a sale of the residual asset portfolios and legal entities, due to take place in 2020, has been put on hold due to COVID-19. Customer protection is a priority in all UKAR sales and all bidders will be required to agree to our non-negotiable customer protections before their bids are considered on other factors.

In 2009, the Treasury became a major creditor in the administration process for Dunfermline Building Society. That administration process entered its final stages towards the end of 2019-20 with the Exchequer receiving a final distribution of around £1.77 million in Q1 2020-21. Dunfermline Building Society has now been dissolved.

Figure 1D:



*Includes assets held for sale

Figure 1D: shows the decreasing value of UKAR's loans for the 6 years from 2014-15 to 2019-20.

Following the successful disposal of £2.5 billion worth of shares in June 2018, external factors have made a further sale of the government's 62.1% shareholding in the Royal Bank of Scotland (RBS) more challenging during 2019-20. At Budget 2020, the government set out its intention to undertake a full disposal of the RBS shareholding by 2024-25, subject to market conditions and achieving value for money.

In February 2019, at its full year results, RBS announced dividends of 3.5p (Ordinary) and 7.5p (Special) per share. A dividend of £826 million was paid to HM Treasury in April 2019, based on the government's shareholding as of 22 March 2019. In August 2019, at its half year results, RBS announced dividends of 2.0p (Ordinary) and 12.0p (Special) per share. A dividend of £1.05 billion was paid to HM Treasury in September 2019, based on the government's shareholding as of 16 August 2019. In February 2020, at its latest full year results, RBS announced dividends of 3.0p (Ordinary) and 5.0p (Special) per share. However, following a Prudential Regulation Authority letter to the largest deposit-takers in response to COVID-19 (published March 2020), RBS agreed to suspend dividends for the remainder of 2020 and cancel payments of any outstanding 2019 dividends.

Europe

Throughout 2019-20, the Treasury worked closely with the Department for Exiting the European Union (DExEU), the newly formed No.10 Task Force Europe and Cabinet Office Transition Task Force, as well as other departments across government, to prepare for the UK's exit from the EU. Treasury officials supported ministers to achieve key milestones such as the Withdrawal Agreement[23] and Political Declaration being agreed at European Council on 17 October 2019, the signing of the Withdrawal Agreement on 24 January 2020, and the conclusion of the UK's exit on 31 January 2020. On that date, the UK entered the Transition Period, which will last until 31 December 2020. During this time, many of the rights and obligations associated with EU membership continue to apply to the UK, providing time for the Withdrawal Agreement to be implemented and for negotiations on the terms of the UK-EU future relationship.

In preparing to leave the EU on 31 January 2020, the Treasury progressed plans to be ready for a variety of outcomes, including appropriate and proportionate planning for the UK leaving the EU without a further negotiated outcome.

HM Treasury laid a substantial package of Statutory Instruments (SIs) to ensure that necessary legislation was in place to prepare for the event of a 'no deal' exit, and supported delivery of the Withdrawal Agreement Bill, bringing the terms of the Withdrawal Agreement into effect in UK domestic legislation. During the Transition Period, HM Treasury has continued to lay and make SIs to ensure UK laws are fully prepared for the end of Transition, including a package of c.60 Financial Services EU Exit SIs.

The Treasury also provided significant further additional funding to other government departments and the devolved administrations to ensure the UK was ready to leave the EU on 31 January. In August 2019, the Chancellor of the Exchequer doubled funding specifically for 'no deal' preparations for 2019-20. The Spending Round 2019 also committed £2 billion of core funding to departments for post-Brexit delivery in 2020-21.

In addition, HM Treasury worked with a variety of stakeholders across government and industry to ensure businesses and citizens could prepare for EU Exit. This included the Get Ready for Brexit Campaign, which ran throughout the Autumn and was a particular focus prior to the 31 October EU Exit deadline.

As part of developing our independent trade policy following the UK's decision to leave the EU, working with the Department for International Trade, the Treasury designed the UK's Most Favoured Nation (MFN) tariff schedule, which sets the tariffs for imports from all countries where the UK does not have a preferential trading agreement in place (such as an FTA). Through 2019 the Treasury worked with DIT to develop a contingency "no deal" Temporary Tariff Regime (TTR). HM Treasury also worked closely with HMRC to develop a UK customs regime for a variety of outcomes, including planning for simplified import procedures in case the UK left the EU without a deal.[24]

Following the conclusion and ratification of the EU-UK Withdrawal Agreement in January 2020, the government turned its attention to the UK's longer-term MFN

23 https://www.gov.uk/government/publications/new-withdrawal-agreement-and-political-declaration

24 https://www.gov.uk/guidance/register-for-simplified-import-procedures-if-the-uk-leaves-the-eu-without-a-deal

regime and has since announced the new UK Global Tariff (UKGT). This is the tariff schedule that will apply from 1 January 2021. It is simpler and more liberal than the EU tariff schedule we currently apply – under the UKGT, 47% of tariff lines will be duty free, up from 27% under the EU's Common External Tariff. Throughout the rest of 2020 HMT will legislate for the UKGT and work with DIT and HMRC to ensure it is fully operational by the end of the transition period.

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 former 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, as well as a payment schedule.

When the Withdrawal Agreement was signed on 24 January 2020, it put the financial settlement into legal form, in the context of an overall agreement under Article 50 and the framework for the Future Relationship. The European Union (Withdrawal Agreement) Act 2020 implements the Withdrawal Agreement. Under the main financial provision of the Act, obligations under the financial provisions of the Agreement that fall due after 31 March 2021[25], will be funded from Supply rather through a Consolidated Fund Standing Service. HM Treasury will account for the financial settlement obligations and payments falling due after 31 March 2021. Obligations falling due before 31 March 2021, such as Budget contributions during the transition period, and payment of customs duties on imports from outside the EU before the end of the transition period are met by the Consolidated Fund, which also holds the shareholding in the European Investment Bank (EIB).

HM Treasury officials co-chair the Specialised Committee on Financial Provisions (SCFP) with officials from the European Commission. The SCFP is tasked with technical work related to implementing the financial provisions in Part V of the Withdrawal Agreement. It met for the first time in May and agreed to continue informal work on the information requirements of the Withdrawal Agreement which underpin assurance arrangements relating to the financial settlement.

Further information on the financial impact of EU withdrawal, and the treatment of the financial settlement in government accounts, is included in Annex E of the "European Union Finances" publication series. HM Treasury published the 39th edition relating to 2019 on 14th July 2020 and includes HMT's first estimate of the financial settlement since the UK left the EU[26]. The Whole of Government

25 with the exception of customs duties relating to the period up to the end of 2020

26 The "European Union Finances 2019" can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900283/20200713_European_Union_Finances_2019_web.pdf

Accounts[27] sets out the financial reporting impacts of the UK's withdrawal from the EU across the public sector.

Summary of the financial settlement as it appears within HMT 's accounts

Nature of balance	Note	Value (£m)	Consists of
Provisions	18	38,705	Reste a Liquider (RAL), pensions, legal cases
Trade and other receivables	10	(1,522)	Cash returns relating to the EU's contingent liabilities and financial instruments, share of investment in European Coal and Steel Community and European Investment Fund
Trade and other payables	17	8	Cash payments relating to the EU's contingent liabilities
Total amount recognised 31 March 2020		37,191	
Contingent assets	24	(1,861)	Budget adjustments, infringements, Fine income
Contingent liabilities	25	293	Budget adjustments, legal cases
Non-IAS 37 contingent liabilities	Page 117	31,645	European Investment Bank callable capital

Additional disclosures are included in Note 1.4 – Significant judgements and estimates and Note 26.3 – Financial risk, Core Treasury and Agencies – EU Financial Settlement.

International

HM Treasury continues to protect and promote the UK's global economic interests through engagement with bilateral and multilateral partners. The government continues to support an open, rules-based global economy, underpinned by strong international institutions. HM Treasury has leveraged its position and influence across a wide range of international economic and financial institutions to work across a wide range of policy issues including international economic cooperation, financial stability, development policy, illicit finance, climate change, and tax. Our stakeholders include, among others:

- the G7 and G20 finance ministries and central banks
- the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs) – including the Asian Infrastructure Investment Bank (AIIB) and the European Bank for Reconstruction and Development (EBRD)
- the Organisation for Economic Cooperation and Development (OECD)
- the Financial Stability Board (FSB)
- and the Financial Action Task Force (FATF)

Key Treasury achievements and milestones in advancing the UK's economic objectives on the international stage in the past performance year include:

- Hosting a Sherpa meeting of the Coalition of Finance Ministers for Climate Action in London to discuss progress against the Coalition's guiding Helsinki

27 https://www.gov.uk/government/publications/whole-of-government-accounts-2018-2019

Principles, and to agree the Coalition's Action Plan for 2020, and attending the COP25 conference in Madrid, December 2019.

- Agreeing a new capital package for the World Bank and concluding discussions on the IMF's 15th General Review of Quotas

- Leading the development of the G20 Principles for the Infrastructure Project Preparation Phase, which support countries in developing financeable infrastructure projects.

- Hosting an Economic and Financial Dialogue with the Chinese government, and supporting regular Chancellor engagement with the key emerging markets of India and Brazil, alongside attending key working groups with our international peers, such as an inaugural dialogue with Hong Kong; the second UK-US Financial Regulatory Working Group; and the second UK-India joint working group on Fintech.

- Establishing a new cross-sector Advisory Group on financial services trade and investment in February 2020.

- Constructive engagement in OECD working parties dealing with Indirect taxes (including a smaller task team on the sharing/gig economy), Information exchange and reporting, tax policy and analysis, and to OECD discussions on reforms to international corporate tax rules.

- Working closely with the Department for International Trade to develop financial services positions for FTA negotiations with various non-EU jurisdictions, including the United States, Japan, Australia and New Zealand. HMT and DIT have established a Financial Services Expert Trade Advisory Group comprising sector experts, and this has met several times since Autumn 2019. To maintain the competitiveness of the UK financial services sector by maintaining its world-leading regulatory standards and openness to international markets, the government will also introduce a Financial Services Bill later in this Parliamentary Session.

The Treasury became a member of the FATF Steering Group in 2019. FATF is the international standard-setter for anti-money laundering, counter-terrorist financing and counter-proliferation financing measures. The Chancellor and his international counterparts adopted the new FATF Ministerial Mandate in April 2019, renewing their commitment to tackling illicit finance to protect the stability and integrity of the global financial system.

Further, the Treasury co-led a number of FATF projects including on the illegal wildlife trade and associated money laundering, a priority for the Chinese Presidency of the FATF (2019-2020), providing guidance to countries on how to successfully follow the money in cases of wildlife trafficking to tackle transnational criminal syndicates. Further, the department has supported the creation of new international standards at FATF to prevent the abuse of virtual assets by criminals to hide and launder the proceeds of their crimes. These are the first internationally agreed standards for regulating assets and currencies including cryptocurrencies and digital currencies.

The Office of Financial Sanctions (OFSI) has nearly doubled the number of jurisdictions it has engaged with over the past financial year from 42 in 2018-19 to 83 in 2019-20, working with allies and partners right across the globe to share best practice and support robust implementation of financial sanctions internationally. With its core functions established and now embedded, this year OFSI has also been promoting the UK's high standards of financial sanctions implementation via our tailored technical assistance efforts, with a particular, though not exclusive, focus on sanctions-related FATF standards for counter-terrorism and counter-proliferation matters as well as the effective implementation of UN sanctions "Without Delay".

Green growth

As the economics and finance ministry, the Treasury is committed to supporting strong and sustainable economic growth in every region and nation of the UK including through protecting and enhancing our natural, human and social capital. The Treasury also practices environmental and social responsibility in its own operations, including through implementing the Greening Government Commitments in building management, resource use, staff travel – and creating a more open, inclusive and diverse department.

The 2019 Spending Review included resource funding for 2020-21 that allocates £30 million for the Department of Business, Energy, and Industrial Strategy to accelerate progress on decarbonisation schemes, over £30 million more for air quality and an additional £30 million to protect and enhance biodiversity. This includes provisions to support the Prime Minister's G7 commitment to extend the Blue Belt programme of marine protection around the UK Overseas Territories.

It also included £430 million of EU Exit funding for the Department for the Environment, Food, and Rural Affairs, which, amongst other things, will help deliver high environmental standards after we leave the EU, including an additional £20 million to design a replacement for EU farm funding that will improve environmental outcomes.

Spring Budget 2020 took further substantive steps to decarbonise the economy and protect the UK's natural habitats, ensuring that every part of the UK economy is ready for the challenges of decarbonisation, and ready to capitalise on the opportunities to become leaders in the green markets of the future.

The Budget also announced:

- A Carbon Capture and Storage (CCS) Infrastructure Fund to establish CCS in at least two UK sites – one by the mid-2020s, and a second by 2030; and introduced a Green Gas Levy to help fund the use of greener fuels, increasing the Climate Change Levy that businesses pay on gas, and reopening and extending the Climate Change Agreement scheme by two years.

- Investment in electric vehicle charging infrastructure, providing £532 million for consumer incentives for ultra-low emission vehicles, and reducing taxes on zero emission vehicles. A further £304 million was provided to help local authorities reduce nitrogen dioxide emissions and improve air quality.

- It also announced a £640 million Nature for Climate Fund to plant enough trees to cover an area the size of Birmingham and restore peatlands.

- Finally, it confirmed that a new Plastic Packaging Tax will be introduced from April 2022 to tackle plastic waste.

In November 2019, HM Treasury published terms of reference for its review into how the transition to a net zero economy will be funded, and where the costs will fall. Work also continued on Professor Sir Partha Dasgupta's independent Review of the Economics of Biodiversity, which is assessing the economic benefits of biodiversity globally, the economic costs and risks of biodiversity loss, and identifying a range of actions that can enhance biodiversity and deliver economic prosperity. This effort led up to the Review's interim report being published on 30 April 2020, and the final report will be published in the autumn, and ahead of COP15 to the Convention on Biological Diversity (CBD) next year.

In July 2019, HM Treasury and BEIS published the Green Finance Strategy, setting out the ambition to align private sector financial flows with clean, environmentally sustainable and resilient growth, and strengthen the competitiveness of the UK financial sector. This document outlines how the government will drive the greening of the global financial system, as well as help to mobilise private sector finance to meet our environmental objectives, and support industry in capturing the risks and opportunities arising from climate change. More recently, in March 2020, HM Treasury included climate change in the remit and recommendations letter for the Financial Policy Committee, as committed to in the strategy.

HM Treasury has also helped launch the Green Finance Institute with the City of London, the Department for Business, Energy and Industrial strategy and the Foreign Office, to foster greater cooperation between the public and private sectors, create new opportunities for investors, and strengthen the UK's reputation as a global hub for green finance.

HM Treasury has continued to support preparations for the delivery of the COP26, the UN climate change conference, which will now take place in 2021. Mark Carney was appointed as the PM and the Chancellor's Finance Adviser for COP26 and is supported by an HM Treasury team.

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 Rishi Sunak MP, Chancellor of the Exchequer
Lead officials:	Charles Roxburgh, Second Permanent Secretary Clare Lombardelli, Director General and 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 and sustainable economic growth

The government announced a number of measures at the Spring Budget 2020 to support sustainable economic grown and improve living standards.
This included investments in infrastructure to boost productivity and level-up opportunity across the regions, including £640 billion of investment towards roads,

railways, communications, schools, hospitals and power networks across the UK by 2024-25.

It also announced plans to increase public R&D investment to £22 billion per year by 2024-25 – the biggest ever increase – and increase the R&D Expenditure Credit rate from 12% to 13%. A consultation on allowing data and cloud computing as qualifying costs in R&D tax credits was also announced. In life sciences, the government will provide the British Business Bank with additional resources to launch a dedicated £200 million investment programme which is expected to enable £600 million of investment. This is part of the government's commitment to raise economy-wide investment in R&D to 2.4% of GDP by 2027.

It ensured a permanent increase in the Structures and Buildings Allowance (SBA) rate from 2% to 3% to support business investment, while maintaining the corporation tax rate at 19% – the lowest rate in the G20.

New investments were provided to help deliver the skills businesses need, including: a commitment to consult on a new £2.5 billion National Skills Fund to improve adult skills; the provision of £1.5 billion in capital investment for further education colleges; and a commitment to look at how to improve the working of the apprenticeship levy.

The Employment Allowance increased from £3,000 to £4,000 from April 2020. As a result, businesses are now able to employ four full-time employees on the National Living Wage without paying any employer National Insurance contributions (NICs). This measure will benefit around 510,000 small and medium-sized businesses, including around 65,000 businesses which will be taken out of paying NICs entirely.

The Budget also announced a £28 million package of enhanced business support, including: £10 million in additional funding for Growth Hubs; £13 million to expand the British Library's network of Business and Intellectual Property Centres; up to £5 million for Be the Business; and extending the Start-Up loans programme to support up to 10,000 further loans to entrepreneurs up and down the country in 21/22.

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. The government will respond in full to the NIA through a National Infrastructure Strategy in due course.

Supporting a dynamic economy

Competition is essential to drive innovation, produce better outcomes for consumers, and support new entrants to the market. The UK is at the forefront of designing smarter and more flexible regulation that allows competition to flourish and minimises unnecessary burdens for business. To empower consumers and boost competition, the government has accepted all six of the Furman Review's strategic recommendations for unlocking competition in digital markets and will consult on these in due course. To reduce regulatory barriers for businesses and ensure that regulation is sensible and proportionate now that the UK has left the EU, the 2020 Budget launched the Reforming Regulation Initiative to invite ideas from business and the public for regulatory reform. At Budget 2020, the government committed to maintaining the UK's system of strong, independent economic regulation, welcoming the NIC's October 2019 report on the subject, on which it will respond in due course.

The UK's global competitiveness will be rooted in the success of our most innovative sectors, such as digital technology. To strengthen the global ties of our digital technology sector, DIT and the Department for Digital, Culture, Media and Sport will pilot a new Digital Trade Network in the Asia Pacific region. The 2020 budget announced a review of the UK fintech sector led by Ron Kalifa OBE to support growth and competitiveness in the sector. Regarding digital infrastructure, the 2020 Budget committed a record £5 billion investment in gigabit broadband rollout in the hardest-to-reach areas of England, Scotland, Wales and Northern Ireland.

Boosting the economy in the nations and regions

Levelling up

The government has committed to level up opportunity across the UK, and the Treasury is taking a leading role in delivering this commitment.

At Spring Budget 2020, the government announced significant new infrastructure investment in rural communities, towns and cities across the country. This includes £6bn for local transport in England, including new five-year, intra-city transport settlements across eight English city regions. A six-year capital investment programme will see £5.2 billion being allocated for flood and coastal defences in England. A £10.9 billion investment in housing in England will be distributed across the Affordable Housing Programme, a new Brownfield fund and a building safety fund. A further £5 billion will be allocated to support the rollout of gigabit broadband to the 20% hardest to reach areas across the UK.

To invest in people, the Budget provided £1.5 billion over five years to return the entire Further Education college estates to a good condition. The government has also committed to a £2.5 billion National Skills Fund to improve adult skills across the country.

To support local priorities and leaders, the government took the next steps on English devolution at the Budget by announcing the West Yorkshire Devolution Deal. This will establish a Mayoral Combined Authority headed by a directly-elected Mayor, and will devolve powers and funding to drive local growth, including over £1 billion of new funding for local priorities over 30 years.

Finally, at the Spring Budget 2020, the government also committed to moving 22,000 civil service roles out of central London within the next decade as part of the Cabinet Office Places for Growth programme. This will include a new economic decision-making campus in the north of England, including decision makers from HMT, DIT, MHCLG, and BEIS.

Boosting the economy in the nations

Over the reporting year, HM Treasury, working with others, has continued to deliver on the government's objectives to support economic growth in each of the four nations and strengthen ties that bind them into a prosperous United Kingdom. Spring Budget 2020 announced that HM Treasury will establish representation in Northern Ireland and Wales, adding to its existing presence in Scotland.

At Spring Budget 2020, the government committed to supporting all the nations of the UK in the response to COVID-19. Subsequently, additional support for financial year 2020 has been announced.

Scotland

As a result of decisions announced at the Spending Round 2019, the Scottish Government benefitted from an increase of over £1.2 billion in the Barnett-based block grant. This settlement ensures the Scottish Government has the means to grow its economy, spend more on public services and support people across Scotland. The government also provided £160 million in targeted support to farmers in Scotland.

At Spring Budget 2020, Scotland benefitted from a £640 million boost to the Scottish Government's Budget alongside further targeted support. This included a package of support for the whisky industry by freezing spirits duty for the third Budget in a row and allocating £10 million for R&D spending to help decarbonise UK distilleries, including in the whisky sector. In addition, the GREAT Britain and Northern Ireland campaign will fund a £1 million campaign to promote the Scottish food and drink sector.

The government has also made progress on city and growth deals in Scotland. This included committing £32.5 million to allow agreement of a Moray Growth Deal, £25 million as part of the investment in the Argyll and Bute Growth Deal whilst continuing to support City and Growth Deals across the rest of Scotland. Spring Budget 2020 also made a commitment to another deal that will benefit Scotland.

The government is working with the Scottish Government to devolve further tax and welfare powers as set out in the Scotland Act 2016. This includes the transfer of responsibility to the Scottish Government for around £3 billion of disability benefits in April 2020.

Wales

As a result of decisions announced at the Spending Round 2019, the Welsh Government benefitted from an increase in the Barnett based block grant of over £600 million allowing the Welsh Government to grow their economy and invest in public services. Wales also benefitted from a £750 million investment in policing to recruit 20,000 additional police officers across England and Wales.

As a result of government decisions at Spring Budget 2020, the Welsh Government benefitted from a £360 million increase to its budget. This included a 5% uplift in Barnett consequentials agreed as part of the Welsh Government's fiscal framework in 2016, and is in addition to further targeted support including action to allow TV channel S4C to recover in full any VAT it pays.

The government is continuing to support growth deals in Wales. This included committing £55 million to allow a Mid Wales Growth Deal to be agreed and continuing to support the North Wales Growth Deal. The Budget announcement ensures that every part of Wales will now benefit from a Growth Deal.

The government also continues to support transport infrastructure in Wales. This includes taking action to improve cross-border links, including improving transport links between North Wales and England by developing the A483 Pant LLanymynech Bypass, and supporting an independent economic review of the Western Gateway Independent Economic Review, which stretches across South Wales and the west of England. This support will help to oversee an independent economic review to identify long-term economic opportunities and challenges for the region.

Northern Ireland

As a result of government decisions announced at the Spending Round 2019, the acting Northern Ireland Administration benefitted from an increase of over £400 million in the Barnett based block grant to grow its economy, spend more on public services allowing them to meet their health, education and policing priorities, and support people across Northern Ireland.

In January 2020, the government also committed to provide a £2 billion injection of financial support to the restored Northern Ireland Executive to transform public services, turbocharge infrastructure investment and address Northern Ireland's unique circumstances.

As a result of government decisions at Spring Budget 2020, Northern Ireland benefited from a £210 million funding boost to its budget as well as further targeted support. This included legislation to provide appropriate exemptions for payments for injuries relating to the Troubles in Northern Ireland.

The government has also made progress on city deals in Northern Ireland. The Budget announced £126 million for a Mid, South and West of Northern Ireland deal, and £36 million for a Causeway Coast and Glens deal building whilst continuing to support the Belfast, Derry/Londonderry and Strabane City Region deals.

EU Exit

HM Treasury made additional funding available so that departments and the devolved administrations could prepare effectively for EU Exit. The devolved administrations received their full share of funding in devolved areas through the Barnett formula, uplifted to reflect the preparations required in each nation. As a result, the Scottish Government received £122 million, the Welsh Government received £73 million and the Northern Ireland Executive received £77 million in 2019-20.

Objective 4: Build a Great Treasury, by creating a more open, inclusive and diverse department, underpinned by professionalism, skills and management excellence

Lead minister:	The Rt Hon Rishi Sunak 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. Informed by staff feedback, the Executive Management Board refresh the priorities and strategic direction of the programme on an annual basis.

Openness

This work aims to make the Treasury 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 continued its programme of visits across the country to increase engagement and gather views to inform policy making.

In addition, the department has implemented a programme of internal communications activities to improve the visibility of its senior leadership and make organisational decision-making more transparent to staff.

Work-life balance

The Treasury is working to champion good work-life balance for all staff, encouraging and supporting flexible working.

The department runs an internal quarterly survey of staff to monitor wellbeing and identify the key levers to help improve work-life balance and inform resourcing decisions to respond effectively to changing priorities.

A top priority for the department was ensuring the wellbeing of staff as the government's social distancing measures were put in place in response to the COVID-19 pandemic, with an interim extra Director post put in place in order to manage work to support this large organisational transition.

Skills and management excellence

This work aims to embed the learning and development strategy and improve our management capability. To do this, the Treasury has continued its focus on learning and development to support management excellence, including quarterly "Management Days" and a programme of courses to support a management development pathway.

Smarter Working

Moving on from scrutinising just our physical workspace, the Smarter Working programme has supported Treasury staff to promote better use of technology to enable efficient, inclusive and flexible working, such as adopting virtual meeting rooms and video conferencing. The increased adoption of technology to facilitate virtual working demonstrates opportunities for when the Treasury opens its office in the new economic decision-making campus in the North of England as announced by the Chancellor of the Exchequer at the Budget.

Diversity and inclusion

This workstream focuses on 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. This included:

- developing the Department's new Diversity and Inclusion Action Plan, due to be launched in Autumn 2020. This includes a review of progress against the previous action plan, which was in place 2016 – 2020
- continuing the Treasury's talent offers for staff in non-SCS grades to support its target of increasing the proportion of SCS staff from underrepresented groups
- a recruitment audit to ensure our recruitment processes are fair

Reward and recognition

The Treasury has continued to align its reward strategy to workforce priorities, focusing 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 non-consolidated performance awards to the top 30 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 third annual report on the gender pay gap in January 2020.[28] Full detail is provided on page 44.

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 priorities set out by the Civil Service lead for wellbeing. Following an annual review, even better support has been provided 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:

- trained an additional 29 people to become Mental Health First Aiders
- taken action to help prevent the onset of musculoskeletal disorders by carrying out numerous Display Screen Equipment assessments and provided advice on appropriate workstation adjustments and working practices
- recorded nine Accident, Near Miss or Work-related Ill Health reports. Two of these accidents were reported to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations
- continued to work with other building occupants and facilities management to help improve building emergency evacuations, so that they happen safely and as quickly as possible whilst everyone follows procedures in place

In addition, in response to the staff survey results and the ongoing demands on the department, a new strategy to improve staff wellbeing has been developed through engagement with HM Treasury staff, and has been signed off by the Executive Management Board. It was launched in November 2019 and included the establishment of a Wellbeing Steering Group chaired by the Director of Operations. Changes implemented include:

- facilitating a group of working level Wellbeing Champions who feed into the development of central initiatives and deliver them locally. They also work together to share best practice, contacts etc
- improved awareness and accessibility of wellbeing resources and support

Following the COVID-19 lockdown in March, the Wellbeing Champions were instrumental in ensuring the wellbeing of staff remained a priority. Organising communication and activity around 'Wellbeing Themes' (such as mental wellbeing, physical activity) meant that staff were regularly prompted to look after their wellbeing and had the opportunity to do so. Guides were produced for managers to ensure they felt equipped and supported to manage their teams.

28 https://www.gov.uk/government/publications/hm-treasury-gender-pay-gap-report-2018-to-2019

Diversity and inclusion

Diversity is critical for the Treasury to be able to represent and reflect the interests of the people we serve. Information about the diversity of the department is available in the chart below.

Figure 1E: Core Treasury diversity as at 31 March 2020[29]

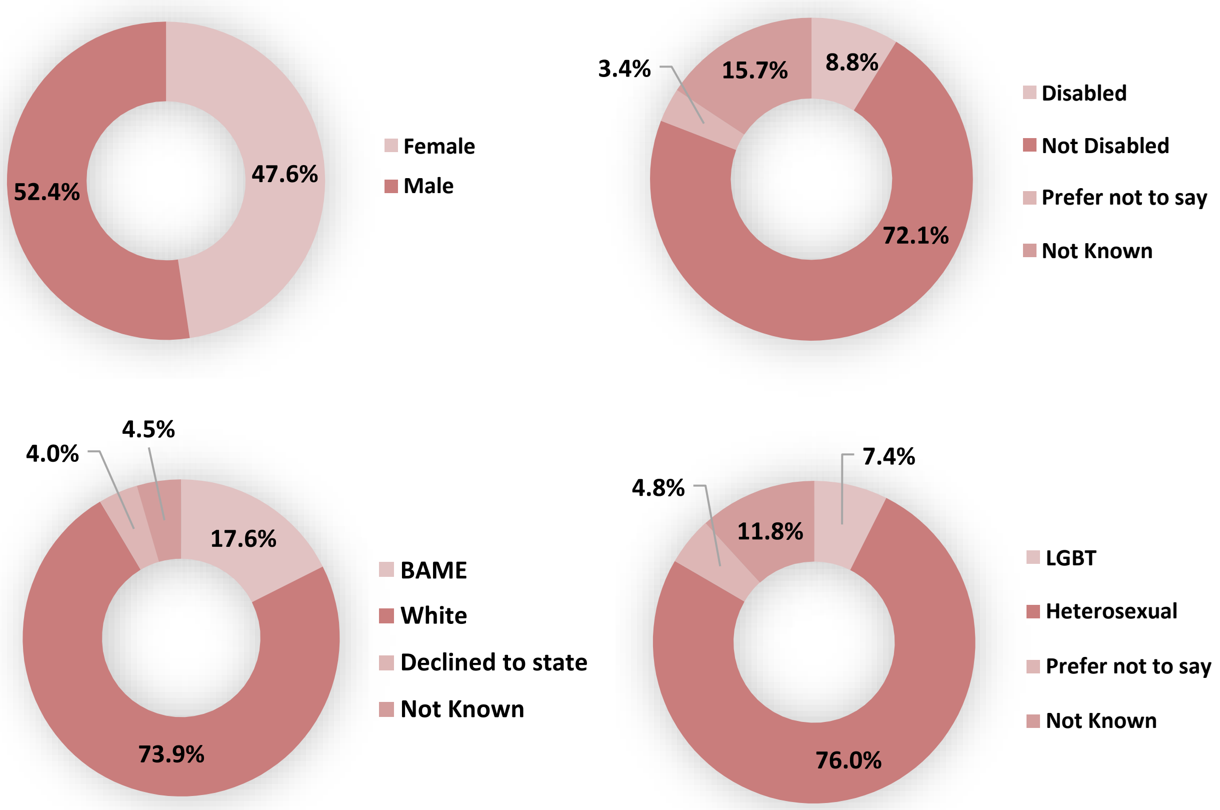


Figure 1E shows diversity of sex, ethnic background, disability and sexual orientation of staff

As described above, the Department has a four-year Diversity and Inclusion Action Plan (2016-20). The plan has three main themes: social mobility and recruitment, talent and inclusion. Actions in each of these areas during 2019-20 included:

Focus	Progress
Social mobility and recruitment	The department continued to review and make changes to its graduate recruitment process, and continued its focus on building apprenticeship

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

	routes into the department as set out in the recruitment section. The Treasury has (i) participated in the Civil Service wide Diversity Internship Programme, hosting 25 interns; and (ii) in conjunction with London Youth ran a three-day 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 2019 the Treasury was ranked in the top 50 (43rd) in the 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.
Talent	To support internal progression for underrepresented groups in the SCS the Treasury has two key Talent programmes. Accelerate, now in its second year, is for staff at ranges E and E2 (Grades 7 and 6) who are from a diverse ethnic background, have a disability or identify as LGBT. A similar programme for staff at Range D (HEO/SEO) has continued for a sixth year. There has been increased participation across both schemes with around 120 staff taking part in total. The Treasury continued to run the Prospects development programme, for staff at grades B/C, and promoted participation in the Civil Service wide REACH programme which provides mentoring partners for grades E/E2 (Grades 6 and 7) and Deputy Directors with either a mental or physical disability. The Treasury works with all department-wide networks, which represent staff of different backgrounds and with different characteristics, to ensure progression opportunities and to promote inclusion and reasonable adjustments within groups.
Inclusion	The Department has continued to run 'Inclusive Leadership' programmes for new members of the SCS, to build greater confidence and skills in championing inclusion. This has been supplemented

with SCS Inclusion events to ensure changes are embedded.

The department has continued to focus on bullying and harassment, with a relaunch of the policy, introduction of a new board level Champion, raising awareness through blogs and open surgeries. The Treasury's Mental Wellbeing Network, which has been in place for seven years, continues to provide an essential source and advice for mental wellbeing, co-delivering Time to Talk workshops open to all staff. The Treasury has introduced wellbeing champions, and launched a Wellbeing Strategy (see below).

Information about the diversity make up of the department is available in the charts above.

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 2018-19,[30] and includes mean and median gender pay gaps (3.7% and 9.0% respectively); the mean and median gender bonus gaps (7.4% and -12% respectively); the proportion of men and women who received bonuses (66% and 67% respectively); and the proportions of male and female employees in each pay quartile (men: 51% quartile 1, 54% quartile 2, 53% quartile 3, 57% quartile 4; women: 49% quartile 1, 46% quartile 2, 47% quartile 3, 43% quartile 4).

Recruitment

Key recruitment campaigns in the last year included:

- a further two intakes of external graduate recruits, in April and September 2019, with a total of 89 policy advisers at Range D

- recruitment for new Director General (for Public Spending), as well as two Directors (CEO of National Infrastructure Commission and Director for Climate Change) and several Deputy Directors across multiple campaigns

- taking part in the central Policy Profession scheme to bring in nine policy apprentices, alongside six apprentice economists through the Government Economic Service scheme and a further four finance apprentices

The Treasury has continued to support loans into and out from other government departments, as well as secondments into and from external organisations, particularly across the financial services sector, in order to build and develop

[30] The percentages disclosed are for the core Treasury. Information for the Executive Agencies can be found in the full report linked: https://www.gov.uk/government/publications/hm-treasury-gender-pay-gap-report-2018-to-2019

expertise within the Department. The Treasury will continue to explore these opportunities to grow and develop internal capability and to learn from other organisations.

The Graduate Development Programme has continued to grow, with two new cohorts joining the Treasury in 2019-20. In line with HMT's openness agenda, assessment centres were held in Leeds, the first time they have been hosted outside of London. In addition, work took place across the Treasury's staff networks and external organisations to consider how to improve social mobility outcomes from the programme. Data shows that higher numbers of female candidates applied for the programme than previously, as well as more applicants who were state-educated and/or who were the first generation in their family to study for a university degree.

The Government Economic Service (GES), run from within the Treasury, recruits economists across government and supports other government departments in running their own bulk economist campaigns by sharing best practice and offering advice and support. There are four main entry routes into the GES membership which are through our GES Mainstream, GES Fast Stream, GES Apprenticeship and GES Student Placement Scheme. The Treasury's main focus is on increasing diversity across all of our schemes and providing a professional service to both our internal and external stakeholders. We managed to recruit a total of 653 people through this process during year 2019-20.

Core Treasury (excluding Arms Length Bodies) exceeded the government public sector apprenticeship target for the 2019-20 financial year.

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 – sits at 74%. This sets the Treasury well above the civil service average of 63%, and seven percentage points higher than the average of the highest performing organisations.

In addition to measuring levels of engagement, the survey takes views on 89 questions across several themes. The 2019 scores show an improvement across two themes (My manager; Resources and workload). However, the scores for three themes (My Work; Pay and benefits; Organisational objectives and purpose) have fallen by one, one, and two percentage points respectively this year. Four themes (My team; Learning and development; Inclusion and fair treatment; Leadership and managing change) remain the same. Overall, the Treasury's scores are well above the Civil Service High Performers.

Performance management

During 2018-19 the department carried out a review of our performance management process and, during 2019-20, introduced a new approach to performance management. The most significant change was the introduction of

Quarterly Check Ins (QCIs): ensuring staff have more regular, high-quality conversations with their managers is a key objective of the new appraisal system. The QCIs will allow timely feedback on performance and focus on development opportunities, and this objective was supported by a new workshop for managers on coaching and feedback skills.

Skills and capability

Following the implementation of a new learning management system in 2018, the Treasury has moved towards a learning offer that is based on resources rather than only courses. This is more inclusive, since more options are available to more staff, and allows a 'just in time' approach, where staff access learning when they need it. Key priority areas for the year were: diversity and inclusion, wellbeing and targeted learning for our E2 (Grade 6) managers. Projects included:

- launching a 'Management Development Pathway', which provides learning at all levels of management through a range of media
- new mandated Coaching and Feedback Masterclasses for managers and Deputy Directors
- new Quarterly 'Management Days' to focus on themed areas of management, with a range of events available
- a complete redesign of the learning programme for our graduate entrants

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 UK's exit from the European Union and the department's response to the coronavirus disruption and 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 26 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	4.7	14
Credit risk	Loans and advances	1.6	13
Credit risk	Financial guarantees	0.1	20
Price risk	RBS shareholding	8.5	12
Market risk	BEAPFF	73.6	15
Market and currency risk	EU financial settlement assets	1.5	10

In addition, the department holds a provision of £38.7m for the amount payable to the EU under the financial settlement following the UK's withdrawal. The amount that will ultimately be paid is sensitive to a number of factors which are discussed in Note 18.

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 2019-20 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, Treasury Board Sub-Committee and Executive Management Board, prior to formal agreement by the Treasury's Audit and Risk Committee in March 2019.

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 2020, Internal Audit had issued 12 internal audit reports and 10 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.

From 1 April 2019 to 31 March 2020, Treasury ministers responded on or before the parliamentary deadlines in relation to 99% of the 1,108 ordinary written questions received; 98% of the 982 named day questions received; and 98% of the 328 Lords written questions tabled to the department.

In addition to questions from individual Members of Parliament during 2019-20 ministers and officials appeared at various Committee sessions, including:

House of Commons Treasury Committee hearings	
Spring Statement 2019	24 April 2019
Impact of Business Rates on Business	10 July 2019
Spring Budget 2020	18 March 2020
Source: Treasury Committee	

House of Lords Economic Affairs Committee hearings	
The Spending Review	4 June 2019
HMRC powers	16 July 2019
Source: Economic Affairs Committee	

House of Lords EU Financial Affairs sub-Committee hearing	
Financial Services after Brexit	4 March 2020
Source: European Union Committee	

House of Commons Work and Pensions Committee hearing	
Pension Cost and Transparency	3 April 2019
Source: Work and Pensions Committee	

House of Commons Public Administration and Constitutional Affairs Committee hearing	
Government Financial Reporting	5 November 2019
Source: Public Administration and Constitutional Affairs Committee	

House of Commons Scottish affairs Committee hearing	
Access to Financial Services	12 June 2019

Source: Scottish Affairs Committee

House of Commons Public Accounts Committee hearings	
Funding for Scotland, Wales and Northern Ireland	10 June 2019
Sale of Public Land	12 June 2019
Network Rail's Sale of Railway Arches	17 June 2019
Whole of Government Accounts	19 June 2019
The Effectiveness of Official Development Assistance spending	8 July 2019
Source: Public Accounts Committee	

Scrutiny by the public – correspondence and information requests

In the calendar year 2019, the Treasury replied to 7,203 items of correspondence: 4,284 from MPs (ministerial correspondence) and 2,919 direct from members of the public (official correspondence). 90% of the replies sent by Treasury ministers to MPs were answered within the Treasury's 15-working day deadline, an improvement of 4% on the 2018 performance. 93% of the replies sent to members of the public were answered within the Treasury's 15-working day deadline.

Since March 2020, there has been a significant increase in correspondence due to COVID-19. This resulted in a backlog and steps have been taken to reduce the outstanding volume of correspondence as quickly as possible.

In the calendar year 2019, the department received 1,045 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 96% of these cases.

Data Subject Access Requests (DSAR)

In 2019-20, 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 "The Ombudsman's Casework Report 2019" in March 2020. There were three enquiries made regarding the Treasury during 2019-20, but no complaints were recorded or 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 arising from Public Accounts Committee hearings following NAO reports. During the year, the National Audit Office completed and published the following reports specifically relevant to the department:

- departmental overview: Department for HM Treasury 2019, March 2020
- the cost of EU Exit preparations, March 2020
- the management of tax expenditures, February 2020
- investigation into the rescue of Carillion's PFI hospital contracts, January 2020
- British Business Bank, January 2020
- the effectiveness of Official Development Assistance expenditure, June 2019
- Whole of Government Accounts, 2017-18, May 2019
- investigation into the government's land disposal strategy and programmes, May 2019

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 226.

Sustainability

2019-20 has seen the Treasury take of number of actions to improve its operational sustainability in the 1 Horse Guards Road building. These include:

- all non-branded packaging bought from internal restaurants/cafés being fully compostable and made from renewable resources
- introducing a compostable packaging waste stream
- alongside our pre-existing renewable electricity tariff, fitting electric hand dryers in bathrooms across the building, to reduce waste from hand towels
- installing push-button taps in bathrooms across the building, to reduce water usage
- introducing new cycle storage facilities

In addition, the Treasury:

- held a ‘Green Week’, entailing a series of blogs and panel events to raise awareness of environmental sustainability
- held a ‘Scrap Paper Challenge’, to encourage a reduction in paper usage across the department
- has implemented paperless Governance boards

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 228. This includes information on how, through its commitments, policy and programmes, the Treasury has continued to contribute to the delivery of the UN Sustainable Development Goals.

Non-financial information

During 2019-20, 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

22 September 2020

Chapter 2
Accountability report

Corporate Governance Report
Report from the Lead Non-Executive Board Member

This has been a remarkable year for HM Treasury, culminating in the COVID-19 pandemic and the delivery of the largest package of financial support for business and individuals in our peacetime history. Moreover, this was completed in record time, with officials having to work from home. On behalf of all the NEDs, I would like to place on the record our admiration for the leadership of the Permanent Secretary and the high standards of public service that Treasury officials have shown.

In order to respond to these exceptional pressures throughout the year, the Treasury has had to recruit more staff, bringing it to 1599 staff members (FTE) at the end of March 2020. This is larger than the department has ever been, including at the height of the financial crisis. It is also worth noting that, despite these challenges, the Department managed to maintain levels of staff engagement which are still well above average for the Civil Service.

There has been 1 new appointment to the Executive Management Board during the year with Cat Little being appointed as Director General: Public Spending.

The team of Non-Executive Directors (NEDs) has remained the same. As mentioned in my report last year, Richard Meddings requested a suspension to his NED role in September 2018, which was agreed for the duration of his appointment as Executive Chairman (combining the roles of Chief Executive and Chairman) of TSB. We were pleased to welcome Richard back in May 2019.

NEDs are responsible for providing independent advice to the Treasury and also chairing the Treasury Board Sub Committee (TB(SC)) and the Audit and Risk Committee. Our work has included providing external challenge on a range of themes from preparedness for EU Exit, to sustainable finance, to staffing, to regional perspectives, to the COVID-19 response, as well as the Quarterly Performance and Risk Reports. The Executive Management Board and NEDs continue to work well together in an open and constructive manner.

The NEDs have worked flexibly in the fast-moving political and economic environment of the last year, and that is likely to be just as necessary in the year ahead. There are no signs that the demands on the Treasury and its leadership will diminish over the coming year, but we are confident that they will continue to rise to the challenges that lie ahead.

Rt Hon Lord Hill of Oareford CBE
Lead Non-Executive Board Member
22 September 2020

Governance statement

The Governance Statement sets out HM Treasury's governance, risk management and internal control arrangements. It applies to the financial year 1 April 2019 to 31 March 2020 and up to the date of approval of the Annual Report and Accounts.

The statement is a personal statement by the Principal Accounting Officer (PAO), 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.

About the Treasury

As the United Kingdom's economics and finance ministry, the department'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 macroeconomic environment and financial system, enabling strong, sustainable 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

How we are structured

The Treasury's Ministers

The department has 6 ministers.[1] The Chancellor of the Exchequer, The Rt Hon Rishi Sunak 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, who at 31 March 2020 were:

- The Chief Secretary to the Treasury: Rt Hon Stephen Barclay MP
- The Financial Secretary to the Treasury: Rt Hon Jesse Norman MP
- The Economic Secretary to the Treasury and City Minister: John Glen MP
- The Exchequer Secretary to the Treasury: Kemi Badenoch MP[2]
- Minister of State[3]: Lord Agnew of Oulton DL

Throughout the financial year the Chancellor was supported by ministers as outlined in the Remuneration and Staff report on page 86.

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

[2] Also the Parliamentary Under Secretary of State, Minister for Equalities, in the Government Equalities Office from 14 February 2020

[3] Joint with Cabinet Office https://www.gov.uk/government/news/latest-updates-on-ministerial-appointments-13-february-2020

First and Second Permanent Secretaries

Tom Scholar is the Permanent Secretary and PAO for the department. Tom is responsible for the delivery of the department's strategy and is 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.

The Permanent Secretary is supported by the department's Second Permanent Secretary, Charles Roxburgh, who has oversight of the department's economics ministry functions including financial services, growth and infrastructure. He is the Accounting Officer for Infrastructure Finance Ltd and IUK Investment Holdings Ltd as set out on page 239. Charles also 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. Through formal meetings and informal advice, individual members have shared their commercial and professional expertise across the Treasury.

The department has 4 Non-Executive Board Members:

- Rt Hon Lord Hill of Oareford CBE
- Richard Meddings
- Tim Score
- Gay Huey Evans OBE

Richard Meddings requested a period of suspension to his non-executive Treasury role whilst he undertook an appointment as Executive Chairman of TSB pending the appointment of a new Chief Executive Officer of TSB. Following the appointment Richard returned to the department as Non-Executive Director on 1 May 2019.

Mike Driver, the Head of the Government Finance Function, continues to attend Treasury Board and Treasury Board Sub-Committee meetings since taking on this role in 2016-17.

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 5 government Departments as well as 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, and Group Financial Controller at BTR Plc and LucasVarity PLC.

Other roles: Chair of The British Land Company plc. 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.

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, 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: Gay is Chairman of the London Metal Exchange and is a Non-Executive Director at Standard Chartered plc; Conoco Philips and Itau BBA International plc. She is also a member of the Chatham House Panel of Senior Advisers, a Trustee of the Beacon Awards, a Trustee of Wellbeing of Women and a member of the US Council on Foreign Relations.

Committees: Member of Treasury Board, Treasury Board Sub-Committee and 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. Richard returned to the department on 1 May 2019.

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, Credit Suisse Group AG; Non-Executive Director, TSB (September 2017 - present) and Chairman from 1 February 2018; Non-Executive Director, Deutsche Bank AG and their Chair of Audit Committee (October 2015 – July 2019); Non-Executive Director JLT plc

(September 2017 – April 2019); Non-Executive Director Teach First (February 2016 - present). Financial Reporting Review Panel in Financial Reporting Council (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) at Standard Chartered PLC.

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

Our governance structure

Figure 2A: The Treasury Board and its committees

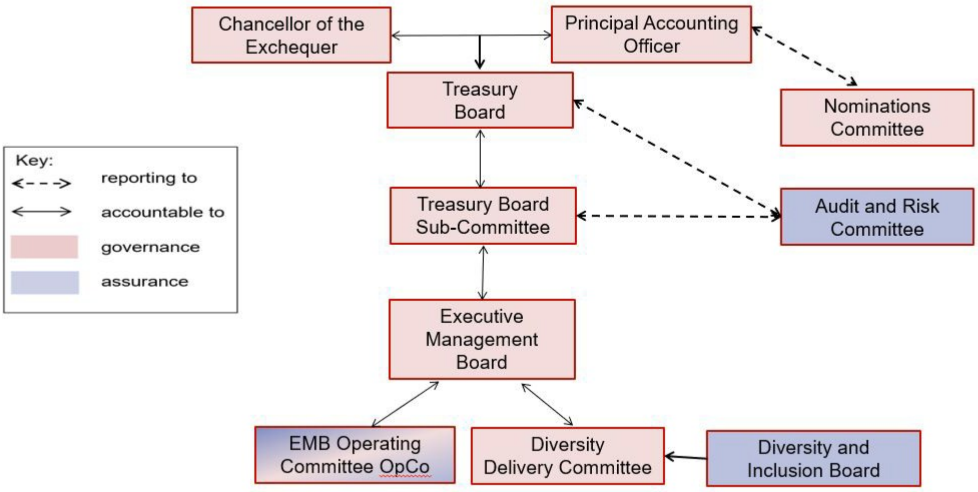

Figure 2A shows the structure of the Treasury Board & Committees

Treasury Board

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 is chaired by the Chancellor and met once during 2019-20.

Committee members as at 31 March 2020	Areas of focus
• Treasury ministers • Non-Executive Directors • Permanent Secretary • Second Permanent Secretary • Chief Economic Adviser • Finance Director • Head of Government Finance Function	• Departmental priorities • Departmental challenges • Performance and Risk • Resourcing

Treasury Board Sub-Committee TB(SC)

TB(SC) is the second most senior board and has delegated authority of the Treasury Board. It meets to consider the department's performance and key risks, as well as specific policy areas, and has responsibility for oversight of the department's arm's length bodies. TB(SC) is chaired by the Lead Non-Executive Director and met 6 times during 2019-20.

Committee members as at 31 March 2020	Areas of focus
• Non-Executive Directors • Executive Management Board members • Head of Government Finance Function	• Quarterly Performance and Risk Reports • Europe including EU Exit preparedness • Board Effectiveness • Arm's length body oversight • Climate Change • Preparedness for new ministers

Board effectiveness evaluation

Undertaking an annual review of a Board's processes and practices is standard good corporate practice. The evaluation is coordinated by the Cabinet Office and the process is set out in the Corporate governance in central government departments: code of good practice.[4]

The evaluation of the TB(SC) this year considered the effectiveness of the Board under the following headings:

- Governance arrangements
- The work of the Board
- Composition and Culture
- Support and Organisation
- Progress and Impact

The findings recognised that the crossover of members between Committees improved the effectiveness of contributions. The committee valued the external challenge provided by the Non-Executive Directors and the open discussions. The flexibility of the Committee has ensured it was able to support the department appropriately throughout the year.

Recommendations from the exercise included:

- making sure that the department continues with the practice of quarterly oversight of the department's arm's length bodies (ALBs)
- a review of the role and function of the department's Audit and Risk Committee
- retaining the open environment of meetings to allow discussion
- continuing to be agile to support the department appropriately

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

The Executive Management Board (EMB)

EMB meets at least once a week. EMB takes personal and corporate responsibility for the success of the Department, including risk management; ensuring sound internal controls; allocating and managing resources, and leading, motivating and challenging the Department. EMB is chaired by the Permanent Secretary.

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

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

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

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

Committee members as at 31 March 2020[1]	Areas of focus
• Permanent Secretary - Tom Scholar • Second Permanent Secretary - Charles Roxburgh • Director General Financial Services - Katharine Braddick • Chief Economic Adviser - Clare Lombardelli • Director General International and EU - Mark Bowman • Director General Tax and Welfare - Beth Russell • Director General Public Spending - Cat Little[2] • Finance Director - Anna Caffyn • Operations Director - Catherine Webb[3] • Director Strategy, Planning and Budget - Dan York-Smith	• Quarterly Performance and Risk Reports • Business Planning • Health and Safety • Security • Fraud • Pay and Performance • Resourcing • Brexit • COVID-19 pandemic response • Diversity and Inclusion

[1] Richard Hughes left the department on 30 April 2019. EMB reverted to 10 members.

[2] Appointed following an open recruitment on 12 March 2020. Cat replaced James Bowler who left the department on the same date to take up a Director General position at Ministry of Justice.

[3] Following a Treasury-wide process Siobhan Jones was appointed (on temporary promotion to Director) to cover the Operations Director role for 6 weeks whilst Catherine Webb was unwell. For a short time, following Catherine Webb's return to work, Siobhan Jones remained in post to provide additional resilience.

Sub-committees to the Executive Management Board

The 2 sub-committees of EMB are the Operating Committee and the Diversity Delivery Committee.

Operating Committee (OpCo)

OpCo's purpose is to ensure that the Treasury has in place, and operates effectively, appropriate and robust procedures and business processes in support of the department's overall strategy and business needs. It oversees the financial, planning, operational and risk management issues of the department and provides greater oversight on operational issues materially affecting the level of risk arising in the broader Treasury Group. It also acts in an advisory capacity in relation to finance and staffing and provides financial, commercial and business case approvals. OpCo is chaired by the Second Permanent Secretary and any member of EMB is welcome to attend any of the meetings.

Committee members as at 31 March 2020	Areas of focus
• Second Permanent Secretary • Director General Financial Services • Finance Director • Operations Director • Director Strategy, Planning and Budget • 2-3 Directors from the policy areas of the Treasury on a 1-2 year rotation	• Spending Review • Business Planning • Operational Risk • Departmental Operational Readiness for EU Exit • Recruitment including Apprenticeships and Graduates • Talent • Wellbeing

Diversity Delivery Committee (DDC)

Diversity and Inclusion remains a key focus for the department. DDC meets monthly and has delegated authority from EMB to make decisions on the form and delivery of the Treasury's diversity and inclusion agenda. DDC is chaired by the Director General Tax and Welfare.

Committee members as at 31 March 2020	Areas of focus
• Director General Tax and Welfare • Chair of Diversity and Inclusion Board • Operations Director • 2-3 Directors from the policy areas of the Treasury on a 1-2 year rotation	• Diversity Action Plan • Recruitment

The Diversity and Inclusion Board (DIB) is a sub-committee of DDC. 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 the Director General Tax and Welfare (Beth Russell). They are joined by representatives of staff networks across the department. EMB members are welcome to attend any of the meetings.

Other committees

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 and 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.[4]

The Economic Risk Group meets quarterly and is chaired by the Director of Economics. The Fiscal Risk Group is chaired by the Director of Fiscal and meets monthly. The Project Risk Group is chaired by the department's Project Management Champion and meets monthly.

[4] Further information on how the department manages risk can be found on pages 73 to 75.

Audit and Risk Committee (ARC)

ARC supports the Permanent Secretary and the Treasury's Additional Accounting Officers in their responsibilities for managing risk, internal control and governance in relation to the:

- Treasury Group's Annual Report and Account
- Exchange Equalisation Account
- National Loans Fund
- Consolidated Fund
- Contingencies Fund
- Whole of Government Accounts

In accordance with the Audit and Risk Committee Handbook, the Committee provides independent objectives and constructive challenge on the robustness of the mechanisms in place, and the evidence provided, to deliver the assurance needed by the Board and Departmental Accounting Officers.

Members of the committee are appointed by the Permanent Secretary. During the year the membership of the Committee was as follows:

- Richard Meddings – see biography on page 58.
- Tim Score (was interim Chair while Richard Meddings was suspended[5] from his Non-Executive role) – see biography on page 57.
- Zarin Patel – Non-Executive Director of John Lewis Partnership Plc, Anglian Water Services Limited and is a member of their respective Audit and Risk Committees. Trustee of National Trust and chairs its Audit and Risk Committee. Appointed to the board of Post Office Limited in November 2019 and sits on its Audit and Risk Committee. Formerly the Chief Financial Officer at the BBC and a member of its Executive Board.
- Jacinda Humphry – Finance, Commercial and IT Director, Department of Digital, Culture, Media and Sport. Previously, Finance Transformation Director, Government Finance Function and Finance Director, Ministry of Housing, Communities and Local Government.
- Sir Peter Estlin – Alderman, City of London. Independent Director, Rothschild & Co. Trustee, Trust for London (previously Group Financial Controller and acting Group CFO, Barclays).

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[5] Richard Meddings requested a period of suspension to his non-executive Treasury role whilst he undertook an appointment as Executive Chairman of TSB pending the appointment of a new Chief Executive Officer of TSB. Following the appointment of the new Chief Executive Officer of TSB Richard returned to the department as Non-Executive Director on 1 May 2019.

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.

The committee is chaired by Richard Meddings, a Non-Executive Board member of the Treasury Board, and it met 6 times during 2019-20.

Committee members as at 31 March 2020[6]	Areas of focus
• Richard Meddings • Tim Score • Zarin Patel • Peter Estlin[7]	• Financial controls • Resourcing • GIAA and NAO findings • Finance Assurance mapping; risk mapping; strategy for countering fraud • Whole of Government Accounts

Audit and Risk Committee's Chair's Report

The main work of the committee remains the review of the preparation, audit and sign off of the various Treasury Accounts including the Central Funds Accounts, as well as separately the review and sign off-of the Whole of Government Accounts. The Treasury Accounts represent an important control as a record of Treasury's finance activities. The Whole of Government Accounts capture, with great clarity, the financial position of the whole of government, including its sources of income, where expended and its longer-term liabilities. It makes for informative reading.

The agenda of the Audit and Risk Committee is organised so as to receive at each meeting reports from the Permanent Secretary on the work of the Department and on particular areas relevant to the committee's work, from the Second Permanent Secretary who reports, inter alia, on the Operating Committee risk and activities and from the Finance Director on finance management issues, financial controls and on resourcing. At every meeting the Committee receives reports, both in private session as well as full committee, from Group Internal Audit and from the National Audit Office on key findings and on management actions taken across the audit programme. Group Internal Audit's audit plan for Treasury is presented, approved and monitored throughout the year by the Committee.

[6] Jacinda Humphrey was on the committee until the end of her term on 29 February 2020.

[7] Peter Estlin requested a period of suspension from 1 July 2018 to 31 December 2019 whilst undertaking the role of Lord Mayor of the City of London for 2018-19

Specific topics, in addition to the standing agenda items, examined in the year included finance assurance mapping, a review of the technology systems architecture, updates on accounting policies and a presentation on risk mapping. Additionally, the committee received a presentation on the structure, challenges and opportunities for financial management in Treasury and also separately reviewed the strategy for countering fraud. There was significant focus on continuing to improve the quality and clarity of explanation within the Whole of Government Accounts.

I am hugely grateful to Tim Score for chairing the Committee during my absence. I would also like to thank Jacinda Humphry who has stepped down, for her excellent contribution to the work of the committee and to welcome back Sir Peter Estlin after his year as Lord Mayor. I am also delighted that Zarin Patel has agreed to serve for another three-year term. Overall my thanks to my colleagues on the committee for all their hard work and diligence and to the many members of the department for their engagement.

Richard Meddings

Chair, Treasury Group Audit and Risk Committee

22 September 2020

Nominations committee

The Nominations Committee considers succession planning within the department and reviews systems in place to identify and develop leadership potential. The Committee also considers the performance and remuneration of the senior management team. The committee is chaired by the Permanent Secretary and met once during 2019-20.

Committee members as at 31 March 2020	Areas of focus
• Permanent Secretary • Second Permanent Secretary • Lead Non-Executive Director • 3 Non-Executive Directors	• Succession planning • Identify and develop leadership potential • Performance and remuneration

Attendance of members at Board and Committee meetings

Attendance	Treasury Board	TB(SC)	ARC	Nominations Committee
Ministers				
Chancellor	1/1	-	-	-
Chief Secretary	1/1	-	-	-
Financial Secretary	1/1	-	-	-
Economic Secretary	1/1	-	-	-
Exchequer Secretary	1/1	-	-	-
Minister of State	1/1			
Non-Executives				
Lord Jonathan Hill	1/1	5/6	-	1/1
Tim Score	1/1	5/6	5/6	1/1
Richard Meddings[8]	1/1	5/5	6/6	1/1
Gay Huey Evans	1/1	5/6	-	1/1
Mike Driver	1/1	6/6	-	-
Peter Estlin[9]	-	-	1/1	-
Zarin Patel	-	-	5/6	-
Jacinda Humphry	-	-	4/5	-
Executives				
Tom Scholar	1/1	6/6	-	1/1
Charles Roxburgh	1/1	5/6	-	1/1
Mark Bowman	-	4/6	-	-
Cat Little	-	0/0	-	-
Katharine Braddick	-	4/6	-	-
Clare Lombardelli	1/1	6/6	-	-
Beth Russell	-	6/6	-	-
Dan York-Smith		5/6	-	-
Richard Hughes	-	1/1	-	-
Anna Caffyn	1/1	6/6	-	-

[8] Requested suspension from 4 September 2018 for duration of his appointment as Exec Chairman of TSB. Return on 1 May 2019

[9] Requested suspension from 1 July 2018 to 31 December 2019 whilst undertaking the role of Lord Mayor of the City of London for 2018-19

Attendance	Treasury Board	TB(SC)	ARC	Nominations Committee
Catherine Webb	-	5/6	-	-
Siobhan Jones	-	0/0	-	-
James Bowler	-	5/6	-	-

Treasury's internal group structure and functions

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.

The groups and their responsibilities

The Economics Group is responsible for analysing developments in the UK economy, monitoring economic risks, delivering the evidence base and advice to underpin macroeconomic and microeconomic policy, and promoting professionalism for economics and social research in government.

The Enterprise and Growth unit is responsible for growth-related policy and spending. EGU works to ensure that government policy encourages private sector investment, enterprise, innovation and the transition to a low-carbon economy.

The Public Spending Group is at the heart of government: controlling and reporting on public spending, improving value for money and productivity, and working across Whitehall to improve finance and management information capability.

The aim of the Business and International Tax Group is to provide strategic oversight of business, environmental, transport and property taxes, VAT, excise taxes and customs duties that together raise revenue of over £370 billion a year, to deliver policy change in consultation with key stakeholders, to handle the UK's relationship with other countries and international institutions on tax and customs issues and to manage and mitigate risks to the UK's tax base including through tackling avoidance and evasion.

The Financial Stability Group contributes to the Treasury's objectives through managing the transition to a more resilient and balanced UK financial sector, in a way that supports growth and sustainable public finances. The Group's overarching aim is to secure the stability and operational resilience of the UK financial sector for the benefit of the economy. The Group is responsible for ensuring that the UK's future relationship with the EU supports a stable, well-functioning financial system.

The work of the Strategy, Planning and Budget Group is at the heart of the Treasury and core to its strategy. SPB supports the Executive Management Board in setting the strategic direction for the Treasury. It works with and alongside Groups across the department to bring together the Treasury's departmental objectives into a coherent strategy. SPB works as a single Group at the centre setting this direction – allocating people and resources and setting policy to achieve it.

The Fiscal Group is responsible for ensuring that fiscal policy supports the government's economic objectives and maintains sustainability of the public finances. It provides oversight of key financial assets and liabilities on the public sector balance sheet, and ensures that the government's strategic and operational financing needs are met, every day and in the medium term. It is responsible for publication of high quality public sector finance statistics.

The Financial Services Group works to ensure the Financial Services Sector can drive UK economic growth and deliver for consumers and business across the whole of the UK, and to maintain the UK's competitiveness as a global financial centre.

The International Group's mission is to promote the UK's interest in a rapidly evolving global context through the delivery of world-leading economic and financial policy – by working through major international fora, international financial institutions, and bilateral relationships; utilising sanctions to advance our national security and economic prosperity objectives; and advancing the government's objective for future trading relationships with important partners including with the EU.

The Ministerial and Communications Group supports ministers and the Executive Management Board in discharging effectively their respective responsibilities. It also provides a professional communication function for ministers and the whole department and is responsible for coordinating parliamentary business.

The Personal Tax, Welfare and Pensions Group is at the centre of the government's relationship with the public through its role in structuring and delivering taxes, benefits and pensions. It works closely with other government departments including DWP and HMRC.

The Public Services Group oversees spending on the main public services. Its strategic aim is the highest quality and best value for money public services. It seeks to achieve this by working with the government departments directly responsible for the provision of these services.

The Corporate Centre Group supports the Treasury and some of its ALBs both directly in its policy, correspondence and operational support, and by ensuring the department has the right resources, in the right place, at the right time. CCG is responsible for HR, Finance, Estates, IT, Knowledge, Information and

Records Management, Security, Correspondence and Information Rights, Transparency and responsible for Procurement and Commercial activities.

Breach of HMT's Capital Annually Managed Expenditure (C-AME) control total

During 2019-20, HMT breached its C-AME Parliamentary control total by £32 million. The Treasury was one of several departments to breach its control total in 2019-20 during the COVID-19 pandemic. At HMT the COVID-19 pandemic impacted asset valuations and our programme of asset sales, which were delayed. Issues with underlying information used in the preparation of our 2019-20 Supplementary Estimate have also been identified as set out below.

Estimates detail the department's estimated net spending for the financial year, which includes forecasts of income and expenditure, and are prepared twice yearly. The Treasury's Estimate contains a wide variety of different types of income and expenditure items. We have received significant income in prior years (in 2018-19 this was £12.1bn) through C-AME relating to the proceeds of asset sales from UK Asset Resolution (UKAR) and RBS shares. We had planned to complete another large asset sale of the residual mortgage loan book in 2019-20. The sale process was delayed. It was then put on hold in March, owing to the market disruption caused by the COVID-19 outbreak.[10] If the sale had gone ahead as initially planned, the underlying issues would not have resulted in a C-AME breach in the current year.

However, as a result, two underlying issues in the information used in the preparation of the 2019-20 Supplementary Estimate have now come to light. Both arise from errors in reconciling information provided by arm's length bodies. In each case the error was introduced some years ago but the underlying issues had not been identified and remedied.

- We over-estimated income in the Supplementary Estimate from UKAR. This was due to a translation error between internal UKAR Management Accounts reporting, and what is required though government accounting to manage outturn against Estimate. As a private limited company, UKAR does not produce accounts using government accounting definitions such as AME and Departmental Expenditure Limit (DEL). When UKAR converted their internal accounts into AME, an erroneous amount was included in the Capital AME forecast. Income in prior years included significant proceeds from asset sales, which meant that this issue had not been identified before.

- We also under-estimated capital expenditure in the Supplementary Estimate for works associated with the Reservicing Programme for Buckingham Palace, which is accounted for in the Sovereign Grant and managed by the Royal Household. In prior years the expenditure had been capitalised at year-end, but the correct approach would have been to recognise this in the Supplementary Estimate each year. This meant that amounts that should

10 https://www.ukar.co.uk/media-centre/press-releases/2020/24-03-2020

have been treated as Capital AME at Supplementary Estimates were instead treated as Resource AME.

Both redemptions and repossessions activity for the mortgage loan book held by UKAR underperformed in the latter half of the year, in part due to COVID-19 and the associated slowdown in the housing market in March 2020. This has led to capital income received being lower than forecast at the Supplementary Estimate.

Overall this resulted in capital income received being £50 million less than estimated, while capital expenditure was £6 million more. These overspends were partially off-set by underspends in other areas, resulting in a net breach of £32 million.

An urgent Internal Audit review has been carried out to look at this episode and the issues it has brought to light. The underlying cause was that the governance, oversight and control arrangements for ALBs with AME spending were not sufficient. We are strengthening our controls and oversight over AME. This includes improving AME monitoring and strengthening accountabilities for AME areas. We will provide more detailed guidance to ALBs and undertake additional scrutiny on the submissions for the annual Main and Supplementary Estimates. Some of the remedial actions have been implemented and the remainder will be completed before the end of the financial year 2020-21.

Quality of information

The department uses a template for its board and committee papers to ensure they receive sound advice and information. 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.

The structure and information contained in regular agenda items continues to be reviewed, improved and updated to meet the needs of the boards and committees.

Quality of information provided has been deemed adequate, except for the issues detailed above that led to the control total breach.

Register of interests

The department maintains a register of interest to ensure that any perceived or real conflicts of interest can be identified. 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 57 to 59.

Mitigations have been put in place in relation to potential perceived conflicts of interest for the department's Non-Executive Directors.

Richard Meddings requested a suspension to his Non-Executive Treasury role whilst he was appointed as Executive Chairman (combining the roles of Chief Executive and Chairman) of TSB. Richard returned to the department on 1 May 2019 when the TSB appointment finished. Recognising the perceived conflict relating to his role as Chairman of the TSB and the department's arm's length body NS&I, mitigation has been put in place to avoid any conflict/potential conflict with TSB business.

No members of EMB had any significant company directorships or other interests which may have conflicted with their responsibilities.

No Special Advisers of the department had any significant company directorships or other interests which may have conflicted with their responsibilities.

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. Operationally the department seeks to ensure that it allocates its budget appropriately in order to meet its objectives, delivering value for money and delivery of its duty of care to both staff and stakeholders.

The department has a sound system in place to consider the risks faced, challenge the assumptions made and, where appropriate, offer advice on how best to mitigate them. Within this structure some key positions hold specific accountabilities.

In addition, the 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.

HM Treasury's approach to risk management is informed by principles set out in The Orange Book.[11] In line with the guidance, risk management forms an integral part of the department's governance, leadership and activities. HM Treasury's ARC supports the accounting officer in establishing our Risk Management Framework. The Committee provides independent, objective and constructive challenge on HM Treasury's internal control and evidence of assurance. This includes oversight of key publications such as the Treasury Annual Report and Accounts, Central Funds and Whole of Government Accounts.

[11] Last updated 19 February 2020 (Published 29 May 2013). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/866117/6.6266_HMT_Orange_Book_Update_v6_WEB.PDF

Figure 2B: Risk management framework

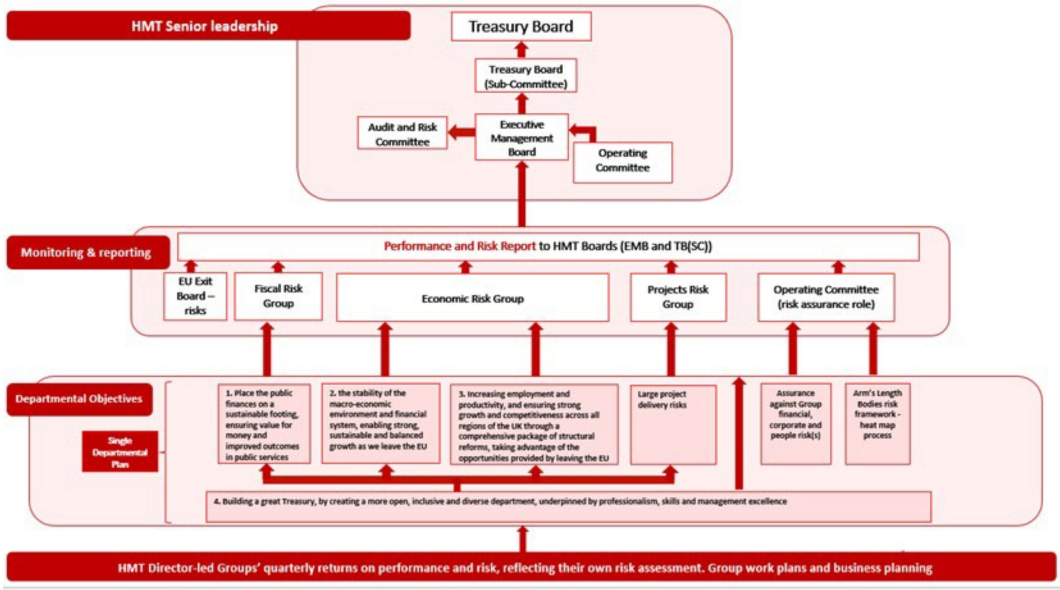

Figure 2B shows the risk management framework of the Treasury Group.

Our risk management framework

The Treasury's Risk Management Framework enables the identification and management of risks to the department's 4 strategic objectives.

The Framework is underpinned by Risk Groups and the Operations Committee, 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.

The focus of the risk groups reflects the wider political context and challenges to the delivery of HMT's objectives. Risk coordinators from across the department meet on a quarterly basis to feed into the QPRR. In 2019-20 coordinators represented the Economic Risk Group; Fiscal Risk Group; ALBs risk; Project Risk Group; and Legislative risk.

EMB has taken a hands-on approach to dealing with specific issues of risk through regular strategy sessions and risk-deep dive meetings throughout the year. These discussions ranged from managing the ongoing organisational leadership risks identified through the departments 2019 Staff Survey Results; to a series of weekly risk discussions on top-line policy risks arising from the COVID-19 pandemic including fraud and fiscal risks.

Quarterly performance and risk reporting

The department's Quarterly Performance and Risk Report (QPRR) is the formal system through 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.

Director-led Groups provide quarterly returns, reflecting their own risk assessment against the objectives to which they contribute. They complement the Risk Groups' input into the QPRR, which analyses trends across key performance data and assesses the level of risk to delivery of the department's strategic objectives. The QPRR is discussed by EMB and TB(SC) on a quarterly basis, which enables EMB, TB(SC) and senior managers to take action where appropriate.

The format of the QPRR was revised in 2019-20 to include a strategic risk narrative that complemented Groups' and Risk Groups' quarterly reports. This enables strategic oversight of the Treasury's work and the cross-cutting risks to the delivery of its objectives.

Principal Accounting Officer's report

Delegation

The department's Permanent Secretary, Tom Scholar, is also the PAO for the department. He 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 77) 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 128. The cost of the external audit is disclosed in Note 30 of the financial statements.

Other internal Treasury Group assurances have been provided by:

- UK Debt Management Office, Government Internal Audit Agency, UK Asset Resolution Ltd, the Financial Services Compensation Scheme, the Royal Household and the UK Government Investment Ltd;
- 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 238 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 to fund public expenditure.
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 Cat Little[12]	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 legislation allows 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) Cat Little[12]	The WGA consolidates the audited accounts of over 9,000 public sector organisations to produce a comprehensive, accounts based picture of the financial position of the UK public sector.

[12] Cat Little from 12/3/2020 when she took over from James Bowler.

Internal audit arrangements

Stephanie Donaldson, Group 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 for the period 2019-20. This assessment is based on the work that the GIAA have conducted during the year in the Department and HMT's arm's length bodies (ALBs) and Executive Agencies (EA's) where GIAA undertake their internal auditing. It provides moderate 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

A moderate assurance rating has been provided for 2019-20. This is the same level of assurance on the adequacy and effectiveness of governance, risk management and internal control that was issued to the Accounting Officer in 2018-19. While this opinion remains unchanged from 2018-19, I have seen evidence that the department has continued throughout the year to make improvements to the governance, risk management and control environment throughout the HM Treasury Group. This is notwithstanding that the department works with a highly challenging agenda that is regularly impacted by political uncertainty.

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 2019-20 from policy delivery to core systems and included coverage of a range of Treasury work including OSCAR II, Governance of McCloud, PWLB, Governance and Risk Management, corporate functions, cyber security, Counter Fraud Strategy work and detection and prevention of fraud analytics.

GIAA also attended Project Board meetings of key projects in order to observe and advise on risk and project management.

Stephanie Donaldson MA (hons) CPFA
Group Chief Internal Auditor, Centre of Government
Government Internal Audit Agency

Whistleblowing

Ensuring the highest standards of conduct in all we do is crucial and our whistleblowing policy and guidance supports people who wish to raise a concern.

The department's staff survey results in 2019 showed 53% of staff were aware of how to raise a concern under the Civil Service Code and 82% 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. In 2019-20 they were:

- Gwyneth Nurse, Director Financial Services
- Tim Score, Non-Executive Director
- Stephanie Donaldson, Group Chief Internal Auditor,

There have been no issues raised by staff in 2019-10.

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 (NAO), 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 from page 47 of the Performance Report.

In addition to financial audit services, the NAO undertakes independent scrutiny of the department's performance. The value-for-money studies of relevance to the Treasury can be found on page 50.

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 Public Accounts Committee's 74th Report of Session 2017-19 on Whole of Government Accounts[13] was published on 25 January 2019, to which the government formally responded in the Treasury Minutes published in April 2019, with 4 of the recommendations having been implemented. The Treasury Minutes

[13] https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/464/464.pdf

Progress Reports[14] published in February 2020 reported the implementation of the remaining recommendation.

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 97 to 105.

Personal data

During 2019-20 there were no personal data incidents that were reported to the Information Commissioner's Office. The department takes its data protection responsibilities very seriously, and this is reflected in the very low number of cases reported.

Number of Personal incidents reported to the Information Commissioner's Office

Year	Number of incidents
2019-20	0
2018-19	2
2017-18	1
2016-17	1

Ministerial Directions

Should the Permanent Secretary ever be directed by the Chancellor to take responsibility for the delivery of an aim, priority or action that 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 2019-20.

Operational issues facing the department in 2019-20

The Governance Statement considers 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.

The department's COVID-19 pandemic response

As set out in the Performance Report, the department undertook a major role in supporting the response to the COVID-19 pandemic, introducing a number of policies and interventions both to support the general public and businesses during the pandemic.

[14] https://www.gov.uk/government/publications/treasury-minutes-progress-report-february-2020

To ensure the department was able to operate to support the policy response a number of internal actions were taken including both short term and longer-term resourcing solutions, as outlined below.

A new temporary Director role was created in the Corporate Centre Group to lead the operational work supporting the department's transition to working from home due to the COVID-19 pandemic.

The Corporate Centre Group provided additional support to the department including rolling out new technology to support online meetings and working from home kits whilst colleagues worked remotely.

EMB met daily to discuss and support both the policy and the department's operational response. These discussions were informed by the COVID Response Board that was set up to drive HMT strategy, analysis and policy development in response to COVID-19 pandemic and oversee effective collaboration across HMT. The Response Board meets three times a week, chaired by Dan York-Smith (Director, Strategy, Planning and Budget) and its membership includes much of EMB. The work brought to this board also informs HMT's contribution to the wider cross-Whitehall COVID-19 pandemic governance.

A reprioritisation and resourcing exercise was coordinated by Strategy, Planning and Budget Group. EMB discussed this several times and approved more senior moves. For other moves, a Redeployment Panel was set up and chaired by the COVID Director. A redeployment policy was created to provide a framework for temporary deployment, and to help the department continue to deal with the emerging demands it faced as it supported the nation through the pandemic crisis.

Recognising the increase in correspondence volumes and the need to ensure the department replied in a timely fashion, it approached HMRC's Surge and Rapid Response Team (SRRT) for support. The SRRT improve operational resilience across the Civil Service by providing assistance at short notice to deal with an unexpected increase in demand. SRRT provided the department with 39 additional staff who helped with processing and responding to ministerial correspondence.

How to make HM Treasury a great place to work

Resources and workplace

The Treasury wants to ensure it is an employer of choice, attracting and retaining a richly diverse, talented mix of staff with varying skills and experience, from backgrounds which reflect the wider society it serves. People with different perspectives and frames of reference are important in revealing different aspects of the issues and problems we seek as a department to find solutions for.

The department continued to grow in size throughout 2019-20, as work on planning our exit from the EU increased. Although the Treasury ended the year slightly under its forecast headcount target, turnover has been reducing and work continues to develop a wider retention strategy to ensure that people want to stay working with the organisation where this offers them the best choice for their career progression.

Information about the diversity make up in the department is available on pages 42 to 44 of the Performance Report.

The department has already begun detailed planning for the new Diversity and Inclusion Action plan for 2020-2024, which will aim to build on the progress made in the current plan but adopt a more ambitious approach with wider accountability and refreshed targets.

Values

The Treasury's values had been in place since 2006, and in 2018 the department began a consultation exercise with staff to review how far they were understood and to what extent they were still the right values for the department to have. Three of the 4 values (Appreciative, Collaborative and Open) still had a strong currency amongst staff. The fourth (Challenging) was felt to less appropriately reflect what the department should stand for, so was amended to become 'Integrity'. The descriptive text for all 4 values was refreshed and relaunched. Work continues to ensure these values are reflected in how we work, how we reward and recognise staff.

Security

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

Group business continuity plans across the department are regularly challenged and updated to ensure they remain relevant, robust and up to date. The department ran an awareness week on Business Continuity and has bolstered its communications capability during an incident by encouraging uptake of our emergency text messaging system. A live incident simulation was conducted with our guard force in November 2019.

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.

Two annual security briefings were delivered to EMB by our Security Adviser (formerly Departmental Security Officer). Briefings covered the findings and remediation plans following a cyber penetration test of key departmental systems. In addition, a number of new improved cyber security defence tools have been deployed over the year.

During the visit by the President of the United States in July 2019, the department took the opportunity to break test its remote working capacity during a mock 'business continuity' exercise. Fewer than 20 staff visited the office and the rest of the department proved our capability to continue to function by working remotely.

Policy – preparing for the UK's exit from the EU

A significant focus of the Treasury's work in 2019-20 has been to ensure the stability of the macro-economic environment as the UK leaves the EU, and to ensure that the government is prepared for a range of possible outcomes.

Several HMT EU Exit workstreams continued to be tracked though various internal governance structures, such as the senior-level EU Exit Board (now Europe Steering Board) and Domestic Readiness Portfolio Board (DRPB), to monitor delivery readiness and risks. Key workstreams have included:

- Financial Services
- Financial Stability
- Public Spending and HMG guarantee
- Economic Response
- Customs and Tariffs
- Vulnerable People
- EU Emissions Trading System
- European Finance (Resolving mutual financial obligations; Future participation in EU programmes and policies; and European Investment Bank (EIB))
- Business Support
- Strategy, Projects and Change
- Civil Contingencies Response

Director and team-led boards ensured that the department had robust processes in place for EU Exit and deal planning (e.g. EU Exit Board), and processes in place to formally track readiness for a range of scenarios within the department's EU Exit programme management structures (e.g. through DRPB).

Along with these boards, the department prepared for Brexit using additional EMB meetings focussing on no deal preparations, and the creation of a bi-weekly no deal situation response document tracking internal delivery, risks and external events that may affect delivery or create risks. The department also fed into regular Cross Whitehall delivery reporting, coordinated by the Department for Exiting the European Union, which aimed to track departments' EU Exit preparations and readiness for no deal. The TB(SC) had several discussions during the year on Europe along with verbal updates on Europe regularly to EMB meetings. Now that the UK has left the EU, we are reviewing the governance structures in place to ensure that they remain robust and appropriate for the next phase; and continue to facilitate cross-team working and effective information sharing, between HMT teams and EMB.

The Treasury Group

The Treasury Group wider organisations work to support the government's economic and fiscal strategy. The Permanent Secretary to the Treasury is the Principal Accounting Officer for the Group.[15]

[15] Further information on the Treasury Group can be found in Chapter 7.

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.

The department's Tailored Review programme has made good progress this year. The NS&I Tailored Review was published[16] and the Reviews of the DMO and GIAA are close to completion. Work was suspended temporarily in April with the advent of COVID-19 pandemic pressures but planned provisionally to resume in July with publication in Autumn 2020. 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 including from the department's governance structures and the independent advice provided by the Audit and Risk Committee. I conclude that HMT has satisfactory governance and risk management systems in place with effective plans to ensure continuous improvement to address weaknesses identified.

Tom Scholar

Permanent Secretary

22 September 2020

[16] https://www.gov.uk/government/publications/national-savings-and-investments-nsi-tailored-review

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 2019 number 476 and Statutory Instrument 2020 number 17 (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[17]

Treasury ministers – single total figure of remuneration (audited)

£[18]	2019-20 Salary[19] (FYE)	2019-20 Benefits in kind	2019-20 Pension benefits	2019-20 Total	2018-19 Salary (FYE)	2018-19 Benefits in kind	2018-19 Pension benefits	2018-19 Total
Rishi Sunak Chancellor of the Exchequer (from 14/02/20), Chief Secretary to the Treasury (from 24/07/19 to 13/02/20)[20]	13,660 (67,505)	900	2,000	**17,000**	-	-	-	-
Stephen Barclay Chief Secretary to the Treasury (from 14/02/20)	4,097 (31,680)	-	1,000	**5,000**	-	-	-	-
Kemi Badenoch Exchequer Secretary to the Treasury (from 14/02/20)	1,865 (22,375)	-	1,000	**3,000**	-	-	-	-
Jesse Norman Financial Secretary to the Treasury (from 23/05/19)	26,400 (31,680)	-	7,000	**33,000**	-	-	-	-
John Glen Economic Secretary to the Treasury	22,375	-	6,000	**28,000**	22,375	-	5,000	**27,000**
Sajid Javid Chancellor of the Exchequer (from 24/07/19 to 13/02/20)	36,274 (67,505)	3,600	8,000	**48,000**	-	-	-	-
Philip Hammond Chancellor of the Exchequer (to 24/07/19)	21,231 (67,505)	2,100	6,000	**29,000**	67,505	6,800	14,000	**88,000**
Simon Clarke Exchequer Secretary to the Treasury (from 27/07/19 to 13/02/20)	13,353 (22,375)	-	3,000	**16,000**	-	-	-	-
Elizabeth Truss Chief Secretary to the Treasury (to 24/07/19)	10,560 (31,680)	-	3,000	**14,000**	31,680	-	6,000	**38,000**
Mel Stride Financial Secretary to the Treasury (to 22/05/19)	5,280 (31,680)	-	1,000	**6,000**	31,680	-	7,000	**39,000**
Robert Jenrick Exchequer Secretary to the Treasury (to 24/07/19)	7,458 (22,375)	-	2,000	**9,000**	22,375	-	6,000	**28,000**

17 Certain disclosures within the remuneration report have been audited as per the FReM 5.3.3.

18 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.

19 Lord Agnew began his role as Minister of State for HM Treasury and Cabinet office on 14/02/20 and is unpaid in both roles.

20 Rishi Sunak did not receive a salary until 19/12/19 and the benefit in kind relates only to his role as Chancellor of the Exchequer. The FYE disclosed relates only to his role as Chancellor of the Exchequer.

Treasury ministers – severance payments[21] (audited)

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

£[22]	2019-20 Actual Severance	2019-20 Receivable Severance	2018-19 Actual Severance	2018-19 Receivable Severance
Philip Hammond Chancellor of the Exchequer (to 24/07/19)	16,876	16,876	-	-
Sajid Javid Chancellor of the Exchequer (from 24/07/19 to 13/02/20)	16,876	16,876	-	-

Treasury ministers – pension benefits (audited)

£000	Accrued pension at pension age as at 31/3/20	Real increase in pension at pension age	CETV[23] at 31/3/20	CETV at 31/3/19[24]	Real increase in CETV
Rishi Sunak Chancellor of the Exchequer	0-5	0-2.5	2	-	1
Stephen Barclay Chief Secretary to the Treasury	0-5	0-2.5	37	35	1
Kemi Badenoch Exchequer Secretary to the Treasury	0-5	0-2.5	3	2	-
Jesse Norman Financial Secretary to the Treasury	0-5	0-2.5	27	19	4
John Glen Economic Secretary to the Treasury	0-5	0-2.5	14	9	2
Sajid Javid Chancellor of the Exchequer	5-10	0-2.5	128	117	3
Philip Hammond Chancellor of the Exchequer	15-20	0-2.5	287	278	5
Simon Clarke Exchequer Secretary to the Treasury	0-5	0-2.5	2	-	-
Elizabeth Truss Chief Secretary to the Treasury	5-10	0-2.5	81	79	1
Mel Stride Financial Secretary to the Treasury	0-5	0-2.5	33	32	1
Robert Jenrick Exchequer Secretary to the Treasury	0-5	0-2.5	6	5	-

[21] 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.

[22] Severance payments are presented to the nearest £1.

[23] Cash Equivalent Transfer Value

[24] Figures have been restated where the administrator has made retrospective updates to the data.

Additional ministerial remuneration borne by HM Treasury (audited)

£000	2019-20	2018-19
Boris Johnson Prime Minister (from 24/07/19)	50-55	-
Theresa May Prime Minister (to 24/07/19)	20-25	75-80
Mark Spencer Chief Whip, Commons (from 24/07/19)	20-25	-
Julian Smith Chief Whip, Commons (to 24/07/19)	10-15	30-35
Stuart Andrew Deputy Chief Whip, Commons (from 14/02/20)	0-5	-
Amanda Milling Deputy Chief Whip, Commons (from 28/07/19 to 13/02/20)	15-20	-
Christopher Pincher Deputy Chief Whip, Commons (to 24/07/19)	10-15	30-35
Lord Ashton of Hyde Chief Whip, Lords (from 26/07/19)	80-85	-
Lord Taylor of Holbeach Chief Whip, Lords (to 24/07/19)	40-45	120-125
The Earl of Courtown Deputy Chief Whip, Lords	105-110	105-110
Baronesses and Lords-in-Waiting[25] (17 posts, 6 unpaid)[26] (2018-19: 9 posts, 4 unpaid)	360-365	455-460
Government and Assistant Government Whips[25] (32 posts, 4 unpaid)[27] (2018-19: 21 posts, 3 unpaid)	255-260	250-255

Additional Ministers – severance payments[28] (audited)

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

	2019-20		2018-19	
£[29]	Actual Severance	Receivable Severance	Actual Severance	Receivable Severance
Theresa May Prime Minister (to 24/07/19)	18,860	18,860	-	-
Craig Whittaker Government Whip, Commons (to 28/07/19)	4,479	4,479	-	-

25 This disclosure shows all those in post during the year and not only in post at 31 March.

26 Baronesses and Lords-in-Waiting comprise: Baroness Scott of Bybrook, Lord Parkinson of Whitley Bay, Baroness Penn, Baroness Berridge of The Vale of Catmose, Baroness Bloomfield of Hinton Waldrist, Lord Bethell of Romford, Baroness Chisholm of Owlpen, Baroness Sater JP, 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.

27 Government and Assistant Government Whips comprise: Michael Tomlinson MP, Alex Chalk MP, Eddie Hughes 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, Paul Maynard MP, Wendy Morton MP, Jo Churchill MP, Amanda Milling MP, Nusrat Ghani MP, Jeremy Quin MP, Iain Stewart MP, Michelle Donelan MP, Alister Jack MP, Kevin Foster MP, Matt Warman MP, Colin Clark MP, Douglas Ross MP, Maggie Throup MP, Leo Docherty MP, Nigel Huddlestone MP, Maria Caulfield MP, James Morris MP, Marcus Jones MP, Tom Pursglove MP, David TC Davies MP.

28 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.

29 Severance payments are presented to the nearest £1.

Senior management – single total figure of remuneration (audited)

£000[30]	2019-20 Salary (FYE)	2019-20 Bonuses	2019-20 BIK [31]	2019-20 Pension benefits [32]	2019-20 Total	2018-19 Salary (FYE)	2018-19 Bonuses	2018-19 BIK	2018-19 Pension benefits [32]	2018-19 Total
Tom Scholar Permanent Secretary	195-200	-	-	94	**290-295**	185-190	-	-	93	**280-285**
Charles Roxburgh Second Permanent Secretary[33]	160-165	15-20	-	N/A	**175-180**	155-160	15-20	-	N/A	**170-175**
Mark Bowman Director General, International and EU	135-140	15-20	-	77	**230-235**	125-130	15-20	-	45	**185-190**
Clare Lombardelli Chief Economic Advisor (from 03/04/18); Director, Strategy, Planning and Budget (to 02/04/18) [34]	115-120	-	-	46	**160-165**	125-130	10-15	-	136	**275-280**
Cat Little Director General, Public Spending (from 12/03/20)	5-10 (135-140)	-	-	3	**10-15**	-	-	-	-	-
James Bowler Director General, Public Spending (to 11/03/20)	125-130 (140-145)	5-10	-	67	**200-205**	125-130	15-20	-	44	**185-190**
Beth Russell Director General, Tax and Welfare	130-135	15-20	-	64	**210-215**	125-130	-	-	79	**205-210**
Dan York-Smith Director Strategy, Planning and Budgeting (from 16/04/18)	90-95	5-10	-	38	**130-135**	85-90 (90-95)	10-15	-	73	**170-175**
Catherine Webb Director, Operations (from 02/01/19)	95-100	10-15	-	47	**155-160**	5-10 (90-95)	-	-	5	**10-15**
Anna Caffyn Director, Finance (from 14/03/19)	90-95	-	-	85	**175-180**	0-5 (90-95)	-	-	3	**5-10**
Siobhan Jones Acting Director, Operations (from 09/03/20)[35]	5-10 (90-95)	-	-	5	**10-15**	-	-	-	-	-
Richard Hughes Director, Fiscal (to 30/04/19), Acting Chief Economic Advisor (to 02/04/18)[36]	20-25 (125-130)	-	-	-	**20-25**	125-130	5-10	-	-	**130-135**
Katherine Green Director, Operations (to 05/08/18)[34]	-	-	-	-	-	30-35 (70-75)	10-15	-	7	**45-50**
Kate Ivers Acting Director, Finance (from 26/07/18 to 13/03/19)[37]	-	-	-	-	-	60-65 (95-100)	10-15	-	31	**100-105**
Sophie Dean Director, Finance (to 05/08/18) [34]	-	-	-	-	-	20-25 (50-55)	-	-	18	**35-40**

30 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.

31 Benefits in kind.

32 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.

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

34 Clare Lombardelli works 0.9 FTE (1.0 FTE 2018-19). Katherine Green worked 0.8 FTE. Sophie Dean 0.6 FTE.

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 2019 to 31 March 2020 (including bonuses of £15k-20k) were £200k-205k (2018-19: £180k-185k).

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[38] of the highest-paid director employed by HM Treasury in the financial year 2019-20 was £190k-195k (2018-19: £185k-190k). This was 4.3 times (2018-19: 4.4 times) the median remuneration of the workforce, which was £44,404 (2018-19: £42,630).

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

In 2019-20, no employees received remuneration in excess of the highest paid director. Remuneration ranged from £17.5k to £195k (2018-19: £17k-£189k).

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.

[35] Siobhan Jones was Acting Operations Director from 09/03/20, covering a period of sickness absence. The salary disclosed relates to the Acting Operations Director role only.

[36] Richard Hughes is a member of a Partnership Pension Scheme. There were £1k contributions to the Partnership Pension scheme in 2019-20 (2018-19: £16k). Richard attended EMB meetings once he stepped down as Acting Chief Economic Advisor until 30/04/19.

[37] Kate Ivers was Acting Finance Director for the period 26/07/18 to 13/03/19. The salary disclosed relates to the Acting Finance Director role only.

[38] The banded remuneration under the Pay multiples section includes contractual salary amount only, while the banded remuneration in the table above includes salary adjustments.

Senior management – pension benefits[39] (audited)

£000	Accrued pension at pension age as at 31/3/20 and related lump sum	Real increase in pension at pension age	CETV at 31/3/20	CETV at 31/3/19[40]	Real increase in CETV
Tom Scholar Permanent Secretary	70-75 plus a lump sum of 150-155	5-7.5 plus a lump sum of 0-2.5	1,291	1,172	56
Mark Bowman Director General, International and EU	45-50 plus a lump sum of 100-105	2.5-5 plus a lump sum of 2.5-5	818	731	47
Clare Lombardelli Chief Economic Advisor	30-35	2.5-5	391	350	17
Cat Little Director General, Public Spending	15-20	0-2.5	184	182	1
James Bowler Director General, Public Spending	45-50 plus a lump sum of 100-105	2.5-5 plus a lump sum of 0-2.5	772	697	37
Beth Russell Director General, Tax and Welfare	40-45 plus a lump sum of 90-95	2.5-5 plus a lump sum of 0-2.5	678	610	33
Dan York Smith Director, Strategy, Planning and Budget	25-30	0-2.5	329	296	14
Catherine Webb Director, Operations	25-30 plus a lump sum of 50-55	2.5-5 plus a lump sum of 0-2.5	362	322	20
Anna Caffyn Director, Finance	20-25	2.5-5	299	238	45
Siobhan Jones Acting Director, Operations	20-25	0-2.5	287	284	2

39 This table relates to pension benefits in the Civil Service pension scheme and represents the period as a member of EMB only.

40 Figures have been restated where the Civil Service Pension Scheme have made retrospective updates to thedata.

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

	2019-20		2018-19	
£000[41]	Fees	Benefits in kind	Fees	Benefits in kind
Rt Hon Lord Hill of Oareford CBE Lead Non-Executive for HM Treasury (from 01/03/2019)	20-25	-	0-5	-
Dame Amelia Fawcett Non-Executive Board member (to 01/08/18) and Interim Lead Non-Executive for HM Treasury (to 01/09/18)	-	-	0-5	-
Richard Meddings Non-Executive Board member and Chair of the Audit and Risk Committee (to 04/09/18) and (from 01/05/19)	20-25	-	5-10	-
Tim Score Non-Executive Board member and Interim Chair of the Audit and Risk Committee (from 01/10/18 to 01/05/19)	20-25	-	15-20	-
Gay Huey Evans OBE Non-Executive Board member (from 01/01/19)	15-20	-	0-5	-
Peter Estlin Member of the Audit and Risk Committee (to 30/06/18) and from 01/01/20)	0-5	-	0-5	-
Zarin Patel Member of the Audit and Risk Committee	5-10	-	5-10	-

Richard Meddings suspended his role as Chair of the Audit and Risk Committee on 4 September 2018 while acting executive Chairman of TSB. He returned to his role as Chair on 1 May 2019.

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. He returned to his role on 1 January 2020.

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

Jacinda Humphry, a Member of the Audit and Risk Committee until her term finished on 29 February 2020, is a Civil Servant and was 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.

41 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; and
- 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 Secretaries, or the Permanent Secretaries and Directors General.

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 (£79,468 from 1 April 2019) 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 this report.

Bonuses are based on performance levels achieved in 2018-19 and comparative bonuses on those achieved in 2017-18. 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 HMRC as taxable. The Chancellor has the use of his official residence at 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.[42]

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.

42 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 is 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.civilservicepensionscheme.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[43]

Workforce dynamics

Core Treasury workforce breakdown

		31 March 2020	31 March 2019
Workforce Dynamics	Annual Turnover rate (%)	16.8	21.8
Workforce Diversity (%)[44]	Black and Minority Ethnic	17.6	17.0
	Women	47.6	46.3
	Disabled	8.8	8.0
	Part time	8.2	8.0
	LGBT	7.4	6.6
Diversity of Senior Civil Servants only (%)[44]	Black and Minority Ethnic	9.6	5.9
	Women	50.7	50.0
	Women (Top Management Posts)[45]	57.1	51.5
	Disabled	5.1	3.4
	Part time	18.4	18.6
Attendance (AWDL)[46]	Actual (days)	2.9	2.6

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

Range[47]	31 March 2020	31 March 2019
SCS1	96	81
SCS2	27	25
SCS3	7	7
Total	130	**113**

[43] 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 2019-20. 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 39.

[44] Diversity percentages are calculated based on paid headcount using ONS definitions.

[45] Top management posts are defined as SCS2 and SCS3.

[46] AWDL: Average working days lost.

[47] 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 2020 FTE (31 March 2019)

	Female	Male	Total
All employees	747 (658)	852 (789)	1,599 (1,447)
Of which:			
Directors (SCS2)	14.9 (13.3)	12.0 (12)	26.9 (25.3)
Senior Civil Service	63.2 (54.4)	66.7 (58.8)	129.9 (113.2)

Recruitment[48]

Core Treasury recruitment 2019-20 (2018-19)

Range	Permanent Appointments	Fixed term appointments	Loans from other Government Departments	Secondments	Total
B[49]	20 (8)	63 (66)	- (-)	- (-)	83 (74)
C	42 (49)	2 (6)	3 (-)	1 (-)	48 (55)
D	181 (186)	4 (-)	16 (15)	3 (7)	204 (208)
E	87 (68)	2 (1)	7 (9)	5 (4)	101 (82)
E2	23 (18)	1 (1)	4 (7)	- (1)	28 (27)
SCS 1,2,3	9 (3)	- (-)	4 (6)	1 (-)	14 (9)
Total	362 **(332)**	72 **(74)**	34 **(37)**	10 **(12)**	478 **(455)**

Diversity[44]

Core Treasury grade diversity as at 31 March 2020 (31 March 2019)

Range	Women	People from Minority ethnic backgrounds	People with disabilities	LGBT
B (%)	53.7 (56.9)	25.9 (24.1)	7.4 (5.2)	9.3 (3.5)
C (%)	62.3 (57.1)	31.8 (28.6)	10.4 (12.2)	3.2 (3.4)
D (%)	47.1 (44.0)	17.3 (17.3)	8.8 (8.8)	7.8 (8.3)
E (%)	42.3 (42.8)	16.7 (17.2)	10.0 (7.8)	9.0 (7.1)
E2 (%)	46.7 (46.5)	13.3 (11.6)	7.6 (6.6)	5.8 (5.6)
SCS 1,2,3 (%)	50.7 (50.0)	9.6 (5.9)	5.1 (3.4)	6.6 (3.4)

Treasury gender diversity as at 31 March 2020 (31 March 2019)

	Male	Female
Executive Management Board members and Group Directors (%)	42.9 (48.5)	57.1 (51.5)
Senior Managers (SCS, not including EMB) (%)	50.0 (49.5)	50.0 (50.5)
All staff (%)	52.4 (53.7)	47.6 (46.3)

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

49 Including students.

Health, safety and wellbeing

Sickness absence

	Jan – Dec 2019 (AWDL)	Jan – Dec 2018 (AWDL)
Government departments[50]	7.3	7.0
Treasury and its agencies	3.4	3.7
Core Treasury	2.9	2.6

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

	Jan – Dec 2019	Jan – Dec 2018
Total days lost	962.5	896.5
Long term absences days lost	500.0	462.5
Short term absences days lost	462.5	434.0

Staff with no sickness absence

	Jan – Dec 2019	Jan – Dec 2018
Treasury and its agencies	64%	66%
Core Treasury	68%	70%

50 Figures provided by Cabinet Office. Latest cross-government data for 2019 has not yet been produced.

Staff redeployments – Core Treasury

	Loaned in total	Loaned in short-term (6 months or less)[51]	Loaned in long-term (more than 6 months)	Average loan in (years)
Range B	1	1	-	0.3
Range C	2	1	1	1.2
Range D	34	10	24	0.9
Range E	16	2	14	1.8
Range E2	6	-	6	2.3
SCS1	9	-	9	2.2
SCS2	1	-	1	4.0
Total	**69**	**14**	**55**	**1.4**

	Loaned out total	Loaned out short-term (6 months or less)[52]	Loaned out long-term (more than 6 months)	Average loan out (years)
Range B	1	-	1	4.0
Range C	5	-	5	2.1
Range D	44	4	40	2.0
Range E	45	-	45	2.3
Range E2	30	1	29	2.4
SCS1	13	-	13	3.0
SCS2	3	-	3	2.0
Total	**141**	**5**	**136**	**2.3**

Trade Union Facilities Time[53]

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 £1,535 of a total pay bill of £100.9m.[54]

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.

51 Loaned in staff are classified as an administration cost. Of the 14 short-term loaned in staff, the cost of 12 are met by their home department. The cost of the other 2 staff is £6k.

52 Loaned out staff are classified as an administration cost. The cost of the staff on short-term loan is £198k.

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

54 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	Ministers	Special Advisers[55]	Permanent staff	Others[56]	Total	2018-19 Total
	2019-20					
Salaries and wages	1	-	155	17	173	168
Social Security costs	-	-	18	-	18	17
Staff pension costs	-	-	20	-	20	13
Total staff costs	**1**	**-**	**193**	**17**	**211**	198
Less recoveries for outward secondments	-	-	(2)	-	(2)	(2)
Net staff costs	**1**	**-**	**191**	**17**	**209**	196
Core Treasury and Agencies	1	-	142	9	152	137
ALBs and other bodies	-	-	51	8	59	61
Total staff costs	**1**	**-**	**193**	**17**	**211**	198

Over Summer 2019, responsibility for Special Advisers pay and employment transferred to the Cabinet Office. The amounts disclosed cover the pay during the period employed by HM Treasury.

Average number of full-time equivalent persons employed[57]

	Ministers	Special Advisers	Permanent staff	Others	2019-20 number Total	2018-19 number Total
Core Treasury and agencies	5	5	2,121	37	**2,168**	**2,071**
ALBs and other bodies	-	-	908	59	**967**	**1,000**
Total persons employed	**5**	**5**	**3,029**	**96**	**3,135**	**3,071**

55 Special Advisors' employment has been transferred to the Cabinet Office from 1 September 2019

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

57 Total staff in ALBs and other bodies includes 131 UKAR, 488 Royal Household and 348 in other bodies. The increase in Core Treasury and agencies staff is due to the preparation work required in case the UK departed the EU without a deal in place. Once the UK left the European Union with a deal, the additional staff resources were reprioritised at pace to cover COVID-19 preparations.

Staff pension costs

Staff pension costs for permanent staff of £20m (2018-19: £13m) are primarily employer contributions, including £27m (2018-19: £20m) payable to the Civil Service Pension schemes[58], £4m (2018-19: £4m) payable to defined contribution schemes and £12m net credit (2018-19: £12m credit) for United Kingdom Asset Resolution (UKAR) pension schemes and post-retirement healthcare benefits. The 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 95 to 96. The PCSPS scheme actuary valued the scheme as at 31 March 2016. Details can be found in the valuation report by the Government Actuary Department.[59]

For 2019-20, employer's contributions of £27m (2018-19: £20m) were payable to the PCSPS at one of four rates in the range of 26.6% to 30.3% 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 2019-20 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 £0.3m (2018-19: £0.1m) 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 £10k (2018-19: £11k) 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.

58 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.

59 https://www.civilservicepensionscheme.org.uk/media/490508/csps-2016-valuation-report-final.pdf

Exit packages (audited)

Core Treasury and Agencies

	2019-20			2018-19		
Exit package cost band	Compulsory redundancies	Other departures[60]	Total	Compulsory redundancies	Other departures	Total
<£10,000	-	-	-	-	1	**1**
£10,000 – £25,000	1	3	**4**	-	-	-
£25,001 – £50,000	1	2	**3**	-	2	**2**
£50,001 – £100,000	-	-	-	-	1	**1**
£100,001 – £150,000	-	-	-	-	-	-
£150,001 – £200,000	-	-	-	-	-	-
>£200,001	-	-	-	-	-	-
Total exit packages	2	5	**7**	-	4	**4**
Total Resource Cost (£'000)	70	136	**206**	-	118	**118**

Group[61]

	2019-20			2018-19		
Exit package cost band	Compulsory redundancies	Other departures[60]	Total	Compulsory redundancies	Other departures	Total
<£10,000	2	2	**4**	-	5	**5**
£10,000 – £25,000	7	7	**14**	4	4	**8**
£25,001 – £50,000	14	4	**18**	7	2	**9**
£50,001 – £100,000	5	3	**8**	1	2	**3**
£100,001 – £150,000	-	1	**1**	1	-	**1**
£150,001 – £200,000	-	-	-	-	-	-
>£200,001	1	-	**1**	1	-	**1**
Total exit packages	29	17	**46**	14	13	**27**
Total Resource Cost (£'000)	1,377	576	**1,953**	781	287	**1,068**

60 Other exit costs include severance payments made to Special Advisors. For the period ended 31 March 2020 £137,438 was paid to 5 Advisors (2018-19 Nil)

61 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.

Consultancy

Consultancy and contingent labour

In £m	2019-20		2018-19	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
Consultancy	18	134	15	144
Contingent labour	8	15	8	16
Total	26	149	23	160

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.

Non–payroll staff

There were 37.1 non-payroll FTEs across the department and Agencies as at 31 March 2020, a decrease from 49.0 in 2018-19. 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 all bodies which are consolidated into the Group. Entities with nil return for all tables are not included for disclosure.

There have been no board members and/or senior officials with significant financial responsibility between 1 April 2019 and 1 April 2020 who have been engaged off-payroll.

Off-payroll engagements as of 31 March 2020, for more than £245 per day and that last for longer than 6 months

	Core Treasury	DMO	GIAA	NIC	FSCS	UKAR
The total number of engagements	-	13	1	-	20	9
Of which:						
No. that have existed for less than one year at time of reporting	-	2	1	-	16	-
No. that have existed for between one and two years at time of reporting	-	6	-	-	1	3
No. that have existed for between two and three years at time of reporting	-	2	-	-	1	-
No. that have existed for between three and four years at time of reporting	-	1	-	-	2	3
No. that have existed for four or more years at time of reporting	-	2	-	-	-	3

New off-payroll appointments, or those that reach six months in duration between 1 April 2019 and 31 March 2020, for more than £245 per day and that last for longer than six months

	Core Treasury	DMO	GIAA	NIC	FSCS	UKAR
The number of new engagements, or those that reached six months in duration between 1 April 2019 and 31 March 2020.	1	5	1	1	21	-
Of which:						
Number assessed as within the scope of IR35.	1	4	1	1	20	-
Number assessed as not within the scope of IR35	-	1	-	-	1	-

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

22 September 2020

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply and related notes (audited)
For the period ended 31 March 2020

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires HM Treasury to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SoPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and, an analysis of income payable to the Consolidated Fund (note 4).

In £000	Note	2019-20 Estimate Voted	Estimate Non-Voted	Estimate Total	Outturn Voted	Outturn Non-Voted	Outturn Total	Voted Outturn compared with Voted Estimate Saving/ (Excess)	2018-19 Outturn Total
Departmental Expenditure Limit									
Resource	SoPS 1.1	361,607	7,300	**368,907**	346,230	7,657	**353,887**	15,377	**245,997**
Capital	SoPS 1.2	190,348	-	**190,348**	139,429	-	**139,429**	50,919	**167,136**
Annually Managed Expenditure									
Resource	SoPS 1.1	61,095,894	3,859	**61,099,753**	704,193	4,327	**708,520**	60,391,701	**(15,278,269)**
Capital	SoPS 1.2	(2,096,730)	-	**(2,096,730)**	(2,064,398)	-	**(2,064,398)**	(32,332)	**(12,998,111)**
Total Budget		59,551,119	11,159	**59,562,278**	(874,546)	11,984	**(862,562)**	60,425,665	**(27,863,247)**
Total Resource		61,457,501	11,159	**61,468,660**	1,050,423	11,984	**1,062,407**	60,407,078	**(15,032,272)**
Total Capital		(1,906,382)	-	**(1,906,382)**	(1,924,969)	-	**(1,924,969)**	18,587	**(12,830,975)**
Total		**59,551,119**	**11,159**	**59,562,278**	**(874,546)**	**11,984**	**(862,562)**	**60,425,665**	**(27,863,247)**
Net Cash Requirement	SoPS3			**(6,390,460)**			**(7,511,312)**	1,120,852	**(9,447,596)**
Administration costs				**214,631**			**203,396**	11,235	**186,114**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

HM Treasury has breached its Capital Annually Managed Expenditure (C-AME) control total for the 2019-20 financial year by £32 million. Further detail can be found in SOPS 1.2 ‘Analysis of net capital outturn by section’, ‘Explanation of key variances between Estimate and net resource outturn as at 31 March 2020’, sections ‘X Sovereign Grant funding of the Royal Household’ and ‘Z UK Asset Resolution’ below, and also section “Breach of HMT’s Capital Annually Managed Expenditure (C-AME) control total” of the Governance Statement from page 71.

SoPS1.1 Analysis of net resource outturn by section

In £000	Administration: Gross expenditure	Administration: Income	Administration: Net expenditure	Programme: Gross expenditure	Programme: Income	Programme: Net expenditure	Outturn net total	Estimate net total	Outturn compared to Estimate	Outturn compared to Estimate, adjusted for virements	2018-19 Outturn net total
	2019-20										2018-19
Spending in Department Expenditure Limit (DEL)											
Voted											
A Core Treasury	187,009	(21,344)	165,665	135,947	(5,647)	130,300	295,965	304,766	8,801	8,801	189,444
B Debt Management Office	18,664	(3,487)	15,177	4,484	(793)	3,691	18,868	20,810	1,942	1,942	17,111
C Government Internal Audit Agency	37,314	(37,518)	(204)	-	-	-	(204)	2,350	2,554	2,554	735
D Office of Tax Simplification	951	-	951	-	-	-	951	1,000	49	49	937
E Office for Budget Responsibility (net)	3,316	-	3,316	-	-	-	3,316	3,430	114	114	3,209
G IUK Investments Ltd (net)	-	-	-	(705)	-	(705)	(705)	-	705	705	(518)
I HM Treasury UK Sovereign Sukuk Ltd (net)	-	-	-	(1)	-	(1)	(1)	1	2	2	(4)
J Royal Mint Advisory Committee (net)	-	-	-	-	-	-	-	1	1	1	-
K Asian Infrastructure Investment Bank	-	-	-	9,549	-	9,549	9,549	9,549	-	-	9,956
L National Infrastructure Commission	4,680	(54)	4,626	-	-	-	4,626	5,000	374	374	4,825
M UK Government Investments Limited (net)	13,865	-	13,865	-	-	-	13,865	14,700	835	835	13,304
Total Voted spending in DEL	**265,799**	**(62,403)**	**203,396**	**149,274**	**(6,440)**	**142,834**	**346,230**	**361,607**	**15,377**	**15,377**	**238,999**
Non-voted											
N Banking and gilts registration services	-	-	-	7,657	-	7,657	7,657	7,300	(357)	(357)	6,998
Total spending in DEL	**265,799**	**(62,403)**	**203,396**	**156,931**	**(6,440)**	**150,491**	**353,887**	**368,907**	**15,020**	**15,020**	**245,997**
Spending in Annually Managed Expenditure (AME)											

Voted												
O	Core Treasury (AME)	-	-	-	(12,647)	-	(12,647)	(12,647)	21,600	34,247	34,247	-
P	Provisions	-	-	-	191,685	-	191,685	191,685	7,000	(184,685)	-	134,748
Q	UK coinage manufacturing costs	-	-	-	15,897	-	15,897	15,897	12,000	(3,897)	-	22,992
R	UK coinage metal costs	-	-	-	17,364	(2,130)	15,234	15,234	12,700	(2,534)	-	3,572
S	Royal Mint dividend	-	-	-	-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	(4,000)
T	Investment in Bank of England	-	-	-	-	(45,376)	(45,376)	(45,376)	(50,000)	(4,624)	-	(54,000)
U	Administration of the Equitable Life payment scheme	-	-	-	203	-	203	203	250	47	47	(148)
V	Loans to Ireland	-	-	-	-	(57,301)	(57,301)	(57,301)	(57,057)	244	244	(86,620)
W	Assistance to financial institutions	-	-	-	(35,623,663)	(1,089,055)	(36,712,718)	(36,712,718)	13,949,000	50,661,718	50,464,181	(15,027,523)
X	Sovereign Grant funding of the Royal Household (net)	-	-	-	70,100	-	70,100	70,100	82,400	12,300	12,300	66,485
Y	Financial Services Compensation Scheme (net)	-	-	-	(552)	-	(552)	(552)	61,000	61,552	61,552	(11,474)
Z	UK Asset Resolution Ltd (net)	-	-	-	40,342	-	40,342	40,342	50,000	9,658	9,658	(327,527)
AA	Help to Buy (net)	-	-	-	-	-	-	-	1	1	1	59
AB	Help to Buy ISA	-	-	-	11,797	-	11,797	11,797	10,000	(1,797)	-	-
AC	UK Government Investments (net)	-	-	-	575	-	575	575	1,000	425	425	900
AD	EU Withdrawal Agreement Financial Settlement	-	-	-	37,190,954	-	37,190,954	37,190,954	47,000,000	9,809,046	9,809,046	-
Total Voted spending in AME		**-**	**-**	**-**	**1,902,055**	**(1,197,862)**	**704,193**	**704,193**	**61,095,894**	**60,391,701**	**60,391,701**	**(15,282,536)**
Non-voted												
AE	Royal Household Pensions	-	-	-	4,487	(519)	3,968	3,968	3,500	(468)	(468)	3,908
AF	Civil List	-	-	-	359	-	359	359	359	-	-	359
Total spending in AME		**-**	**-**	**-**	**1,906,901**	**(1,198,381)**	**708,520**	**708,520**	**61,099,753**	**60,391,233**	**60,391,233**	**(15,278,269)**
Total resource outturn		**265,799**	**(62,403)**	**203,396**	**2,063,832**	**(1,204,821)**	**859,011**	**1,062,407**	**61,468,660**	**60,406,253**	**60,406,253**	**(15,032,272)**

SoPS1.2 Analysis of net capital outturn by section

In £000		2019-20 Gross	2019-20 Income	2019-20 Outturn net total	2019-20 Estimate net total	2019-20 Outturn net total compared to Estimate	2019-20 Outturn net total compared to Estimate, adj. for virements	2018-19 Outturn net total
Spending in Department Expenditure Limit (DEL)								
Voted								
A	Core Treasury	593	-	593	5,493	4,900	4,900	1,221
B	Debt Management Office	622	-	622	850	228	228	4,566
F	Infrastructure Finance Unit Limited (net)	43,825	-	43,825	90,000	46,175	45,715	63,321
G	IUK Investments Limited (net)	461	-	461	1	(460)	-	434
H	IUK Investments Holdings Limited (net)	-	-	-	1	1	1	-
K	Asian Infrastructure Investment Bank	93,303	-	93,303	93,303	-	-	97,251
L	National Infrastructure Commission	625	-	625	700	75	75	343
Capital spending in DEL		**139,429**	**-**	**139,429**	**190,348**	**50,919**	**50,919**	**167,136**
Annually Managed Expenditure (AME)								
Voted								
T	Investment in Bank of England	-	-	-	-	-	-	1,180,000
	Sale of shares	-	-	-	-	-	-	(2,506,750)
V	Loans to Ireland	-	(1,613,480)	(1,613,480)	(1,613,480)	-	-	
W	Assistance to financial institutions	-	(4,745)	(4,745)	-	4,745	-	(2,186)
X	Sovereign Grant funding of the Royal Household (net)	12,180	-	12,180	6,250	(5,930)	-	8,809
Y	Financial Services Compensation Scheme (net)	778	-	778	500	(278)	-	623
Z	UK Asset Resolution (net)	(600,137)	-	(600,137)	(650,000)	(49,863)	(32,332)	(11,806,922)
AB	Help to Buy ISA	141,006	-	141,006	160,000	18,994	-	128,315
Capital spending in AME		**(446,173)**	**(1,618,225)**	**(2,064,398)**	**(2,096,730)**	**(32,332)**	**(32,332)**	**(12,998,111)**
Total Capital Outturn		**(306,744)**	**(1,618,225)**	**(1,924,969)**	**(1,906,382)**	**18,587**	**18,587**	**(12,830,975)**

Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on gov.uk. The outturn net total compared to estimate, adj. for virements column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

Explanation of key variances between Estimate and net resource outturn as at 31 March 2020

SoPS 1.1 Analysis of net resource outturn by section

Spending in Department Expenditure Limit (DEL)

A HMT:

Underspend was mainly due to ring fenced funding provided to the department for transitional costs of leaving the EU not being needed (£6m) and other financial pressures across the group not materialising by year end.

B DMO:

Due to external factors towards the end of the year including COVID-19 interventions the income from the Public Works Loan Board (PWLB) was surplus by over £1m.

C GIAA:

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

Spending in Annually Managed Expenditure (AME)

O Provisions:

Variance was 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.

W Assistance to Financial Institutions:

The variance mainly relates to the £50.7bn variance for fair value movements in the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative, which achieved a gain of £35.6bn during the year (for more information see Note 15 – Derivative Financial Assets).

Due to the volatile and unpredictable nature of the derivative estimate, a decision was made to cover a potential £15bn 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.

AD EU Withdrawal Agreement Financial Settlement:

The variance relates to the new provisions and receivables for the Financial Settlement following the UK's exit from the European Union (see Note 10 – Trade and other receivables, Note 18 - Provisions, and page 118)

Due to unpredictable exchange rate movements and uncertainty over the technical accounting treatment of elements of the settlement at the time that budgetary cover was sought, a decision was made to cover a £47bn liability, 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.

SoPS 1.2 Analysis of net capital outturn by section

Spending in Department Expenditure Limit (DEL)

A Core Treasury:

Underspend relates mainly to £4.2m of earmarked funding for the anticipated activities of the UK Guarantees. As the activities did not arise, the earmarked funds were not utilised.

F Infrastructure Finance Unit Limited (net):

Underspend relates to lower than anticipated drawdown of the Digital Infrastructure Investment Fund and Charging Infrastructure Investment Fund, with the remaining undrawn amount available in the future years of the funds' operation.

Due to the unpredictability of the timing of projects, the re-classification from C-DEL to AME was approved from the 2020-21 financial year.

Spending in Annually Managed Expenditure (AME)

X Sovereign Grant funding of the Royal Household (net)

We under-estimated capital expenditure in the Supplementary Estimate for works associated with the Reservicing Programme for Buckingham Palace, which is accounted for in the Sovereign Grant and managed by the Royal Household. In prior years the expenditure had been capitalised at year-end, but the correct approach would have been to recognise this in the Supplementary Estimate each year. This meant that amounts that should have been treated as Capital AME at Supplementary Estimates were instead treated as Resource AME. This has resulted in capital expenditure being £6 million more than estimated, contributing to the C-AME control total breach for 2019-20.

Z UK Asset Resolution:

Both redemptions and repossessions activity for the mortgage loan book held by UKAR underperformed in the latter half of the year, in part due to in part due to COVID-19 and the associated slowdown in the housing market in March 2020. This has led to capital income received being lower than forecast at the Supplementary Estimate. We also over-estimated income in the Supplementary Estimate due to a translation error between internal Management Accounts reporting and what is required though government accounting to manage outturn against Estimate. As a private limited company, UKAR does not produce accounts using government accounting definitions such as AME and DEL. When UKAR converted their internal accounts into AME, an erroneous amount was included in the Capital AME forecast. Overall this has resulted in UKAR's capital income received being £50 million lower than estimated, contributing to the C-AME control total breach for 2019-20.

AB Help to Buy ISA:

Variance of £19m due to lower than expected bonus claims from house buyers on the scheme.

SoPS2 Reconciliation of outturn to net income

In £000	Note	2019-20	2018-19
Total resource outturn in SoPS	SoPS1.1	1,062,407	(15,032,272)
Add: Capital grants made		141,007	128,315
Add: Capital research		657	-
Less: Capital grant in kind received		-	(313,828)
Less: Income payable to the Consolidated Fund		(272,629)	(182,422)
Net income in the SoCNE		**931,442**	**(15,400,207)**

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SoPS to the financial statements.

Capital grants are budgeted for as CDEL but accounted for as spend on the face of the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. The capital grants made relate to Help to Buy ISA bonus payments which are charged against Capital AME within the SoPS capital outturn.

Income payable to the consolidated fund do not appear within the budgetary framework but are accounted for as spend on the face of the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. 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.

Capital grants in kind are budgeted for as CDEL but accounted for as spend on the face of the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. The capital grant in kind in 2018-19 relates to a transfer from the Department of International Development of their portion of the UK's shareholding in the Asian Infrastructure Investment Bank.

Research meeting the ESA10[1] definitions of research, but not the IFRS criteria for capitalisation are budgeted for as CDEL but accounted for as spend on the face of the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. The research costs relate to research undertaken by the National Infrastructure Commission.

[1] European System of Accounts 2010

SoPS3 Reconciliation of net resource outturn to net cash requirement

		2019-20		
In £000	**Note**	**Estimate**	**Outturn**	**Outturn Net total compared with Estimate: saving/(excess)**
Resource Outturn	SoPS1.1	**61,468,660**	**1,062,407**	**60,406,253**
Capital Outturn	SoPS1.2	**(1,906,382)**	**(1,924,969)**	**18,587**
Accruals to cash adjustments:		**(65,941,579)**	**(6,636,766)**	**(59,304,813)**
Of which: *Adjustments to remove non-cash items:*				
Depreciation		(5,924)	(4,034)	(1,890)
Derivative fair value movements		(15,000,000)	35,621,864	(50,621,864)
New provisions and adjustments to previous provisions		(47,007,000)	(39,102,127)	(7,904,873)
Other non-cash items		(200)	1,575,015	(1,575,215)
Adjustments for ALBs and other bodies:				
Remove voted resource and capital		340,715	(4,238,920)	4,579,635
Add cash grant-in-aid		98,330	101,331	(3,001)
Adjustments to reflect movements in working balances:				
Decrease in inventory		-	(4,373)	4,373
Decrease in receivables		(4,400,000)	(853,243)	(3,546,757)
Decrease in payables		-	31,402	(31,402)
Use of provisions		32,500	236,319	(203,819)
Subtotal		**(6,379,301)**	**(7,499,328)**	**1,120,027**
Removal of non-voted budget items:				
Banking and gilts registration service		(7,300)	(7,657)	357
Royal Household Pension Scheme		(3,500)	(3,968)	468
Civil List		(359)	(359)	-
Net cash requirement		**(6,390,460)**	**(7,511,312)**	**1,120,852**

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

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.

	2019-20		2018-19	
In £000	Outturn Income	Outturn Cash receipts	Outturn Income	Outturn Cash receipts
Operating income outside the scope of the Estimate	272,629	223,852	182,422	272,102
Capital receipts outside the scope of the Estimate	-	7,136,860	-	9,684,765
Excess cash surrendered to the Consolidated Fund	7,507,138	7,507,138	9,392,211	9,392,211
Excess cash surrenderable to the Consolidated Fund	4,607	4,607	55,833	55,833
Total amounts paid and payable to the Consolidated Fund	**7,784,374**	**14,872,457**	**9,630,466**	**19,404,911**

Capital receipts outside the scope of the estimate consists entirely of cash transfers from the BEAPFF derivative. See also Note 15 – Derivative Financial Assets and Note 26 – 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 financial year 2019-20, the Group, excluding UKAR and FSCS, had one special payment and no reportable losses (2018-19: one) totalling over £300,000 (2018-19: £2.0m). The special payment of £80.6m was made in respect of an extra-contractual payment to settle a lawsuit brought by Bank Mellat against the government.

UKAR Losses and special payments (audited)

A loan to a customer is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed, or in respect of unsecured loans where the collections process indicates a loan is not recoverable. Any subsequent proceeds are recognised on a cash basis and offset against previous impairments in the Statement of Comprehensive Income.

During 2019-20, loan to customer balances written off totalled £20.1m (2018-19: £45.8m). At 31 March 2020 £19.9m (2018-19: £45.8m) of these balances were still subject to enforcement action. During the year to 31 March 2020 recoveries net of costs on previously written off loans totalled £16.4m (2018-19: £32.2m).

FSCS Losses and special payments (audited)

Total losses and special payments were £0.5m (2018-19: £0.1m) during the year. There were no individual losses or special payments exceeding £300,000. The majority of this is made up of claims overpayments. At 31 March 2020 there was an outstanding recovery balance of £0.2m that FSCS are taking steps to recover.

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[2]	273
UK Guarantee Scheme	13
Help to Buy Guarantees	27

Fees, levies and charges (Group)	Income (£m)
FSCS Levies	576
GIAA Audit fees	37
UKAR Fees and charges	5
DMO Fees and charges	3

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 2019-20, the Treasury Group made 78% (2018-19: 68%) of all supplier payments within 5 days, against a cross-government target of 90% .

[2] Including interest due on receivable

Auditor

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.

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 25 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.

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 Withdrawal Agreement

The background of the EU Withdrawal Agreement is set out in Performance Report from page 29.

HM Treasury's financial statements and related disclosures set out the accounting implications of the financial settlement for HM Treasury. See Note 1.4 – Significant judgements and estimates, Note 10 – Trade and other receivables, Note 18 – Provisions, Note 24 – Contingent assets, and Note 25 – Contingent liabilities for detail.

HM Treasury also has a remote contingent liability, which does not meet the threshold for disclosure in the financial statements, in respect of the UK's contingent liability to the European Investment Bank (EIB). The terms of this are set out in Article 150 of the Withdrawal Agreement and is limited to the callable and paid in capital the UK held as a member state. HM Treasury would need to meet any call on this contingent liability that crystallises after 31 March 2021. Any call before that date would be met by the Consolidated Fund, in accordance with the EU Withdrawal Act 2020. The remote contingent liability is valued at £31.6bn as at 31 March 2020. The UK will also maintain a contingent liability in respect of the returned paid in capital, which will wind down in relation to the amortisation of EIB operations approved before withdrawal.

HM Treasury, in addition, discloses here an unquantifiable remote contingent liability for any other liabilities that may ultimately fall to HM Treasury as result of the implementation of the Withdrawal Agreement.

Further information on the financial impact of EU withdrawal is included in Annex E of the "European Union Finances" publication series.[4]

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 purchased 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 £454bn at 31 March 2020, (2018-19: £445bn). 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 £645bn, increased from £445bn on 19 March 2020, the crystallisation of a potential loss on realising these assets is currently unquantifiable, as the quantum of any potential

[4] The "European Union Finances 2019" can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900283/20200713_European_Union_Finances_2019_web.pdf

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.

The risk management undertaken by the Bank of England on the BEAPFF and HM Treasury's behalf is detailed in Note 26.4 – Financial Risk, Core Treasury and Agencies – Other.

See also, note 31.2 – Events after the reporting period.

Covid Corporate Financing Facility (CCFF)

On 17 March 2020 HM Treasury authorised the Bank of England to purchase high quality Commercial Paper from non-financial institutions that made a material contribution to the UK economy. This authorisation allowed the Bank of England to purchase Commercial Paper both on the primary and secondary market. The government has indemnified the Bank of England and the Covid Corporate Financing Facility Limited (CCFF), which is the fund specifically created to implement the facility, from any losses arising out of or in connection with the facility.

The CCFF is financed by central bank reserves, of which £1.9bn had been loaned by the Bank of England on 31 March 2020, of a total authorised amount of £50bn. The indemnity represents a contingent liability for HM Treasury which would crystallise if losses arise in the CCFF, following the default of an institution which issued Commercial Paper through the facility.

Bank of England capital framework

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 formal agreement that HM Treasury recapitalise the Bank in the event of a major capital loss results in a 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 framework is not for a finite term.

The bank has a strong capital base, and the risk of a major 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.

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 March 2020 Oil and Gas UK estimated that £8.1bn of capital had been unlocked for reinvestment as a result of the Deeds.

As at 31 March 2020, 96 Deeds had been signed and were in force (2018-19: 92). 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's operators 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 £285m; see Note 18 – Provisions.

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 and others can be called upon to act as a director of one of the incorporated companies within the HM Treasury Group or other wholly owned companies. 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 infrastructure project lenders 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 2020 five projects were guaranteed, one project was completed, and no new guarantees were issued during the year. Note 26.4 – Financial Risk, Core Treasury and Agencies – Other, 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 a maximum contingent liability of £40bn. As at 31 March 2020, the maximum potential liabilities under this scheme were estimated to be £718m. A breakdown of the exposure by each infrastructure project can be seen in Note 26.4 – Financial Risk, Core Treasury and Agencies – Other.

See also, note 31.3 - Events after the reporting period.

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 22 successful claims totalling £250k. Since inception, bank rates have been at historic lows, employment rates have been steady and on average, property values have increased. This has contributed to a low number of claims.

Under the scheme rules, the maximum contingent liability limit was set at £12bn. As at 31 March 2020 the maximum potential liabilities under this scheme were estimated to be £430m.

For information on the related financial guarantee see Note 20 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 was made in five annual instalments of US$122m, totalling US$611m, with the last payment in December 2019.

A remote contingent liability arises in relation to the US$2.4bn (approximately £1.93bn) of callable capital. This is not paid over, but the AIIB would be able to call on it in the event that the bank were 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, thus protecting member countries from a possible call on callable capital. Three major credit ratings agencies re-affirmed the bank with AAA ratings in 2019, 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 by the Department for International Development (DfID) in February 2017 and January 2018, and the fourth and fifth by HM Treasury in December 2018 and December 2019.

Accordingly, HM Treasury has a remote contingent liability of US$2.4bn (approximately £1.93bn) as at 31 March 2020 in respect of callable capital related to the AIIB. DfiD's investment representing the second and third instalments were transferred to HM Treasury during the 2018-19 financial year.

For information on the related commitments see Note 22 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 guarantees with regard to certain borrowings, derivative transactions and certain wholesale deposits held in accounts with each entity. B&B and NRAM (now NRAM Ltd, created after the sale of NRAM plc in 2016) paid monthly guarantee fees to the Treasury for these guarantees. See further detail in Note 20 – Financial Guarantees.

The maximum potential liabilities under the intervention for NRAM are nil as at 31 March 2020 (2018-19: £0.2bn) as the underlying guaranteed assets were disposed of in 2019-20 and the guarantee is no longer required. A financial guarantee liability of nil is carried at fair value on the Statement of Financial Position at the reporting date (2018-19: £10.0m). The underlying guaranteed assets for B&B were disposed of during 2018-19.

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 25 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 accounts (December 2019) are £6.0bn (2018-19: £5.8bn) and £31m (2018-19: £31m) 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 2019-20 and the four prior years, along with the planned expenditure for 2020-21. 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 106. 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
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL						
Core Treasury	122	118	170	189	296	207
Debt Management Office	18	18	18	17	19	24
Government Internal Audit Agency	1	2	4	1	-	3
Office of Tax Simplification	-	1	1	1	1	1
UK Financial Investments	3	2	2	-	-	-
Office for Budget Responsibility	2	3	2	3	3	4
Infrastructure Finance Unit Ltd	(4)	(4)	(4)	-	-	-
IUK Investments Limited	-	-	-	-	(1)	-
Eurostar	(16)	-	-	-	-	-
UK Government Investments Ltd	-	11	12	13	14	16
National Infrastructure Commission	-	1	5	5	5	5
Asian Infrastructure Investment Bank	-	-	9	10	9	9
Non-voted: Banking & gilts registration	11	7	7	7	8	8
Total Resource DEL	**137**	**159**	**226**	**246**	**354**	277
Resource AME						
Core Treasury	-	-	-	-	(13)	-
Provisions	298	244	141	135	192	-
Coinage manufacturing	35	31	43	23	16	10
Coinage metal costs	15	21	25	4	15	8
Investment in the Royal Mint	(4)	(4)	(4)	(4)	(4)	(4)
Investment in the Bank of England	(105)	(103)	(62)	(54)	(45)	(50)
Equitable Life administration	4	3	1	-	-	-
Financial stability	(12,500)	(24,832)	(217)	(15,114)	(36,770)	(22)
Credit easing	(63)	(61)	(3)	-	-	-
Sovereign Grant	40	42	47	66	70	86
MAS	(3)	(6)	9	-	-	-
FSCS	(333)	(301)	(75)	(11)	(1)	85
UKAR	(1,264)	(497)	(592)	(328)	40	175
Help to Buy	-	-	-	-	-	-
Help to Buy ISA	61	-	-	-	12	10
IUK Investments	-	-	3	-	-	-
UK Financial Investments	-	1	1	-	-	-
UK Government Investments	-	-	-	1	1	1
EU Withdrawal Agreement Financial Settlement	-	-	-	-	37,191	-
Non-voted: Royal Household pension	4	4	4	4	4	4
Total Resource AME	**(13,815)**	**(25,458)**	**(679)**	**(15,278)**	**708**	303
Total Resource DEL and AME (net)	**(13,678)**	**(25,299)**	**(453)**	**(15,032)**	**1,062**	580
of which:						
DEL Depreciation	8	8	8	5	4	6

Note: data for years beyond 2020-21 is not held, so only five historic years and one future year is included.

Resource DEL

Resource DEL in Core Treasury has increased in 2019-20 predominately due to an extra-contractual legal settlement of £80.6m. See losses and special payments on page 115 for more detail.

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.

EU Withdrawal Agreement Financial Settlement includes the movements in provisions and receivables recognised for the UK's share of EU's assets and liabilities following the UK's exit from the European Union.

Provisions relate primarily to bonus payments under the Help to Buy ISA scheme, and the Equitable Life Payment Scheme.

Capital

In £m	Outturn					Budget
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Capital DEL						
Core Treasury	-	-	1	1	1	8
Debt Management Office	-	-	3	5	1	1
Infrastructure Finance Unit Ltd	(4)	(5)	(88)	63	43	-
IUK Investments Limited	-	2	6	1	-	-
National Infrastructure Commission	-	-	-	-	1	-
Eurostar	(741)	-	-	-	-	1
Asian Infrastructure Investment Bank	85	-	-	97	93	-
Total Capital DEL	**(660)**	**(3)**	**(78)**	**167**	**139**	10
Capital AME						
Investment in Bank of England	-	-	-	1,180	-	-
Assistance to Financial Institutions	(11,314)	(3,515)	(942)	(2,509)	(1,618)	(1,613)
Sovereign Grant	2	2	5	9	12	3
FSCS	(294)	(2)	(24)	1	1	-
UKAR	(17,459)	(16,270)	(2,840)	(11,807)	(600)	-
Help to Buy ISA	-	53	104	128	141	175
Infrastructure Finance Unit Ltd	-	-	-	-	-	105
Total Capital AME	**(29,065)**	**(19,732)**	**(3,697)**	**(12,998)**	**(2,064)**	(1,330)
Total Capital DEL and AME (net)	**(29,725)**	**(19,735)**	**(3,775)**	**(12,831)**	**(1,925)**	(1,320)
Total Departmental Spending	**(43,403)**	**(45,034)**	**(4,228)**	**(27,863)**	**(863)**	(740)

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. The final subscription was made in 2019-20.

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 being driven by market conditions providing value for money.

UKAR capital receipts fluctuate between years, largely due to sales of former Bradford and Bingley and Northern Rock mortgage books, which are driven by market conditions providing value for money. There have been no mortgage book sales during 2019-20.

Analysis of administration costs

An analysis of administration income and expenditure is provided below.

In £m			**Outturn**			**Budget**
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Core Treasury	136	125	123	150	165	205
Debt Management Office	14	15	15	13	15	19
Government Internal Audit Agency	1	2	4	1	-	3
Office of Tax Simplification	-	1	1	1	1	1
UK Financial Investments	4	2	2	-	-	-
Office for Budget Responsibility	2	3	3	3	3	4
UK Government Investments	-	11	12	13	14	16
National Infrastructure Commission	-	1	5	5	5	5
Eurostar	(16)	-	-	-	-	-
Total Net Administration Costs	**141**	**160**	**165**	**186**	**203**	253
of which:						
Staff Costs	102	129	140	151	168	
Other Expenditure	101	85	85	94	97	
Income	(62)	(54)	(60)	(59)	(62)	

Staff costs

Staff costs have increased due to the preparation work required in case the UK departed the EU without a deal in place. When the UK left the European Union with a deal, the additional staff resources were reprioritised at pace to cover COVID-19 preparations.

Other expenditure

Expenditure remained consistent with 2018-19.

Income

Income remained consistent with 2018-19.

Tom Scholar
Permanent Secretary

22 September 2020

The Certificate 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 2020 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 2019. 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 2020 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.

Qualified opinion on regularity

In my opinion, except for the excess described in the basis for qualified opinion paragraph below, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 and shows that those totals have not been exceeded;
- 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.

Basis for the qualified opinion on regularity

Parliament authorised a Capital Annually Managed Expenditure limit of minus £2,096,730,000 for the Department. The Department's outturn against this limit was minus £2,064,398,000. This means that HM Treasury exceeded the authorised limit by £32,332,000 as shown in the Statement of Parliamentary Supply.

Further details can be found in my report.

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. I have, however, taken account of the effects upon HM Treasury of the global COVID-19 pandemic, and these risks have been included here.

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.

Key audit matter 1 – Exit from the European Union

Description of Risk

The UK left the European Union (EU) on 31 January 2020 under terms defined by the Withdrawal Agreement. The Withdrawal Agreement includes a Financial Settlement which sets out the various rights and obligations of the UK and EU during the transition period and beyond. Interpreting the Withdrawal Agreement requires a series of judgements as to the impact on HM Treasury's financial statements and other government accounts for the 2019-20 financial year.

Due to the risk of material misstatement because of the underlying complexity and sensitivity that underpin these judgements, I have identified a significant risk of misstatement. My assessment of this risk was reviewed and revised during the course of my audit as the form and timing of the withdrawal agreement was concluded.

The specific areas of risk identified by my audit are

- Completeness, recognition and measurement: There are 185 Articles within the Withdrawal Agreement, and though most of the Articles that have a financial impact are included in 'Part 5 –Financial provisions', some Articles outside this Part could impact financial reporting under the Financial Reporting Manual. There was a risk that HM Treasury did not identify and recognise all the assets and liabilities, or disclosures required under reporting standards, as at 31 March 2020 which could lead to material misstatements or omissions within the accounts prepared by HM Treasury.
- Regularity: The financial reporting of amounts arising as a result of the Financial Settlement must conform with the relevant frameworks of parliamentary authority. There was a risk that assets, liabilities and off-Balance Sheet disclosures are not reported in the correct accounts, and so the reporting of transactions may not conform to the authorities that govern them. There was also a risk that the scale of the liabilities would be greater than anticipated or that income accrues to a different account than anticipated. This could result in HM Treasury exceeding voted expenditure limits.
- Valuation: the valuation of items arising from the Withdrawal Agreement requires the use of different estimation techniques, with varying degrees of

complexity, that utilise a range of inputs and assumptions with varying degrees of sensitivity. For some of these estimates, there is a high level of estimation uncertainty.

How the scope of my audit responded to the risk	My response to addressing the risk of material misstatement in this area has involved: • Reviewing governance processes and the design of controls in place over the models used to prepare the estimates, and the process in place to ensure appropriate balances and disclosures derived from these models are appropriately included in the financial statements. • Considering HM Treasury's assessment of the Withdrawal Agreement, verifying whether all Articles with a financial reporting impact are recognised in the HM Treasury accounts, as appropriate, and that these assets, liabilities, and disclosures are in line with the financial reporting framework. • Reviewing the models used in preparing the estimates, to confirm the estimates drawn from these models are reasonable, based on relevant information, and follow an appropriate measurement methodology. • Identifying where management have used experts and evaluating the competence, capabilities and experience of those experts. This has included confirming that the scope of their work is appropriate and sufficient for the purposes relied upon by management. • Engaging my own experts in Modelling, Economics and Statistics, Corporate Finance and legal expertise to support my evaluation of the work performed by management. • Reviewing management's assessment of the level of uncertainty present within these estimates and the processes in place to address this uncertainty. • Evaluating and challenging management's assessment of the impact of COVID-19 and other factors occurring after the reporting date on the estimates. • Reviewing the proposed disclosures required under the Financial Reporting Manual and Managing Public Money to ensure that these are adequate and sufficient for readers to be able to gauge the level of

estimation uncertainty within the amounts recognised and disclosed.

Key observations

I have found HM Treasury's recognition and measurement of assets and liabilities within the Departmental and Group accounts identified in the Withdrawal Agreement to be complete and accurate.

I note that some assets and liabilities have, appropriately, not been recognised where they more properly fall to other accounts, being principally the Consolidated Fund but also some other Government Departments.

I have found that the models prepared by management use appropriate input data and apply reasonable and appropriate measurement techniques based on the data available. The Department has used the discount rates mandated by the Financial Reporting Manual, the basis for which is explained in note 18. Future cash flows are denominated in Euros, and therefore valuations are particularly sensitive to future change in exchange rate also explained in note 18.

I note that the nature of the data available to the Department in estimating the value of assets and liabilities, and the long term and forward looking nature of the estimates involved, heightens the level of uncertainty involved.

Key audit matter 2 – Valuation of UKAR assets

Description of risk

Loans to banking customers held by NRAM Ltd (NRAM) and Bradford and Bingley plc (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.

Management make a number of material and subjective judgements to derive 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. Two separate models are used to arrive at the valuation of assets: the fair value model and the expected credit loss (ECL) model. These utilise different data, processes and controls, as well as different assumptions and are therefore subject to different risks and sensitivities. At the beginning of my audit HM Treasury were aiming to sell the residual loan book and related legal entities. The sale did not occur in year, and therefore my risk assessment was updated accordingly.

How the scope of my audit responded to the risk	I have assessed and relied on 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 also assessed and relied on the work of my team auditing the UKAR accounts to assess the assurance provided over the group accounts figures. My audit approach was based upon review and assessment of the work performed by the UKAR component audit team over the governance, design and use of the UKAR valuation models to support UKAR's financial statements. This work included: • Testing of the design and implementation of controls over the significant risk including the controls and governance in place over the design and maintenance of the ECL and fair value models. • Assessing the design of the ECL and fair value models and assessing management's rationale for the assumptions and methods used to confirm that these will produce an estimate compliant with the requirements of IFRS 9 Financial Instruments and IFRS 13 Fair Values. Specific consideration was given to any changes to the design of the model. • Testing of the completeness and accuracy of the input data and assumptions that are used to support the fair value model, by re-performing reconciliations, agreeing assumptions to third party sources or other evidence and considering their reasonableness. The UKAR audit team also produced its own independent version of the fair value model to validate the logical integrity of the UKAR model using NAO modelling specialists. • Testing the completeness and accuracy of the input data used in the ECL model through agreement to loan data in the mortgage systems and other supporting evidence. The UKAR team also 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 Oxford Economics, as well as adjustments made to those scenarios by management.

- UKAR component auditors also specifically considered UKAR's approach to reflecting the impact of the COVID-19 pandemic on the assumptions used in the model including review of additional sensitivity analysis based on alternative scenarios and the impact of increased estimation uncertainty

Key observations

Based on the evidence I obtained I have found that the assumptions and data used in the fair value model are reasonable and in line with the requirements of IFRS 13. I am content that the valuation is appropriate.

The fair value of loans is particularly sensitive to the discount rate used in the model. As explained in note 1.4 the Department has an exemption from applying the discount rate mandated by the Financial Reporting Manual for these balances.

As a result of the volatility of financial markets at 31 March 2020 due to the COVID-19 pandemic which has restricted the availability of observable data and the potential macroeconomic consequences on expected cash flows used in the model there is significant estimation uncertainty in the measurement of fair value, with a potential range of reasonable outcomes greater than my materiality for the financial statements. The financial statements (note 26) disclose the sensitivities estimated by the group which I am content are adequately disclosed.

Key audit matter 3 – BEAPFF derivative valuation

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 £73.6 billion as at 31 March 2020.

BEAPFF prepares its accounts to 29 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.

How the scope of my audit responded to the risk	• 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 2020 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 29 February 2020. • I have performed additional procedures on the subsequent movements in assets and liabilities, most notably considered 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 2020. **Key observations** 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 4 – COVID-19 Pandemic

Description of Risk

The COVID-19 pandemic has resulted in widespread economic and financial disruption within the UK and global economy. In response, the Chancellor of the Exchequer has announced a range of initiatives intended to support businesses and jobs. In addition, the deteriorating global economic outlook, has lead to increased uncertainty culminating in asset volatility.

The changed economic and fiscal outlook caused by the COVID-19 pandemic has a number of impacts upon HM Treasury's financial statements:

- The deteriorating economic climate for the short and medium term has a pervasive impact on HM Treasury's financial statements. As a result, several account balances face potentially material measurement issues. These include items measured at fair value, assessment of forward-looking expected credit losses, appropriateness of actuarial assumptions, and the assessment of provisions. There is a risk that these have not been updated to sufficiently reflect changing economic conditions and forecasts at the reporting date or have been applied inconsistently or inappropriately.
- The Bank of England has launched the Covid Corporate Financing Facility, which is designed to support liquidity and mitigate cashflow disruption for larger firms through the purchase of short-term debt in the form of commercial paper. It has also established the Covid Corporate Financing

Facility Ltd (CCFF) as the corporate vehicle for the scheme. HM Treasury have indemnified CCFF against any losses which the facility may incur. The indemnity will require assessment for recognition and disclosure within HM Treasury's financial statements. The valuation of the indemnity may also pose challenges in accurate measurement at 31 March 2020. There is therefore a risk that this balance could be materially misstated.

- The Chancellor of the Exchequer, and HM Government more broadly, have announced a wide array of initiatives aimed at supporting individuals and companies during the challenges posed by the pandemic. There is therefore a risk that the reporting of financial impacts within HM Treasury's financial statements is not complete.
- The rapid expansion of the CCFF, possible changes to asset prices after 31 March 2020, as well as the further extension of asset purchases by BEAPFF give rise to the risk of incomplete post balance sheet event disclosures within the financial statements.

Due to the risk to balances throughout HM Treasury's group financial statements, during the course of my audit I added a significant risk and a key audit matter in respect to the audit of the Department and the Departmental Group.

How the scope of my audit responded to the risk

My response to addressing the risk of material misstatement in this area has involved:

- reviewing HM Treasury's accounting treatment of the indemnity HM Treasury have provided to the Bank of England in respect of losses incurred over the life of the Covid Corporate Financing Facility Ltd.
- performing substantive testing over the valuation of the indemnity provided by HM Treasury to the Bank of England.
- reviewing all account balances potentially affected by the pandemic, for example those relying on forward looking estimates of economic conditions, to ensure that relevant assumptions, measurements and assessments remain valid and that HM Treasury's accounts are materially correct.
- reviewing disclosure of events after the reporting period to confirm that all material impacts have been captured within the financial statements.

Key observations

Based upon the evidence I am satisfied that the amounts recognised within the financial statement are appropriate. I did not identify any misstatements as a result of the work I have performed.

Key audit matter 5 – Valuation of UKAR defined benefit pension liability

Description of risk

The HM Treasury Group financial statements recognise a net pension asset in relation to the closed defined benefit pension schemes recognised by UKAR. These consists of a gross defined benefit pension liability and the offsetting scheme assets. The scheme assets include a buy-in policy that is intrinsically linked to the scheme liabilities, and so this asset was scoped into the significant risk. All other pension assets continue to be recognised as an area of limited management judgement, due to the balance being primarily made up of assets with externally quoted prices. The estimation uncertainty for the asset balance is lower than for the liabilities and as such is not considered to represent a material risk of misstatement. Other scheme assets are valued using readily available market information and are therefore not subject to significant levels of estimation uncertainty.

However, the gross defined benefit pension liability is highly material to the financial statements and subject to a high level of estimation uncertainty and, to a lesser extent, management judgement. As such the valuation of the defined benefit pension scheme liabilities has been recognised as a significant risk per ISA 315 and a key audit matter in respect to the audit of the Departmental Group.

How the scope of my audit responded to the risk	My audit approach was based upon review and assessment of the work performed by the UKAR component audit team in respect to UKAR's defined benefit pension schemes. The UKAR team's approach to the risk included: • Evaluating the design and implementation of the controls that UKAR has in place to ensure the liability is not materially misstated. This has included consideration of management's review of assumptions used, and final IAS 19 report issued to support the valuation of the liability. • Evaluating the design and implementation of controls over membership data in place as the pension scheme administrator. • Reviewing the actuary's report and agreement to the accounts. • Performing procedures to earn the right to rely on the work of the scheme actuary as a management expert in accordance with ISA 500 *Audit Evidence*. • Engaging with our own actuarial experts to obtain assurance over the reasonableness of key assumptions used by the actuary in calculating the liability.

- Review of policy documentation for the NRAM pension scheme buy-in policy.
- Performing procedures to obtain assurance over membership data and other inputs used to calculate the liability.

Key observations

I have obtained sufficient assurance over this risk through my testing. I did not identify any misstatements as a result of the work I have performed.

Key audit matter 6 – Capital Annually Managed Expenditure breach

Description of risk

HM Treasury's spending is broken down into several different spending totals, for which Parliament's approval is sought through the Estimates process. The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit ("Resource DEL") which covers day to day running costs,
- Capital Departmental Expenditure Limit ("Capital DEL") for investment in infrastructure,
- Resource Annually Managed Expenditure ("Resource AME") covering less predictable spending such as fair value movements on derivatives, creation of provisions and income from dividends and interest, and
- Capital Annually Managed Expenditure ("Capital AME") on less predictable investment spending such as payments under the Help to Buy: ISA scheme and receipts from loan repayments and disposals.

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require HM Treasury to pay out cash in year.

As noted in the paragraph setting out the basis for the qualified opinion in respect of regularity, HM Treasury have breached the limit of Capital Annually Managed Expenditure authorised by Parliament for the 2019-20 financial year. As a result, the transactions within the financial statements do not conform to the authorities that govern them, and I have qualified my regularity opinion on the financial statements.

Due to the impact on my opinion, this has been recognised as a key audit matter during the year.

How the scope of my audit	• I reviewed the design and implementation of controls at HM Treasury both over the preparation of its parliamentary estimates, and those monitoring

responded to the risk	the department's forecast compliance against the limits authorised by Parliament. • I reviewed the derivation of the Statement of Parliamentary Supply to ensure that it is correctly drawn from the underlying ledger data and that the reported breach is correctly stated. • I reviewed manual journal entries and adjustments to the accounts in favourable directions for any indications of management override to minimise the breach reported. **Key observations** I consider that the Statement of Parliamentary Supply is correctly drawn from the ledger, and that the breach reported in respect of Capital AME is accurately stated. As a result, I have qualified my regularity opinion on the HM Treasury financial statements in respect to the breach of Annually Managed Capital Expenditure. My report below provides further details to explain the basis of my qualification.

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 upon my professional judgement I determined that it was appropriate to employ three levels of materiality. The first of these was based upon the BEAPFF derivative valuation, and was selected due to the significance of this valuation in terms of size and risk. At £73.6 billion the BEAPFF derivative dominates the Statement of Financial Position of HM Treasury. The materiality using this benchmark was set at £736 million which is approximately 1% of the value of the BEAPFF derivative. I consider the 1% level is appropriate because the level of interest in the BEAPFF derivative remains low relative to other elements of Government and Departmental spending.

At 31 March 2020, there is a new significant item contained within the HM Treasury Statement of Financial Position. This is the provision in relation to the UK's Financial Settlement with the EU. Given the size of this item and the significant level of interest from users of HM Treasury's accounts in this balance, I deemed it appropriate to ascribe it its own materiality base based upon the net amount payable by the UK to settle these liabilities. This is £37.2 billion, and the materiality using this benchmark is £185 million which is approximately 0.5% of the net liability. I selected 0.5% to reflect the heightened interest of users in amounts relating to the UK's financial settlement. I chose the net amount payable as the benchmark as I consider that this is what users are most interested in.

For financial statement components unconnected with the BEAPFF derivative asset and the European Union Financial Settlement, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given there is interest in these figures. I have therefore set a separate materiality using HM Treasury's residual gross assets of £23.8 billion. The materiality using this benchmark is £119 million which is approximately 0.5% of residual gross assets. I selected 0.5% as much of residual gross assets relates to HM Treasury's interventions during the financial crisis, and I consider that users may be particularly interested in these.

	Group materiality	Parent materiality
Overall materiality	£737 million	£736 million
EU Financial settlement balances	£185 million	£185 million
Other balances	£119 million	£119 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 individual uncorrected misstatements identified through my audit in excess of £1 million, as well as all uncorrected misstatements in aggregate whose individual values are between £300,000 and £1 million. I also undertook to report differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences would increase net assets and reduce net expenditure by some £17 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.

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 risks that I have identified in relation to the Valuation of UKAR Assets and UKAR Defined Pension Liabilities. 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.

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.

Gareth Davies | 25 September 2020

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London SW1W 9SP

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

Introduction

HM Treasury is the UK Government's economics and finance ministry, with a remit to maintain control over public spending and determine the direction of economic policy. In 2019-20, HM Treasury was responsible for £60 billion of UK public expenditure.

The net expenditure of government departments is authorised by the annual Supply and Appropriation Acts of Parliament and their associated Supply Estimates. These Acts set a series of expenditure limits on each department's spending, and net cash requirement. Expenditure beyond any of these limits is considered a breach of a control total and results in an 'Excess Vote'. Such expenditure potentially undermines parliamentary control over public spending. Where these limits are breached, I qualify my regularity opinion on the financial statements. Parliament authorised a Capital Annually Managed Expenditure limit of minus £2,096,730,000 for HM Treasury. HM Treasury's outturn against this limit was minus £2,064,398,000. This means that the authorised limits were exceeded by £32 million and so I have qualified my regularity opinion on the financial statements in this respect. HM Treasury proposes to ask Parliament to authorise a further £32 million of Capital Annually Managed Expenditure.

HM Treasury's Capital Annually Managed Expenditure

HM Treasury's Capital Annually Managed Expenditure consists primarily of income and expenditure related to investment in and financial assistance to financial institutions and non-financial organisations, businesses and individuals. This includes infrastructure finance, spending on Help to Buy ISAs, and capital spending by the Sovereign Grant and UKAR. It also includes the proceeds from the sale of capital items such as including Royal Bank of Scotland shares and elements of the UKAR Loan book.

HM Treasury exceeded its authorised limit for this category of expenditure because of two errors made in calculating the expenditure limit required from the supplementary estimate:

- HM Treasury over-estimated the income from the disposal of capital items by UKAR, one of HM Treasury's arm's length bodies. This occurred because of an error translating balances from UKAR's accounts into HM Treasury's accounts in producing the supplementary estimate. The error was introduced in 2018-19.
- HM Treasury also failed to accurately forecast capital expenditure relating to the Reservicing Programme for Buckingham Palace, which is managed by the Royal Household and funded through the Sovereign Grant. As in previous years, these sums were capitalised at year end but no allowance was included for this in the supplementary estimate.

In addition, redemptions and repossessions activity for the mortgage loan book held by UKAR was adversely impacted by the COVID-19 pandemic, and the associated slowdown in the housing market that took place during March 2020. This resulted in capital income received being lower than was forecast for the supplementary estimate, increasing the scale of the excess.

Following discovery of the errors HM Treasury have conducted an investigation of the underlying causes of the control total breach, which Internal Audit have in turn reported on. As explained on page 71 the underlying cause was that the governance, oversight and control arrangements for Arm's Length Bodies with AME spending were not sufficient. HM Treasury are strengthening their controls and oversight over AME. This includes improving AME monitoring and strengthening accountabilities for AME areas. HM Treasury will provide more detailed guidance to ALBs and undertake additional scrutiny on the submissions for the annual Main and Supplementary Estimates.

Gareth Davies 25 September 2020

Comptroller and Auditor General

National Audit Office

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Chapter 3

Financial statements

Consolidated Statement of Comprehensive Net Expenditure
for the period ended 31 March 2020

		Core Treasury and Agencies		Group	
In £m	**Note**	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Income from sale of goods and services		(39)	(51)	(39)	(52)
Other operating income	2	(334)	(236)	(962)	(789)
Total operating income		(373)	(287)	(1,001)	(841)
Staff costs	3	152	137	211	198
Purchase of goods and services	4	120	128	344	368
Other operating expenditure	5	39,301	440	39,869	860
Total operating expenditure		39,573	705	40,424	1,426
Net operating expenditure before financing		**39,200**	**418**	**39,423**	**585**
Capital grant in kind	12	-	(314)	-	(314)
Finance income	6	(3,891)	(1,281)	(1,360)	(1,607)
Finance expense		7	11	(10)	(26)
Revaluation of financial assets and liabilities	7	(37,136)	(14,031)	(37,136)	(13,643)
Net gain on disposal of assets	8	-	-	(2)	(452)
Net (income)/expenditure before tax		**(1,820)**	**(15,197)**	**915**	**(15,457)**
Taxation		-	-	16	57
Net (income)/expenditure after tax		**(1,820)**	**(15,197)**	**931**	**(15,400)**
Other comprehensive net (income)/ expenditure					
Items that may be reclassified to net operating expenditure when specific conditions are met					
Net loss on assets recognised in reserves		-	-	186	288
Net transfer from reserves and recognised as income in year	8	-	-	-	96
Total		**-**	**-**	**186**	**384**
Items that will not be reclassified to net operating expenditure					
Revaluation of property plant and equipment		(3)	-	(3)	-
Net loss on assets recognised in reserves	12	12,425	660	9,631	1,006
Actuarial (gain) on pension scheme liabilities		-	-	(154)	(8)
Total		**12,422**	**660**	**9,474**	**998**
Net comprehensive (income)/expenditure for the year		**10,602**	**(14,537)**	**10,591**	**(14,018)**

The notes on pages 151 to 215 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2020

In £m	Note	Core Treasury and Agencies 2019-20	Core Treasury and Agencies 2018-19	Group 2019-20	Group 2018-19
Non-current assets					
Property, plant and equipment	9	172	138	203	161
Intangible assets		9	9	9	9
Trade and other receivables	10	2,030	418	1,909	506
Net pension asset	11	-	-	821	651
Equity Investments	12	21,145	33,432	15,060	24,553
Loans and advances	13	7	1,620	7	1,648
Loans to banking customers	14	-	-	4,144	4,747
Total non-current assets		**23,363**	**35,617**	**22,153**	**32,275**
Current assets					
Inventory		23	27	23	28
Trade and other receivables	10	304	1,199	442	5,747
Loans and advances	13	1,613	3,571	1,613	1,613
Loans to banking customers	14	-	-	564	778
Derivative financial assets	15	73,609	45,124	73,609	45,124
Cash and cash equivalents	16	66	61	1,298	1,089
Total current assets		**75,615**	**49,982**	**77,549**	**54,379**
Total assets		**98,978**	**85,599**	**99,702**	**86,654**
Current liabilities					
Trade and other payables	17	(295)	(333)	(622)	(819)
Provisions	18	(1,080)	(760)	(1,256)	(902)
Debt securities in issue	19	-	-	-	(204)
Financial guarantees	20	(18)	(33)	(18)	(23)
Total current liabilities		**(1,393)**	**(1,126)**	**(1,896)**	**(1,948)**
Non-current liabilities					
Trade and other payables	17	(428)	(329)	(558)	(476)
Provisions	18	(39,185)	(639)	(39,187)	(647)
Financial guarantees	20	(95)	(110)	(95)	(110)
Total non-current liabilities		**(39,708)**	**(1,078)**	**(39,840)**	**(1,233)**
Total assets less liabilities		**57,877**	**83,395**	**57,966**	**83,473**
Equity					
General fund	SoCTE	75,046	88,142	80,034	95,876
Fair value reserve	SoCTE	(17,219)	(4,794)	(23,405)	(13,588)
Revaluation reserve	SoCTE	50	47	50	47
Pension reserve	SoCTE	-	-	158	8
Merger reserve	SoCTE	-	-	1,129	1,130
Total equity		**57,877**	**83,395**	**57,966**	**83,473**

The notes on pages 151 to 215 form part of these accounts.

Tom Scholar, Permanent Secretary
22 September 2020

Consolidated Statement of Changes in Taxpayers' Equity[1]
for the period ended 31 March 2020

Group

In £m	Note	General fund	Fair value reserve	Re-valuation reserve	Pension reserve	Merger reserve	Total reserves
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	SoPS 4.1	(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**
Net income after tax		(931)	-	-	-	-	(931)
Change in CFERs payable to the Consolidated Fund	17	(49)	-	-	-	-	(49)
CFERs paid to the Consolidated Fund	SoPS 4.1	(7,361)	-	-	-	-	(7,361)
Change in excess cash payable to the Consolidated Fund	SoPS 4.1	(5)	-	-	-	-	(5)
Excess cash paid to the Consolidated Fund	SoPS 4.1	(7,507)	-	-	-	-	(7,507)
Consolidated Fund standing services		4	-	-	-	-	4
Other movements		2	-	-	-	-	2
Revaluation gains and losses		-	(9,817)	3	154	-	(9,660)
Transfers		5	-	-	(4)	(1)	-
Balance at 31 March 2020		**80,034**	**(23,405)**	**50**	**158**	**1,129**	**57,966**

The notes on pages 151 to 215 form part of these accounts.

[1] This statement shows the movement in the year on the different reserves held by the Departmental Group, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Fair Value Reserve reflects the change in financial instrument asset values that have not been recognised as income or expenditure. The Revaluation Reserve reflects the change in other asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of a Department, to the extent that the total is not represented by other reserves and financing items. The Pension Reserve reflects actuarial gains/losses on pension schemes. The merger reserve was generated on 1 October 2010 when the UKAR acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange. The merger reserve represents the difference between the value attributed to the UKAR's investment in each company and the nominal value of the share capital issued by the Company in exchange.

Consolidated Statement of Changes in Taxpayers' Equity
for the period ended 31 March 2020

Core Treasury and Agencies

In £m	Note	General fund	Fair value reserve	Re-valuation reserve	Pension reserve	Merger reserve	Total reserves
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	SoPS 4.1	(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**
Net income after tax		1,820	-	-	-	-	1,820
Change in CFERs payable to the Consolidated Fund	17	(49)	-	-	-	-	(49)
CFERs paid to the Consolidated Fund	SoPS 4.1	(7,361)	-	-	-	-	(7,361)
Change in excess cash payable to the Consolidated Fund	SoPS 4.1	(5)	-	-	-	-	(5)
Excess cash paid to the Consolidated Fund	SoPS 4.1	(7,507)	-	-	-	-	(7,507)
Consolidated Fund standing services		4	-	-	-	-	4
Other movements		2	-	-	-	-	2
Revaluation gains and losses		-	(12,425)	3	-	-	(12,422)
Balance at 31 March 2020		**75,046**	**(17,219)**	**50**	**-**	**-**	**57,877**

The notes on pages 151 to 215 form part of these accounts.

Consolidated Statement of Cash Flows
for the period ended 31 March 2020

		Core Treasury and Agencies		Group	
In £m	**Note**	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Cash flows from operating activities					
Net operating income/(expenditure) before financing	SoCNE	(39,200)	(418)	(39,423)	(585)
Other non-cash transactions	21	39,074	327	39,286	428
Changes in working capital		(71)	95	(31)	(67)
Corporation tax paid		-	-	(46)	2
Use of provisions	18	(236)	(213)	(390)	(349)
Net cash flows from operating activities		**(433)**	**(209)**	**(604)**	**(571)**
Cash flows from investing activities					
Proceeds: derivative financial assets	15	7,137	9,685	7,137	9,685
Proceeds: sale of shares UK listed entities		-	2,507	-	2,507
Proceeds: sale of investment securities and other assets		-	-	-	(453)
Net cash outflows from debt securities in issue		-	-	(204)	-
Proceeds: interest, dividend and other finance income		4,726	471	2,196	763
Purchases: financial assets		(137)	(1,346)	(137)	(1,340)
Proceeds: repayment of financial assets		3,591	8,308	1,618	2
Advances and repayments of loans to banking customers		-	-	661	1,864
Proceeds: sale of loans to banking customers		-	-	4,474	6,079
Other investing activities		(12)	(12)	(65)	(85)
Net cash flow from investing activities		**15,305**	**19,613**	**15,680**	**19,022**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		4	4	4	4
Advances from the Contingencies Fund		84	-	84	-
Repayments to the Contingencies Fund		(84)	-	(84)	-
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		**14,873**	**19,405**	**15,077**	**18,452**
Payments of amounts due to the Consolidated Fund	SoCTE	(7,361)	(9,957)	(7,361)	(9,957)
Excess cash paid to the Consolidated Fund – current year	SoCTE	(7,446)	(9,387)	(7,446)	(9,387)
Excess cash paid to the Consolidated Fund – prior year balance	SoCTE	(61)	(5)	(61)	(5)
Net increase/(decrease) in cash and cash equivalents after adjustments	16	**5**	**56**	**209**	**(897)**
Cash and cash equivalents at the beginning of the period	16	61	5	1,089	1,986
Cash and cash equivalents at the end of the period	16	**66**	**61**	**1,298**	**1,089**

The notes on pages 151 to 215 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 2019-20 FReM and the Government Resources and Accounts Act 2000. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted and 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.

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.

In common with other government departments, the financing of the Department's future service provision and liabilities are to be met by future grants of Supply and the application of future income, approved annually by Parliament. Parliament has authorised spending for 2020-21 in the Central Government Main Supply Estimates and there is no reason to believe that future approvals will not be made. It has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

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 bespoke accounts direction issued by HM Treasury[2].

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 2019-20 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. All entities have a 31 March reporting date. The Group includes, in addition to Core Treasury and Agencies:

[2] The bespoke accounts direction directs HMT to account for income received from the financial settlement of the EU Withdrawal Agreement within the consolidated group accounts, rather than in a trust statement.

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[3]	Not trading – dormant shell
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.[4]

For details on HM Treasury's ownership interests in other entities which are not consolidated, refer to Note 12 – Equity Investments.

1.3 Standards issued but not yet effective

The Group has not early-adopted any new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases

IFRS 16 is being applied by HM Treasury in the Government Financial Reporting Manual (FReM) from 1 April 2021 with a limited option for early adoption from 1 April 2019. Two of the Group's entities, UKAR and FSCS, have opted for early adoption with effect from 1 April 2019 but the Group has not early adopted IFRS 16. The consolidated group numbers therefore exclude the effect of early adoption by these two entities.

IFRS 16 specifies how an entity 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). For leases where the underlying asset has a low value, or where the lease term expires within 12 months from the date of transition, the Group will apply the recognition exemptions

[3] UKGI Financing plc was dissolved on 11 February 2020

[4] http://www.ukar.co.uk/about-us/financial-reports/2020

mandated by the FReM and lease costs will be expensed as incurred on a straight-line basis over the remaining term of the lease.

Ahead of the initial IFRS 16 transition date of 1 April 2020, the Group carried out an assessment of the impact of this standard on the Group's financial statements. This assessment showed no material impact from transition at 1 April 2020. The FRAB subsequently deferred the implementation of IFRS 16 in Central Government until 1 April 2021. The Group impact assessment exercise will be reperformed ahead of this deferred implementation date, but 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 2023 (subject to endorsement by the UK). 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.

1.4 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 the credit risk section of Note 26.2 – Financial 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 1.11 – Accounting Policies, Assets Held for Sale). 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 2008 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'.

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. In recognition that COVID-19 was having a significant impact on the economy, a further COVID-19 base case scenario was requested from the analysts which was then overlaid internally on to the base case and variant scenarios. 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. All variant scenarios include the overlay relating to the impact of COVID-19. 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 26 – Financial risk.

A case is considered to be in default 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. Payment holidays approved under COVID-19 forbearance are not considered as a trigger of default. 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. As these loans were entered into at commercial arm's length terms prior to their acquisition by the public sector, discount rates specific to the loans are used, rather than the public sector financial instrument rates set out in the FReM where those differ, as approved by HM Treasury. At the end of March 2020, there was still significant volatility in the securitisation markets and concerns over the potential significant macroeconomic consequences of the COVID-19 pandemic. Liquidity in the securitisation market was very low, which in turn meant the observable data for use as an input in the modelling was limited. As a result, management had to use a greater amount of judgement in relation to the estimated cost of equity and the number of years until the securitisation is refinanced. At 31 March 2020 and 31 March 2019, the discount rates fell into the following ranges:

Discount rates range	2020	2019
Residential loans	349-412 bps[5]	261 - 305 bps
Commercial loans	982 bps	749 bps

The valuation is regarded as Level 3 (see note 27 – Fair Value Hierarchy) 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.

Detail about the key sensitivities is contained in note 26.2 – Financial Risk, Group.

Equity investments

Under IFRS 9, equity instruments have been classified as held at fair value through other comprehensive income (FVOCI) and all changes in fair value are taken to reserves.

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 to either the market value or, when this is not available, discounted cashflows. Management has assessed the impact of COVID-19 on assets held at net asset value and determined that this continues to provide a good proxy for fair value.

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

[5] Basis points

which contain regular, similar transactions are often derived from financial models. Estimates and assumptions applied in these models are routinely evaluated and reviewed.

Provisions related to EU financial settlement

The provisions compose principally obligations in respect of EU pensions and outstanding EU Budgetary commitments (the so-called RAL[6]) at the end of 2020. The UK obligation in respect of EU pensions is estimated on the basis of information in the EU's 2019 audited consolidated accounts, and apply the estimated UK post 2020 financing share to projected end 2020 EU pension obligations, and adjust for the difference in discount rates used in EU accounts and those required under the HM Treasury Financial Reporting Manual. The projected end 2020 EU pension obligations are estimated by adjusting the end 2019 balance for changes over 2020 (e.g. payments made and additional entitlements accrued). The UK's post 2020 financing share (the average proportion of the EU Budget over 2014-20 financed by the UK) is estimated based on historical outturn contributions and the Office for Budget Responsibility's forecast UK contributions to the 2020 Budget. The obligation in respect of the RAL is estimated based on information in EU Budgets adopted on or before 31 March 2020 and associated budgetary implementation data provided to Member States and the UK. The estimated post 2020 financing share is applied to commitments in EU Budgets up to 2020 and adjusted for forecast implementation. The estimated level of decommitments (i.e. commitments that do not lead to payments) is based upon historical decommitment rates for the relevant programmes at the end of a Multiannual Financial Framework period.

The obligations of the financial settlement are principally denominated in Euros and therefore the sterling valuations are sensitive to changes in the Sterling/Euro exchange rate.

The accounting valuations for the pension related liabilities are sensitive to actuarial assumptions (e.g. life expectancy, inflation) for defined benefit pension obligations. The key assumptions are drawn from the EU's 2019 accounts, which provide the most recent audited estimate of the EU's pension obligations.

The value of the RAL is sensitive to the level of implementation of EU Budget commitments as not all commitments necessarily translate into payments.

See page 29 for further details on the financial settlement.

Receivables and payables related to EU financial operations in the financial settlement with the EU (Article 143 and 144)

UK financial rights and obligations in respect of certain EU financial operations cover by Articles 143 and 144 of the EU Withdrawal Agreement include rights and obligations to future cash flows and are accounted for as financial instruments under IFRS 9 Financial Instruments and measured at fair value. These articles cover a range of financial instruments. Those under Article 144 can only give rise to future cash inflows for HMT. These instruments have been funded by the EU budget, and HMT will receive a share of amounts recovered by the EU.

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[6] The Reste à Liquider (RAL or outstanding commitments) is the sum of commitments agreed but that have not yet turned into payments.

Instruments within the scope of Article 143 include two broad categories: those with associated guarantee funds to meet potential calls, and those without. Where the associated guarantee funds exceed calls HMT will receive net cash inflows. The UK is entitled to a share of net revenue received by the EU arising from these operations, and certain EU guarantees generate fee income. To the extent the calls exceed the revenues generated and the associated guarantee funds, HMT will have net cash outflows. For instruments without associated guarantee funds HMT can only make cash outflows.

To measure the fair value of these instruments HMT has made assumptions about the financial performance of the underlying instruments in order to forecast future cashflows, which are then discounted by applying the financial instrument rate set by HM Treasury, in accordance with the Financial Reporting Manual. The key assumptions in respect of these underlying operations include the risk of default and rate of recovery given default in the underlying operations, and the fee income generated by the EU. All the cash inflows and outflows are denominated in Euros. The sterling value of future net cashflows are sensitive to the Sterling/Euro exchange rate and the UK's post 2020 financing share (see above). The final counterparties for these operations include both sovereign's and corporate entities. For sovereign ratings, assumptions are based on Rating Agency information. For corporates (in the absence of specific data) credit quality is assumed to be relative to the sovereign risks of the location country, and is varied by the type of company and type of finance. Assumptions about the composition of the portfolios of corporates is based on the policy documentation produced by the EU for the associated programmes and information in the EU's accounts. These sources represent the most detailed, and in the case of the EU accounts third party assured, information on these instruments that is available to Member States of the EU. The provisioning rates used in the model are based on those set out in regulations for the relevant funds. The financial modelling has been cross checked against information reported to the UK under the terms of the Withdrawal Agreement on 31 July 2020.

Further information on the underlying financial operations and the associated guarantee funds will be provided by the EU to the UK, as required under the Withdrawal Agreement, on 31 March 2021.

1.5 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).

1.6 Property, plant and equipment

Property, plant and equipment assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000 except for antiques where no threshold is set. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When an asset is disposed of, any gain or loss on disposal is calculated as the difference between the disposal proceeds and the carrying value of the asset and is recognised as profit or loss in the SoCNE.

The charge for depreciation or amortisation is calculated to write down the cost or valuation of property, plant and equipment and intangible assets to their estimated residual values by equal instalments over their estimated useful lives which are as follows:

Freehold and long leasehold buildings	40 to 50 years
Property improvements	7 to 50 years
Plant and machinery	3 to 12 years
Furniture, fixtures and fittings	5 to 20 years
IT equipment and other non-IT equipment	3 to 10 years

Subsequent to initial recognition, land and buildings are recorded at fair value, as interpreted by the FReM, on the basis of professional valuations, which are conducted at least once every five years with an interim desktop review.

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 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. Where the transaction price differs from fair value, the value at initial recognition is adjusted to defer the difference between the fair value at initial recognition and the transaction price.

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.

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 judgements and estimates	Note 1.4

Disclosures of fair value measurement hierarchy	Note 27
Financial Instruments	Note 28

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 initially recognised 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

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. Assessment of the applicable business model was carried out at 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) or not to be SPPI.

Financial assets may be measured at amortised cost, FVP&L, or FVOCI.

The measurement classifications of financial assets are as follows:

	SPPI	Not SPPI
Held to collect	Amortised cost	FVP&L
Held to collect and sell	FVOCI	FVP&L
Held 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. This election is considered to be more appropriate for a group of strategic investments for which the election has been made.

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
Equity Investments	Note 12

Impairment identification

IFRS 9 requires that expected credit losses (ECL) are calculated using a range of forward-looking economic scenarios, weighted by the estimated probability of each scenario.

The Group recognises either a 12-month 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, a 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 effective interest rate (EIR) . Where there is a shortfall on the discounted forecast cash flow compared to the discounted contractual cash flow, a provision is made.

Equity Investments – In the case of equity investments held at 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.

De-recognition

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 level. The gain or loss on these securities will be accounted for on a first-in-first-out basis when they are eventually disposed.

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 only financial liabilities at FVP&L that the group holds are in respect of derivatives.

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. Under 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 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 either: a possible obligation arising from past events, the existence of which will be confirmed 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 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 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.

1.17 Off-balance sheet loan commitments

Off-balance sheet loan commitments are disclosed in Note 22 – 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.

1.18 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 at 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	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Fees and charges	(306)	(205)	(302)	(205)
Levies	-	-	(576)	(503)
Recoveries and recharges	(7)	(9)	(47)	(38)
Other operating income	(21)	(22)	(37)	(43)
Total	**(334)**	**(236)**	**(962)**	**(789)**

Fees and charges increased by £97m, largely due to an increased loan commitment fee from Pool Re driven by an improvement in the performance of Pool Re's investments.

3. Staff costs and numbers

Total staff costs for the Group at 31 March 2020 were £211m (2018-19: £198m), comprising £173m salaries and wages (2018-19: £168m), £18m social security (2018-19: £17m) and £20m staff pension costs (2018-19: £13m). The staff pension costs include a reduction due to UKAR receiving a net credit of £12m from their defined benefit pension scheme, which is in surplus.[7] 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	**2019-20**	**2018-19**	**2019-20**	**2018-19**
UK coinage: metal and manufacturing costs	33	46	33	46
Professional and office services	58	49	208	217
Other purchase of goods and services	29	33	103	105
Total	**120**	**128**	**344**	**368**

5. Other operating expenditure

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
FSCS compensation costs	-	-	464	371
Movement in provisions (note 18)	39,102	315	39,283	448
Other operating expenditure	199	125	122	41
Total	**39,301**	**440**	**39,869**	**860**

Movement in provisions is detailed in Note 18.

[7] See UKAR's 2019-20 accounts for further information.

6. Finance income

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Interest and fee income from loans	(78)	(154)	(259)	(573)
Dividend income	(3,797)	(1,034)	(1,101)	(1,034)
Amortisation of loans	(16)	(93)	-	-
Total	**(3,891)**	**(1,281)**	**(1,360)**	**(1,607)**

The reduction in interest and fee income from loans is mainly due to a reduction in interest income to UKAR following the continuing disposals of NRAM and B&B mortgage assets and repayment of associated loans. More detail on mortgage asset disposals can be found in Note 14 – Loans to Banking Customers.
Following the final repayment of HMT's intercompany loans to UKAR in May 2019, UKAR started to issue dividends to HMT, resulting in an increase in dividend income of £2.7bn.

7. Revaluation of financial assets and liabilities in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Fair value (gain) on derivatives	(35,622)	(14,031)	(35,622)	(14,031)
Fair value (gain)/loss on financial assets	(1,514)	-	(1,514)	1
Hedging impacts on sale of loans	-	-	-	389
Hedge ineffectiveness	-	-	-	(2)
Total	**(37,136)**	**(14,031)**	**(37,136)**	**(13,643)**

For an explanation of the change in the fair value on derivatives refer to Note 15 – Derivative financial assets.

The fair value gain in financial assets relates to elements of the EU Financial Settlement, see also Note 10 – Trade and other receivables.

8. Gain on disposal of assets in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Net transfer from reserves and recognised as income in year	-	-	-	(96)
Net gains recognised in year	-	-	(2)	(356)
Total gains on disposal of assets	**-**	**-**	**(2)**	**(452)**

Net gains recognised in the prior year were made up of gains on disposal of UKAR loans (Note 14 – Loans to Banking Customers).

9. Property, plant and equipment

9.1 Group

Current year

In £m	Land	Buildings	Other	Total
Cost/Valuation				
Balance at 1 April	45	111	49	205
Additions/transfers	-	1	11	12
Disposal	-	(1)	(1)	(2)
Revaluation	17	10	-	27
Balance at 31 March	**62**	**121**	**59**	**242**
Accumulated Depreciation				
Balance at 1 April	-	(19)	(25)	(44)
Charge in year	-	(3)	(4)	(7)
Released on disposal	-	1	1	2
Revaluation	-	10	-	10
Balance at 31 March	**-**	**(11)**	**(28)**	**(39)**
Net book value at 31 March	**62**	**110**	**31**	**203**

The property at 1 Horse Guards Road is leased under a private finance initiative (PFI) and has a net book value of £94 million (2018-19: £76 million). More details regarding this PFI contract are provided in Note 23. All other assets are owned by the group.

A valuation of 1 Horse Guards Road was performed as at 31 March 2020 by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

Prior year

In £m	Land	Buildings	Other	Total
Cost/Valuation				
Balance at 1 April	45	106	51	202
Additions	-	8	1	9
Impairments	-	(1)	(1)	(2)
Disposal	-	(2)	(2)	(4)
Balance at 31 March	**45**	**111**	**49**	**205**
Accumulated Depreciation				
Balance at 1 April	-	(19)	(25)	(44)
Charge in year	-	(3)	(3)	(6)
Released on disposal	-	3	3	6
Balance at 31 March	**-**	**(19)**	**(25)**	**(44)**
Net book value at 31 March	**45**	**92**	**24**	**161**

9.2 Core Treasury and Agencies

Current year

In £m	Land	Buildings	Other	Total
Cost/Valuation				
Balance at 1 April	45	84	31	160
Additions/transfers	-	-	3	3
Disposal	-	-	(1)	(1)
Revaluation	17	10	-	27
Balance at 31 March	**62**	**94**	**33**	**189**
Accumulated Depreciation				
Balance at 1 April	-	(8)	(16)	(24)
Charge in year	-	(2)	(2)	(4)
Released on disposal	-	-	1	1
Revaluation	-	10	-	10
Balance at 31 March	**-**	**-**	**(17)**	**(17)**
Net book value at 31 March	**62**	**94**	**16**	**172**

Prior year

In £m	Land	Buildings	Other	Total
Cost/Valuation				
Balance at 1 April	45	84	31	160
Additions	-	-	2	2
Balance at 31 March	**45**	**84**	**33**	**162**
Accumulated Depreciation				
Balance at 1 April	-	(6)	(14)	(20)
Charge in year	-	(2)	(2)	(4)
Balance at 31 March	**-**	**(8)**	**(16)**	**(24)**
Net book value at 31 March	**45**	**76**	**17**	**138**

10. Trade and other receivables

In £m	Core Treasury and Agencies 2019-20	Core Treasury and Agencies 2018-19	Group 2019-20	Group 2018-19
Current receivables				
Trade receivables	17	22	39	34
Accrued interest and dividend income	62	911	61	909
Pool Re accrued income (note 17)	183	220	184	220
Levies receivable	-	-	60	56
Guarantee fees receivable	9	18	9	8
Sale of loans	-	-	-	4,474
Other	33	28	89	46
Total current	**304**	**1,199**	**442**	**5,747**
Non-current receivables				
Pool Re accrued income	304	219	304	219
Guarantee fees receivable	78	75	78	75
EU financial settlement	1,522	-	1,522	-
Deposit with the National Loans Fund	-	-	-	200
Other	126	124	5	12
Total non-current	**2,030**	**418**	**1,909**	**506**
Total receivables	**2,334**	**1,617**	**2,351**	**6,253**

EU financial settlement receivables

The EU financial settlement receivables are related to Article 143, 144, 145 and 146 of the EU Withdrawal Agreement.

Under Article 143 of the Withdrawal Agreement "Contingent financial liabilities related to loans for financial assistance, European Fund for Strategic Investments (EFSI), European Fund for Sustainable Development (EFSD) and the external lending mandate", the UK is entitled to receive a return of cash provided to guarantee loans and investments, where the guarantee is not called because the underlying loan/investment is repaid.

Included in Article 143 are four separate elements across two distinct categories:

- Non-prefunded instruments specifically loans to member states. As these are not prefunded, any under recovery results in a loss.
- Prefunded instruments specifically:

  - European Fund for Strategic Investments
  - European Fund for Sustainable Development
  - Other Lending

As these are prefunded with associated guarantee funds, they only result in net cash outflows where defaults in the underlying instruments exceed the prefunded provisioning for the instrument and associated revenue inflows. Where instruments are expected to result in net cash inflows, we have recognised a receivable; and where net cash outflows are expected, we recognise a payable.

HM Treasury's best estimate of the forecast future cash flows arising from these instruments is based on financial modelling developed with the Government Actuary Department. This modelling takes into account a number of forecast activities in arriving at an overall value for each financial instrument. HM Treasury estimate the fair value of Article 143 instrument is £957m. This will be updated over time as the Withdrawal Agreement places a range of reporting obligations on the EU, including in respect of this Article.

Under Article 144 of the Withdrawal Agreement, "Financial Instruments under direct or indirect implementation financed by the programmes of the 2014-20 MFF", the UK is entitled to receive a return of cash provided to guarantee loans and investments, where the guarantee is not called because the underlying loan/investment is repaid. HM Treasury's estimate the fair value of potential receipts under Article 144 is £413m. This will be updated over time as the Withdrawal Agreement places a range of reporting obligations on the EU, including in respect of this Article.

Under Article 145 "European Coal and Steel Community (ECSC)", the UK will receive its share of the net assets of the ECSC upon liquidation at 31 December 2020. This will be received from the EU in five equal instalments commencing 30 June 2021. At present the valuation is based on HMT financial modelling representing the current best estimate of the UK's share of the ECSC net assets. Under Article 146 "Union Investment in the European Investment Fund (EIF)", the UK will receive its share of the investment in paid-in capital of the EIF as at 31 December 2020. This will be received from the EU in five equal instalments commencing 30 June 2021. At present the valuation is based on HMT financial modelling representing the current best estimate of the UK's share of the EIF paid in capital. HM Treasury's estimate of the fair value potential receipts under Article 145 and 146 is £153m.

All receivables are measured at fair value through profit or loss. See note 7 for the fair value movement recognised in the SoCNE, note 1.4 – Significant judgements and estimates for discussion on key judgements and estimates, note 26.3 for the risk disclosure, and also note 17 Trade and other payables for the recognition of the payables arising from Article 143.

Other receivables

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. There has been no equivalent sale of loans in 2019-20. See Note 14 – Loans to banking customers for detail.

The decrease in accrued interest and dividends receivable is largely due to no year-end dividend being issued RBS for their 2019 financial year.

Pool Re income is receivable three years in arrears every March. The receivable from Pool Re includes all income accrued since January 2018. The increase in the Pool Re receivable is largely due to the increased performance of their investments, resulting in a larger profit-share element than previous years.

The reduction in deposits with the National Loans Fund is due to the redemption of the Sukuk in July 2019.

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 additionally operate defined benefit schemes, which are accounted for as such. The amount recognised in the Statement of Financial Position is a net liability of £7.8 million (2018-19: net liability of £5 million). 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 £580.7 million and a net liability for post-retirement medical benefits of £7 million (2018-19: net asset of £439 million and a net liability for post-retirement medical benefits of £7 million) and the amount recognised relating to NRAM Ltd for the former Northern Rock defined benefit scheme is a net asset of £254.7 million and a net liability for unfunded defined benefit obligations of £13.6 million. (2018-19: net asset of £214 million and a net liability for unfunded defined benefit obligations of £13.6 million).

In 2019-20 UKAR contributed £nil million to address the deficit in B&B's defined benefit scheme (2018-19: £70.3 million) and £20.5 million previously held on escrow was returned to the Company from the NRAM defined benefit scheme (2018-19: £30 million). 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.

In June 2019, UKAR became the sponsoring Company of the B&B and NRAM funded defined benefit pension schemes. The transfer values were contractually set at their IAS 19 values at that date, totalling £653.8 million. The Chancellor announced in the March 2020 Budget that the government intends, subject to securing the necessary parliamentary time, to create a new Central Government pension scheme for the members of the B&B and NRAM schemes.

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.

	Group	
In £m	**2019-20**	**2018-19**
Reconciliation of fair value of employer asset		
Balance at 1 April	2,160	2,080
Interest income	52	54
Contributions paid by employer	(18)	102
Remeasurements:		
- return on plan assets excluding interest income	118	43
Administrative expenses	(2)	(1)
Transfer payments	-	(48)
Benefits paid from plan	(63)	(70)
Balance at 31 March	2,247	**2,160**
Reconciliation of defined benefit obligations		
Balance at 1 April	(1,509)	(1,545)
Current service costs	-	(1)
Interest cost	(36)	(40)
Remeasurements:		
- effect of GMP equalisation	-	(8)
- effect of changes in demographic assumptions	(1)	62
- effect of changes in financial assumptions	60	(77)
- effect of experience adjustments	(5)	(19)
Actuarial (gains)/losses	-	48
Transfer payments	63	71
Benefits paid from plan	2	-
Balance at 31 March	**(1,426)**	(1,509)
Closing net pension asset/(liability)	**821**	**651**

12. Equity Investments

Current year

In £m	At 1 April 2019	Additions, disposals & transfers	Fair value adjustment	At 31 March 2020[8]
Listed entities				
RBS ordinary shares	18,548	-	(10,070)	8,478
Unlisted investments				
Bank of England share capital	5,544	-	408	5,952
Asian Infrastructure Investment Bank	384	94	30	508
Other shareholdings	10	-	-	10
Group entities				
UKAR	8,877	-	(2,793)	6,084
IFUL	69	44	-	113
Total Core Treasury and Agencies	**33,432**	**138**	**(12,425)**	**21,145**
Intra-group eliminations	(8,946)	(44)	2,793	(6,197)
Other group shareholdings	67	44	1	112
Total Group	**24,553**	**138**	**(9,631)**	**15,060**

Equity Investments measured at FVOCI represent the Group's strategic equity investments, which are not held for trading.

RBS ordinary shares: The decrease in fair value in the RBS shareholding is due to unfavourable market moves, which saw the share price decrease from 247.0p on 31 March 2019 to 112.9p on 31 March 2020.

Asian Infrastructure Investment Bank: The current year addition represents HM Treasury's fifth and final capital subscription to the Asian Infrastructure Investment Bank. £314m of the additions made during 2018-19 relate to the transfer to HM Treasury of the portion of the UK's AIIB shareholding previously held by the Department for International Development (DfID) at the carrying value on DfID's books. This transfer was made at no cost and was treated in the SoCNE as a capital grand in kind from DfID to HM Treasury. The remainder of the additions in that year represent 2018-19 capital subscriptions made by HM Treasury.

UKAR: The reduction in valuation is primarily due to the decreased cash held in UKAR following the payment of dividends to HMT. See Note 6 – Finance Income for more detail.

For more information see Note 26 – Financial Risk, Note 27 – Financial Instruments Fair Value Hierarchy and Note 31 – Events After the Reporting Period.

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[8] Other shareholdings includes £6m of Public Dividend Capital in the Royal Mint held at historical cost. All other equity investments are held at FVOCI.

Prior year

In £m	At 1 April 2018	Additions, disposals & transfers	Fair value adjustment	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**

Group shareholdings

In accordance with the Government Financial Reporting Manual (FReM) additional details of significant shareholdings are shown below:

	2019-20			2018-19 (restated)[9]		
In £m	Stake %	Total net assets	Entity's reported profit/(loss)	Stake %	Total net assets	Entity's reported profit/(loss)
Bank of England	100	5,849	117	100	4,350	109
RBS ordinary shares	62	43,556	3,800	62	46,490	2,151

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.

[9] RBS have restated their 2018 profit in their 2019 Annual Report and Accounts

13. Loans and advances

13.1 Group

Current year

In £m	At 1 April 2019	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2020
Loans	3,259	1	(1,642)	-	1,618
Statutory debt	2	-	(5)	5	2
Total	**3,261**	**1**	**(1,647)**	**5**	**1,620**
Current	1,613				1,613
Non-current	1,648				7

The first four repayments of the Ireland loan were made during the year and the remaining repayments are due in 2020-21.

Prior 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

13.2 Core Treasury and Agencies

Current year

In £m	At 1 April 2019	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2020
Loans	4,743	1	(3,126)	-	1,618
Statutory debt	448	-	(466)	20	2
Total	**5,191**	**1**	**(3,592)**	**20**	**1,620**
Current	3,571				1,613
Non-current	1,620				7

Following UKAR asset sales made during the previous year, HM Treasury received loan repayments of £1.5bn from NRAM and statutory debt repayments of £462m from B&B accounting for the majority of the statutory debt repayments during the year. This represented the final repayment of the outstanding intercompany loans. £1.6bn of remaining loan repayments is related to Ireland loans. See more detail on Ireland loans in Note 13.1 – Loans and Advances.

Prior 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

14. Loans to banking customers

14.1 Group

Current year

In £m	At 1 April 2019	Advances	Redemptions & repayments	Fair value movements (incl. impairments)	At 31 March 2020
Residential mortgages	5,523	-	(600)	(217)	4,706
Commercial loans	2	-	-	-	2
Total	**5,525**	**-**	**(600)**	**(217)**	**4,708**
Current	778				564
Non-current	4,747				4,144

During 2018-19 there were sales of B&B and NRAM's mortgage assets and commercial loans as part of an on-going programme aimed at returning UKAR's B&B and NRAM mortgage books to the private sector. The movement in the current year consists of mortgage redemptions and repayments.

Prior year

In £m	At 1 April 2018	Advances	Redemptions & repayments	Fair value movements (incl. 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

14.2 Allowance for impairment - Group

Current year

	Residential mortgages	Commercial loans	Unsecured loans	Total
	£m	£m	£m	£m
At 1 April 2019				
Stage 2	121	-	-	**121**
Stage 3	41	-	-	**41**
	162	**-**	**-**	**162**
Impairments				
Stage 2	(26)	-	-	**(26)**
Stage 3	15	-	-	**15**
	(11)	-	-	**(11)**
Write-offs				
Stage 2	-	-	-	**-**
Stage 3	(20)	-	-	**(20)**
	(20)	-	-	**(20)**
At 31 March 2020				
Stage 2	95	-	-	**95**
Stage 3	36	-	-	**36**
	131	**-**	**-**	**131**

Of the write-offs in the above table, a total of £20m was still subject to enforcement action at 31 March 2020.

Prior 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[10]	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**

15. Derivative financial assets

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Balance at 1 April	45,124	40,778	45,124	40,778
Cash movements	(7,137)	(9,685)	(7,137)	(9,685)
Fair value gain/(loss) (note 7)	35,622	14,031	35,622	14,031
Balance at 31 March	**73,609**	**45,124**	**73,609**	**45,124**

All derivative financial assets are current.

The balance at 31 March 2020 and 31 March 2019 is attributable to HM Treasury's BEAPFF derivative asset. The increase in the balance of £28.5bn comprises the fair value adjustment of £35.6bn and cash transfers of £7.1bn which were surrendered to the Consolidated Fund.

For more information refer to Note 26 – Financial Risk.

10 Equity release mortgages are accounted for under IFRS 4

16. Cash and cash equivalents

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Balance at 1 April	61	5	1,089	1,986
Net change in cash balances	5	56	209	(897)
Total	**66**	**61**	**1,298**	**1,089**
The following balances were held at 31 March				
Government Banking Service	66	61	909	462
Bank of England	-	-	304	538
Commercial banks and cash in hand	-	-	85	89
Total	**66**	**61**	**1,298**	**1,089**

Detail on the cash movements can be found in the SoCF.

17. Trade and other payables

	Core Treasury and Agencies		Group	
In £m	**2019-20**	**2018-19**	**2019-20**	**2018-19**
Current payables				
Trade payables	2	4	9	9
Accrued expenditure	34	38	101	114
Pool Re payable to Consolidated Fund (note 10)	184	220	184	220
Amounts due to levy payers	-	-	232	128
Sukuk certificates	-	-	-	200
Corporation tax payable	-	-	-	46
PFI contract	3	3	3	3
Other	72	68	93	99
Total current	**295**	**333**	**622**	**819**
Non-current payables				
Pool Re payable to Consolidated Fund	304	219	304	219
Amounts due to levy payers	-	-	2	28
PFI contract	107	110	107	110
Deferred tax	-	-	120	112
Other	17	-	25	7
Total non-current	**428**	**329**	**558**	**476**
Total payables	**723**	**662**	**1,180**	**1,295**

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). The increase in the Pool Re receivable is largely due to the increased performance of their investments, resulting in a larger profit-share element than previous years.

The £200m Sukuk certificates were redeemed in full on 22 July 2019.

The amounts due to levy payers has increased largely due to higher amounts of advance payments on account held by FSCS following changes to the levy rules.

Other non-current payables include £8m of EU financial settlement payables relating to Article 143 of the Withdrawal Agreement "Contingent financial liabilities related to loans for financial assistance, European Fund for Strategic Investments (EFSI), European Fund for Sustainable Development (EFSD) and the external lending mandate". Under Article 143, the UK remains responsible for its share of the contingent financial liabilities that were made during the UK's membership of the EU. HM Treasury's best estimate of the forecast future cash flows arising from these instruments is based on financial modelling developed with the Government Actuary Department. This modelling takes into account a number of forecast activities in arriving at an overall value for each financial instrument. All payables are measured at fair value through profit or loss. Please see note 7 for the fair value movement recognised in the SoCNE, note 1.4 – Significant judgements and estimates for discussion on key judgements and estimates, and note 26.3 for the risk disclosure. In addition, the UK is entitled to a share of receipts in relation to these instruments, see detail in note 10. Trade and other receivables.

18. Provisions

18.1 Group

Current year

In £m	EU Financial Settlement	Equitable Life	Oil & gas	Customer redress	HTB ISA	Other	Total
Balance at 1 April	-	404	357	88	618	83	**1,550**
Provided during the year	38,705	-	-	123	416	69	**39,313**
Provisions not required	-	(6)	(14)	(7)	-	(2)	**(29)**
Unwinding of discount and changes in the discount rate	-	2	(3)	-	-	-	**(1)**
Provisions utilised in year	-	(31)	(55)	(116)	(141)	(47)	**(390)**
Balance at 31 March	**38,705**	**369**	**285**	**88**	**893**	**103**	**40,443**
Within one year	-	38	136	80	893	109	**1,256**
Between one and five years	27,615	121	144	8	-	(6)	**27,882**
Later than five years	11,090	210	5	-	-	-	**11,305**

18.2 Core Treasury and Agencies

Current year

In £m	EU Financial Settlement	Equitable Life	Oil & gas	HTB ISA	Other	Total
Balance at 1 April	-	404	357	618	20	**1,399**
Provided during the year	38,705	-	-	416	2	**39,123**
Provisions not required	-	(6)	(14)	-	-	**(20)**
Unwinding of discount and changes in the discount rate	-	2	(3)	-	-	**(1)**
Provisions utilised in year	-	(31)	(55)	(141)	(9)	**(236)**
Balance at 31 March	**38,705**	**369**	**285**	**893**	**13**	**40,265**
Within one year	-	38	136	893	13	**1,080**
Between one and five years	27,615	121	144	-	-	**27,880**
Later than five years	11,090	210	5	-	-	**11,305**

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:

EU Financial Settlement: Article 140 – Reste a Liquider (RAL)	Under Article 140 of the Withdrawal Agreement "Outstanding Commitments", the UK remains responsible for its share of the EU Budget commitments made during the UK's participation in the EU Budget over the 2014-20 MFF (ending December 2020). The RAL represents EU budgetary commitments that have been made and are expected to result in payments by the EU in the future. Budgetary commitments that are subsequently decommitted, for example where the underlying programme does not go ahead, are removed from the RAL. The UK is only liable to pay a share of RAL at the end of 2020 to the extent it crystallises as payments by the EU. The UK's liability under Article 140 will be reduced by a number of items, including: the amount of net financial corrections; the proceeds of any Member State Making Available Resources infringements; and Traditional Own Resources adjustments. Note, at this stage these are considered by HM Treasury to be contingent amounts and accordingly have not been included in the calculation of the provision. See related contingent asset disclosure in respect of Article 140 in Note 24 and Note 1.4 – Significant judgements and estimates.
EU Financial Settlement: Article 142 – Union Liabilities at End 2020	Under Article 142 of the Withdrawal Agreement "Union Liabilities at End 2020", the UK will pay a share of the EU's payments for the employment and other related benefits accrued by EU employees up to the end of 2020. Specifically, these benefits are materially comprised of pensions schemes and the Joint Sickness Insurance Scheme (JSIS). The EU has always been due to pay these benefits. Expenditure to settle in-year benefits is incurred by the EU and accordingly by all Member States as part of their budget contributions. As an ongoing member of the EU, and in accordance with generally accepted accounting practice for pensions and similar benefits, no provision was recognised by the UK in previous years. As the UK has now left the EU, the Withdrawal Agreement in effect crystallises a liability for the UK and HM Treasury is required to make provisions for the future cash outflow. See also Note 1.4 –Significant judgements and estimates.
EU Financial Settlement: Article 147 – Liabilities relating to legal cases	Under Article 147 of the Withdrawal Agreement "Contingent liabilities related to legal cases", the UK will pay a share of costs incurred by the EU in relation to certain legal cases around the EU Budget and financial interests where the facts forming the subject matter of those cases occurred before 31 December 2020. See related contingent liability disclosure in Note 25.
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 £285m represents the best estimate of the outstanding costs to settle. During the year, HM Treasury was required to make a further payment of £55m on an existing claim which was paid directly to the claimant. For more information on the scheme and other potential claims, refer to Contingent liabilities not required to be disclosed under IAS 37 from page 117.
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 an HTB ISA account. There is a minimum £400 bonus and a maximum £3,000 bonus. The scheme closed to new entrants in November 2019, and all bonuses must be claimed by December 2030. The amount provided in year was £416m. At year end, there were 923k scheme participants with savings levels making them eligible for a bonus payment, compared to 576k in the prior year. The increase in the amount provided is due to the increase in the number of scheme participants. The average value of eligible deposits held has reduced from £4.7k to £4.3k per person. 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.

Sensitivity analysis: EU Financial Settlement

Sensitivity analysis for the key assumptions of the EU Financial Settlement provisions are set out below:

Assumption	Change	Degree of uncertainty	Sensitivity of output to changes in input	Financial impacts In £m
Financing share – the average proportion of the EU budget over 2014-20 financed by the UK	An increase of 1%	Low	Moderate	An increase of 387
Exchange rate – Sterling/Euro exchange rate	Sterling appreciation of 1%	High	Moderate	A decrease of 387
Decommitments – the proportion of EU Budgetary commitments in the RAL that are not implemented	An increase of 1 percentage point	Moderate	Moderate	A decrease of 331
Discount rate – the discount rate applied to future cash flows to take account of the time value of money	An increase of 0.1 percentage point	Moderate	Moderate	A decrease of 267
Salary changes – the assumption about salary changes used when calculating the provision in respect of the Pension Scheme for European Officials	Expected "salary increases" higher by 0.1 percentage point	Moderate	Low	An increase of 162
Retirement age – the assumption about the retirement age used when calculating the provision in respect of the Pension Scheme for European Officials	1 year higher	Low	Low	A decrease of 76

The UK's post-2020 financing share is an average of its own resources share as a contributor to the EU budget for the years 2014-20. At the time of reporting only the final 2020 financing share has yet to be determined. This means the remaining uncertainty around this assumption is limited. Changes to the post-2020 financing share effect the value of RAL and Pension provisions. The UK's post-2020 financing share used in the estimate of the provision is 12.35%.

An appreciation of Sterling against the Euro results in the value of the RAL and Pension provisions decreasing. A depreciation of Sterling has the opposite effect. This models a depreciation of 1% from the 31 March 2020 exchange rate (GBP 1: EUR 1.13). The exchange rate exposure is unhedged and payment obligations will be met through funds provided by Parliament through the Supply process.

Decommitments are the portion of the EU budget that is planned but ultimately never spent. As the UK is only liable for EU obligations that actually materialise, an increase in the estimate of decommitted spend reflects a reduction in the actual amount spent by the EU and therefore a decrease in the RAL liability. The decommitment assumptions used in the calculation above vary by EU programme, however the estimated average over all commitments is c. 8.3%.

Provisions are discounted in accordance with the requirements of the Financial Reporting Manual and the rates set centrally by HM Treasury based on the yields of gilts issued by the government; cash flows within 5 years (0.51%), between 6-10 years (0.55%), and more than 10 years (1.99%). The 0.1% increase is applied to each of the spot rates set for different time horizons. Changes to this discount rate do not affect what the UK pays under the financial settlement, only the valuation of the liability for financial reporting purposes.

An increase in assumed salary increases results in individuals receiving larger pensions at the point of retirement for final salary schemes. The salary increase assumption used is that used in the EU 2019 accounts (1.8%).

An increase in retirement age results in individuals receiving pensions for a shorter period of time, resulting in a decrease to the liability. The retirement age assumptions used are those used in the EU 2019 accounts (63/64/65 for the respective cohorts).

The timing of the liabilities is set out in the table below:

Component of the provisions	Gross discounted payments (£m)	Time period	Note
RAL	30,345	2021-27	The RAL liability represents the vast majority of the provisioned settlement. Current forecasting estimates that this liability will be fulfilled within seven years of the first payment. The payment obligations will crystallise with the greatest amounts in the earliest years of the time period with payments reducing sharply as time goes on.
Pensions	8,320	2021-65	The pensions liability inherently has a long term cashflow profile as the liability is underpinned by the EU's cash requirements for EU staff pensions. We currently estimate that payments will last till 2065, with the vast majority being paid later than five years from the reporting date. The payment obligations will rise gradually year on year over the short and medium term as more scheme members retire but then begin to fall gradually over the remaining decades as they are linked to payments made to final beneficiaries. Article 142 of the Withdrawal Agreement provides a mechanism for early settlement of the principal obligations based upon actuarial estimates of the outstanding amount.
Legal Cases	40	2021-22	
Total	38,705	-	-

19. Debt securities in issue

	Group	
In £m	**2019-20**	**2018-19**
Current	-	204
Non-current	-	-
Total	**-**	**204**

All remaining debt securities in issue have been redeemed on schedule in December 2019, continuing with the unwind of UKAR's balance sheet.

20. Financial guarantees

In £m	Core Treasury and Agencies 2019-20	2018-19	Group 2019-20	2018-19
UK guarantees	91	84	91	84
Help to Buy guarantees	22	49	22	49
Deposit guarantees	-	10	-	-
Total	**113**	**143**	**113**	**133**
Current	18	33	18	23
Non-current	95	110	95	110

The financial risks and management policies associated with financial guarantees are detailed in Note 26 – 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 2020, five projects were guaranteed with one project being completed and 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 borrowings, derivative transactions, and wholesale deposits for NRAM plc (now NRAM Ltd) with effect from 2010. The guaranteed NRAM borrowings and deposits have now been disposed of during 2019-20 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 117.

21. Non-cash transactions

In £m	Core Treasury and Agencies 2019-20	2018-19	Group 2019-20	2018-19
Adjustment for non-cash transactions				
Net provisions provided in year	39,102	316	39,283	450
(Impairments)/impairment reversals of non-financial assets	(34)	-	(34)	-
Depreciation and amortisation	4	3	7	10
Non-voted – banking and gilts registration services	8	7	8	7
Other non-cash adjustments	(6)	1	22	(39)
Total	**39,074**	**327**	**39,286**	**428**

22. Commitments

In £m	Core Treasury and Agencies 2019-20	Core Treasury and Agencies 2018-19 (Restated)	Group 2019-20	Group 2018-19 (Restated)
Capital commitments				
Multilateral development banks	-	94	-	94
Other capital commitments	388	231	390	237
Total	**388**	**325**	**390**	**331**
Financial commitments				
Loan commitments	14,384	14,384	817	824
Other financial commitments	-	-	157	112
Total	**14,384**	**14,384**	**974**	**936**

HM Treasury has entered into the following commitments.

AIIB	The multilateral development banks commitment relates to future capital commitment to the Asian Infrastructure Investment Bank (AIIB). The government 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. The fifth and final instalment was paid in December 2019. See also contingent liabilities not required to be disclosed under IAS 37 from page 117.
DIIF	Other capital commitments of £201m relate to The Digital Infrastructure Investment Fund (DIIF). The DIIF is legally committed to provide a total of £300m 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 2020, £201m is undrawn. The drawn amounts as at 31 March are recognised as Equity Investments in Note 12. The prior year commitment has been restated from £334m to £231m.
CIIF	Other capital commitments of £186m relate to The Charging Infrastructure Investment Fund (CIIF). The CIIF is legally committed to provide a total of £200m worth of investment to the relevant fund managers from 2019-20 to 2023-24. As at 31 March 2020, £186m is undrawn. The drawn amounts as at 31 March are recognised as Equity Investments in Note 12.
GLA	HM Treasury has provided a £0.8bn (2018-19: £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	Loan commitments at group level only for contractual amounts of £67m (2018-19: £74m) 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 the event of losses following a terrorist event exceeding theiravailable 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 117.
Other financial commitments	Other financial commitments include £124m (2018-19: £85m) of public or 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 2020, the total facility available for B&B was £11.4bn (2018-19: £11.4bn) and for NRAM £2.1bn (2018-19: £2.1bn). The amount currently drawn on these facilities are £nil (2018-19: £nil) and £nil (2018-19: £nil) respectively. As these are intra-group, they are eliminated at group level.

23. 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	**2019-20**	**2018-19**
Within one year	11	11
Between one and five years	45	45
Later than five years	139	150
Gross present value of future obligations	195	206
Finance charges allocated to future periods	(85)	(94)
Total	**110**	**112**

Minimum service charges

	Core Treasury and Agencies	
In £m	**2019-20**	**2018-19**
Within one year	17	16
Between one and five years	75	71
Later than five years	336	356
Total	**428**	**443**

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 £16m (2018-19: £15m).

24. Contingent assets

IAS 37 – Provisions, contingent liabilities and contingent assets – requires the disclosure of contingent assets, defined as:

- A possible asset that arises from past events, and
- Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent assets are not recognised but are disclosed where an inflow of economic benefit is probable – once the realisation of income is certain, the asset is no longer a contingent asset and is recognised at this time.

As a result of the UK's withdrawal from the European Union, a number of items within the Withdrawal agreement are considered by HM Treasury to meet the definition of a contingent asset for the core Treasury as follows:

Article 136 - Post 2020 Flows	Under Article 136 of the Withdrawal Agreement, the UK remains party to corrections or adjustments to contributions over the 2014-20 Multi-Annual Financial Framework (MFF) that are made after the end of 2020 (i.e. the UK's final year of participation in the EU Budget). These contingent amounts cover a number of adjustments including those arising from statistical revisions and the return of any surplus arising from the implement of the 2020 EU Budget. HM Treasury's best estimate of the UK share of any EU budgetary surplus in 2020 is c£0.1bn. Historically, any such adjustments were included in the calculation of future years' EU budget contributions – either increasing or reducing the UK's contribution for subsequent years, and were, accordingly, not individually disclosed or recognised. Once the UK's participation in the EU Budget ends in 2020, this will no longer be possible. Under the terms of the EU Withdrawal Act 2020 any such corrections or adjustments paid or received before 31 March 2021 will be accounted for in the Consolidated Fund Accounts. Corrections or adjustments to Value Added Tax (VAT)/Gross National Income-based (GNI) contributions paid or received after 31 March 2021 fall to HM Treasury and will be disclosed as they arise. Such adjustments will arise in the future however as at the balance sheet date they are unquantifiable and there is no indication of which direction the cashflow (i.e. whether outflow or inflow) will be. HM Treasury considers the best indicator will be the EU notifying the UK of the value of any receivable/payable under Article 148 of the Agreement (which covers payments after 2020). Please see Note 25 - Contingent liabilities for the disclosure of the potential cash outflow arising from this article.
Article 140 - Contingent Assets Relating to Infringements	The UK's liability under Article 140 will be reduced by a number of items, including: the amount of net financial corrections; the proceeds of any Member State Making Available Resources infringements; and Traditional Own Resources adjustments. At this stage these are considered by HM Treasury to be contingent amounts and accordingly have not been included in the calculation of the provision disclosed in Note 18. They are disclosed here as contingent assets. HM Treasury's current best estimate of the amount is £0.2bn. Please see Note 18 for the provision disclosure in respect of Article 140.
Article 141 – Fine Income	Under Article 141 of the Withdrawal Agreement the UK is entitled to a share of EU fine income that relates to activity up to the end of 2020 (and in some cases after this period) including where collection of the fine income arises post UK exit. While it is likely that the UK will receive fine income under Article 141, HM Treasury considers the best indicator of certainty over this income to be the fines meeting the definition of "definitive" and the European Union 'EU' notifying the United Kingdom 'UK' of the value under Article 148 of the Agreement (which covers payments after 2020). Notifications under Article 148 are due from the EU in each April and September from 2021. HM Treasury's current best estimate of the potential fine income is c. £1.6bn.

25. 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 117.

The core Treasury and its Agencies have the following contingent liabilities:

EU Financial Settlement: Article 136 – Post 2020 Flows	Under Article 136 of the Withdrawal Agreement, the UK remains party to corrections or adjustments to contributions required over the 2014-20 MFF that are made after the end of 2020 (the UK's final year of participation in the EU budget). Historically, any such adjustments were included in the calculation of future years' EU budget contributions – either increasing or reducing the UK's contribution for subsequent years and were accordingly not individually disclosed or recognised. Once the UK's participation in the EU Budget ends at the end of 2020, this will no longer be possible. Under the terms of the Withdrawal Agreement, any such corrections or adjustments paid or received before 31 March 2021, will be accounted for in the Consolidated Fund Accounts. Corrections or Adjustments to VAT/GNI contributions paid or received after 31 March 2021 will fall to HM Treasury and will be disclosed and recognised as they arise. Such adjustments will arise in the future, however, as at the balance sheet date they are unquantifiable and there is no indication of which direction the cashflow (i.e. whether outflow or inflow) will be. HM Treasury considers the best indicator will be the EU notifying the UK of the value of any receivable/payable under Article 148 of the Agreement (which covers payments after 2020). Please see Note 24 - Contingent assets for the disclosure of the potential cash inflow arising from this article.
EU Financial Settlement: Article 147 – Contingent liabilities relating to legal cases	Under Article 147 of the Withdrawal Agreement "Contingent liabilities related to legal cases", the UK will pay a share of costs incurred by the EU in relation to certain legal cases around the EU Budget and financial interests where the facts forming the subject matter of those cases occurred before 31 December 2020. Note 18 sets out provisions recognised by HM Treasury in respect of this article. The EU disclose a number of contingent liabilities related to legal cases in their 2018 accounts, including cases where a reliable estimate of the cost cannot be made. If these contingent liabilities crystallised as obligations for the EU, which depends on future events, and were they to fall within the scope of this article they could give rise to a liability for HM Treasury in the future. The EU disclose a number of contingent liabilities related to legal cases in their 2019 accounts, including cases where a reliable estimate of the cost cannot be made and instead the damages being sought are disclosed. If these contingent liabilities crystallised as obligations for the EU, which depends on future events, and were they to fall within the scope of this article they could give rise to a liability for HM Treasury in the future. The UK share of these disclosed items is estimated at £293m.
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.

In addition to the items above, the Departmental Group also has the following contingent liabilities:

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: 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 was on or before 5 May 2019 and hence a contingent liability existed at 31 March 2019 but not at 31 March 2020, 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 mayvary 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 2020, there is no contingent liability to report (2018-19: £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 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 117.
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.

26. Financial risk: management objectives and policies and sensitivity analysis

26.1 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 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.[11]

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

26.2 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 two types of risk: interest rate risk and other price risk. Where relevant this is discussed below.

[11] http://www.ukar.co.uk/about-us/financial-reports/2020

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.

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 2020
Total financial assets	889	31	95	4,637	5,652
Total financial liabilities	-	(46)	(2)	(15)	(63)
Net liquidity gap	889	(15)	93	4,622	5,589

Prior 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

The total financial liabilities in the 2018-19 table above include the loans and working capital advances that HM Treasury had provided to the UKAR Group. These items were included as if they were repayable on demand. These items have been repaid out of cash flows generated from UKAR asset sales and no balance remains at 31 March 2020. Excluding the loans and working capital advances from HM Treasury the UKAR Group has a positive liquidity gap.

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, 56% (2018-19: 55%) 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 £5.0bn (2018-19: £5.5bn) 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% (2018-19: 40%) of the book.

Total loans to customers	At 31 March 2020		
In £m	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Up to date	4,325	147	4,472
1-3 months in arrears	166	118	284
Greater than 3 months in arrears	-	199	199
Total	4,491	464	4,955

Of the total loans to customers, £3.4m 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 £44.9m of loans that are in a cure period, on which £2.1m of impairment provisions are held.

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

The table does not cover the £8m of Equity Release Mortgages included within Note 14 – Loans to Banking Customers.

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 2020		
In £m	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Up to date	7,708	259	7,967
1-3 months in arrears	277	199	476
Greater than 3 months in arrears	-	305	305
Total	7,985	763	8,748

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 2020		
In £m	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Up to date	4,288	144	4,432
1-3 months in arrears	166	117	283
Greater than 3 months in arrears	-	195	195
Total	4,454	456	4,910

The corresponding collateral values at 31 March 2019 were 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:

In £m	At 31 March 2019 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 indexed loan to value (LTV) of residential mortgage balances, weighted by loan balance, falls into the following ranges:

%	At 31 March 2020	At 31 March 2019
To 50% LTV	17	15
50% to 75% LTV	56	50
75% to 100% LTV	23	31
Over 100% LTV	4	4
Total	100	100

Residential mortgage loans: arrears and possessions

Arrears and possessions are monitored for residential loans as follows:

		At 31 March 2020	At 31 March 2019
Arrears 3 months and over			
- Number of cases (proportion of total cases)	No.	1,192 (3.14%)	1,189 (2.74%)
- Asset value (proportion of book value)	£m	181 (3.66%)	181 (3.24%)
- Total value of payments overdue (portion of book)	£m	6 (0.12%)	6 (0.11%)
Possessions			
- Number of cases (proportion of total cases)	No.	183 (0.48%)	216 (0.50%)
- Asset value (proportion of book value)	£m	27 (0.55%)	31 (0.56%)
- Total value of payments overdue (portion of book)	£m	1 (0.02%)	1 (0.02%)
Arrears 3 months and over and possessions			
- Number of cases (proportion of total cases)	No.	1,375 (3.62%)	1,405 (3.24%)
- Asset value (proportion of book value)	£m	208 (4.21%)	212 (3.80%)
- Total value of payments overdue (portion of book)	£m	7 (0.14%)	7 (0.13%)
Payments overdue in respect of all arrears and possessions (portion of book)	£m	9 (0.18%)	9 (0.16%)
Loan impairment provision: as % of total balances	%.	2.6	2.9
Loan impairment provision: new possessions	No.	422	887

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 2020 Bank of England Fan Charts. The Bank of England's Monetary Policy Committee publishes fan charts which give a graphical representation of the uncertainty around the economic outlook of potential future outcomes from its central forecast. Given the uncertainty caused by COVID-19, UKAR management reconsidered the weightings at 31 March 2020 and gave more prominence to the downside scenarios. 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 £17.3m
Downside scenario	Increase of £3.6m
Severe downside scenario	Increase of £47.3m
Upside scenario	Decrease of £26.9m

The OBR coronavirus reference scenario published on 14 April assumed a three-month lockdown due to public health restrictions followed by another three-month period when they are partially lifted. In this scenario, GDP was assumed to fall by 35% in the second quarter of 2020 but bounce back relatively quickly (2020: 12.8% fall). Unemployment was forecast to rise to 10% in the second quarter of 2020 but then decline more slowly than GDP is forecast to recover (2020: 7.3%). The OBR did not publish a forecast for house prices, however, UKAR Management overlaid an assumption in our modelling that house prices fall by 3.7% in 2020-21 and 2.9% in 2021-22, before rising by 2.1% in 2022-23 and 4.9% in 2023-24. The impact of this scenario given 100% weighting would be an increase in the Group's total loan impairment loss allowance of £11.6m.

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 £232.8m
1% decrease	Increase of £254.3m

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	Decrease of £0.6m
Downside scenario	Decrease of £17.7m
Severe downside scenario	Decrease of £53.9m

The OBR illustrative scenario noted above would result in a reduction in fair value of £42.5m.

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.

	2019-20		2018-19	
In £m by counterparty	Carrying Value	Discounted Value[12]	Carrying Value	Discounted Value
Loans to Ireland	1,613	1,653	3,227	3,353
FSCS recoverables: financial institutions	-	-	27	28
Other loans	5	6	5	7
Loans sub-total	1,618	1,659	3,259	3,388
Statutory debt: Dunfermline	2	2	2	2
Statutory debt sub-total	2	2	2	2
Total	1,620	1,661	3,261	3,390

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 2019, the Ireland Loan Governance Board made a positive assessment, forecasting 100% recovery. Four repayments have been received at the end of the reporting period, the remaining repayments are due during 2020-21.
FSCS recoverables	FSCS recoverables: financial institutions includes the amounts that FSCS considers recoverable from the administration of failed institutions. In 2018-19 this related to Heritable and Kaupthing Singer & Friedlander (KSF). This balance was recovered in full in August 2019. Further information is available in the FSCS Annual Report and Accounts.
Statutory debt	Outstanding statutory debt loans are Dunfermline and Heritable. Statutory debt is managed by specialist external administrators and impairment reviews are performed during the year and at reporting date.

[12] There are no current market prices available.

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[13] of the level of capital recovery for statutory debt loans is shown below:

	At 31 March 2020			At 31 March 2019	
	Total amount lent £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2019-20 +/- 5% £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2018-19 +/- 5% £m
Stat Debt: Dunfermline[14]	1,555	100/(100)	-/-	100/(100)	-/-
Stat Debt: Heritable	92	98/(98)	(2)/-	98/(98)	(2)/-
Total			(2)/-		(2)/-

26.3 Core Treasury and Agencies – EU financial settlement

The fair value of financial instruments recognised in HM Treasury accounts in respect of Articles 143 and 144 of the EU Withdrawal Agreement are sensitive to certain key assumptions which include performance of the underlying financial operations (market risk), the sterling/euro exchange (currency risk), the UK's post 2020 financing share (see note 18) and the discount rate applied to future cash flows. The table below sets out the sensitivity of the fair value to changes in these key assumptions. The provisioning rates used in the model are not included in the list of the key assumptions below as they are based on those set out in regulations for the relevant funds.

Assumption	Change	Financial impact on receivables	Financial impact on payables
Market risk – the valuation of these instruments is sensitive to the credit risk of the underlying operations which affects their hypothetical market price	A significant and permanent increase in the probability of default (50% increase) and fall in the rate of recoveries (15% fall), representing a long-term deterioration in economic conditions	A decrease of £531.1m	An increase of £12.3m
Market risk – probability of default	A significant and permanent increase in the probability of default of 50%	A decrease of £225.0m	An increase of £3.4m
Market risk – rate of recoveries	A 15% fall in the rate of recoveries	A decrease of £227.5m	An increase of £6.3m
Exchange rate – the Sterling/Euro exchange rate	Sterling appreciation of 1%	An increase of £15.2m	A decrease of £0.1m
Financing share – the average proportion of the EU budget 2014-20 financed by the UK	An increase of 1%	A decrease of £15.2m	An increase of £0.1m
Discount rate – the discount rate applied to future cash flows to take account of the time value of money	An increase of 0.1 percentage point	A decrease of £10.0m	An increase of £0.1m

[13] The KSF statutory debt was recovered in full in August 2019 and so is excluded from the sensitivity analysis.

[14] HM Treasury recovered 100% of the principal claim in Dunfermline in May 2020 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.

The future cash flows arising from these instruments are sensitive to the likelihood of default in the underlying operations (probability of default) and the extent to which defaulted payments can be subsequently recovered (the rate of recovery). The table above applies significant changes in both assumptions. The 50% increase in the probability of default is based on analysis of economic growth and insolvencies, where changes in insolvencies is taken as a broad proxy for changes in the probability of default. A 50% increase was taken as illustrative of a permanent 1% reduction in long term trend economic growth. The 15% reduction in recovery rates is based on historical corporate recovery data and represents the upper end in the distribution of historic movements.

The future cash flows for HMT under these articles of the Withdrawal Agreement will be denominated in Euros, and therefore the changes in the Sterling/Euro exchange rate will affect the Sterling value of those cash flows. The table below gives an indication of the timing of the cash flows under these instruments.

The UK's post-2020 financing share is an average of its own resources share as a contributor to the EU budget for the years 2014-20. At the time of reporting only the final 2020 financing share has yet to be determined. This means the remaining uncertainty around this assumption is limited. The UK's post-2020 financing share used in the estimate of the fair value of these instruments is 12.35%.

The discount rate applied to future cash flows to determine fair value is the financial instrument rate set by the Treasury in accordance with the Financial Reporting Manual. The interest rate intrinsic to these instruments is judged to be zero and therefore the Treasury financial instrument rate of 3.7% is applied to future cash flows. A change in the Treasury financial instrument discount rate does not affect the future cash flows that will be received or paid by HMT.

The timing of the assets and liabilities is set out in the table below:

Receivables/ Payables	Gross discounted payments (£m)	Time period	Note
Article 143 - Receivables	957	2021-2047	Article 143 includes loans and financial instruments guaranteed by the EU budget which have corresponding guarantee funds, and over time we expect to receive our shares of those guarantee funds back, less the funds necessary to cover defaults. Those loans covered by the European Fund for Strategic Investments (EFSI) (the largest of the relevant funds) and European Fund for Sustainable Development (EFSD) guarantee funds are expected to have fully matured by 2035, with only those loans covered by the Guarantee Fund for External Actions (GFEA) (proportionally smaller than EFSI) expected to continue until 2047.
Article 143 - Payables	(8)	2021-2043	Article 143 also includes some loans guaranteed by the EU budget which have no corresponding guarantee fund, and so can only represent a potential net cost to the UK in future cases of default. Most of these are scheduled to fully mature by 2030.
Article 144 - Receivables	413	2021-2035	Article 144 covers various financial instruments wholly provisioned for under the EU budget through successive Multiannual Financial Frameworks. We expect our provisioning to be returned to us on a steady profile, with the last of the relevant instruments expected to fully mature in 2035.
Total	1,362	-	-

Market risk

The fair value of financial instruments recognised in respect of Articles 143 and 144 of the EU Withdrawal Agreement is sensitive to changes in the probability of default and the rate of recoveries of the underlying operations within the scope of the relevant EU financial instruments. Such sensitivities would affect the price a hypothetical market participant would pay for such instruments. The EU is responsible for managing the financial risks associated with their exposures arising from the underlying instruments, which determine the UK’s exposure under the Withdrawal Agreement to financial operations approved before the UK’s withdrawal. The EU is required to manage such risks in accordance with the requirements of the “EU’s Financial Regulation applicable to the general budget of the Union (2018)”.

Currency risk

Future cash flows arising from financial instruments recognised in respect Articles 143 and 144 of the EU Withdrawal Agreement are denominated in Euros. The sterling value of these instruments is sensitive to changes in the Sterling/Euro exchange rate. Cash flows arising from these instruments are expected over a period or more than 10 years. Cash outflows will be funded through Parliamentary Supply and inflows will be returned to the Exchequer. Foreign exchange needs will be managed in aggregate with the expected Euro requirements of other obligations under the financial settlement.

In addition to currency risk on financial instruments the provision created by the EU Financial settlement is also sensitive to currency fluctuations. Further detail is provided in Note 18 – Provisions.

Liquidity risk and credit risk

The EU is the UK's (HMT's) counterparty to the cash flows arising from financial instruments recognised in respect Articles 143 and 144 of the EU withdrawal agreement, and is AAA rated. Liquidity and credit risks are immaterial.

26.4 Core Treasury and Agencies – Other

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, liquidity risk and currency risk are sub-sets of market risk and are 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 wholly owned subsidiary of the Bank of England that was set up in 2009 to implement quantitative easing in the UK. The BEAPFF purchased gilts financed by the creation of central bank reserves, initially to the sum of £200bn, and subsequently expanded on various occasions by MPC decision to its current maximum authorised size of £645bn.

In August 2016, the MPC voted to increase the stock of gilt purchases financed by the creation of central bank reserves by £60bn to £435bn and to introduce a new Corporate Bond Purchase Scheme (CBPS) of £10bn to purchase high-quality private sector assets. A novel Term Funding Scheme (TFS) was also introduced to provide term funding to banks at rates close to Bank Rate. 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 took the TFS onto its own balance sheet in January 2019 from the BEAPFF. This reduced the maximum size of HM Treasury's indemnity for the BEAPFF by £140bn to £445bn.

On 19 March 2020 the independent MPC of the Bank of England voted to expand its QE program by £200bn, taking the maximum authorised size of the BEAPFF to £645bn. The MPC have said that "at least" £10bn will be made available for corporate bond purchases, taking the total authorised size of corporate bond purchases to at least £20bn and of gilt purchases to approximately £625bn. The table below summarises the maximum authorised size of the BEAPFF. The size of the Bank of England loan to the BEAPFF will increase gradually as asset purchases are conducted.

In £ billion	31 March 2020	31 March 2019
Government bond purchases	625	435
Corporate bond purchases	At least 20	10
Total quantitative easing package	645	445

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 117.

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 2020, the BEAPFF's assets exceeded its liabilities by £73.6bn, 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 15 – 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 2020 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 2020 was £0.6bn (2018-19: £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 2020 was £48.2bn (2018-19: £12.0bn).

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 reserves based on a 10% and a 25% increase/decrease in the market price of the share investment in RBS. There is no impact on net operating income arising from a change in market prices of the investment.

In £m	Reserves 2019-20	2018-19
Increase +10%	848	1,855
Increase +25%	2,120	4,637
Decrease -10%	(848)	(1,855)
Decrease -25%	(2,120)	(4,637)
Investment in RBS	8,478	18,548

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.

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The only material financial instruments that are exposed to currency risk are EU financial settlement receivables, which are discussed in note 26.3 (see also Note 10 - Trade and Other Receivables).

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 infrastructure guarantees granted under the UK Guarantees Scheme and assesses the likelihood of a pay out by the Treasury. Infrastructure projects monitored by IPA are shown in the table below and exclude Help to Buy Guarantees and Deposit Guarantees which are monitored by HM 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.

Maximum exposure for financial guarantees is disclosed under contingent liabilities not required to be disclosed under IAS 37 from page 117.

Project	Description	Maximum exposure in £m[15] March 2020	March 2019 (restated)	Projected end date
INEOS Grangemouth[16]	INEOS was a €285m guarantee that underpinned debt raised to build Europe's largest ethane storage tank at Grangemouth petrochemical plant in Scotland. The guarantee was issued in July 2014 and expired on 30 July 2019.	-	254	Jul-2019
Speyside	Speyside is a guarantee for bonds issued by the Speyside Biomass Combined Heat and Power project in Moray Scotland. The guarantee for the bonds was issued in August 2014.	43	46	Jun-2028
Countesswells	Countesswells is a guarantee for up to £86m borrowing supporting a major property development in Aberdeen that will deliver new housing, schools, healthcare and parks over the next 11 years. The guarantee was issued in March 2016.	82	86	Mar-2031
Mersey Gateway	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 issued in April 2014	267	267	Mar-2043
Uliving@ Gloucestershire	Uliving@Gloucestershire is a guarantee for debt issued to finance the construction of a new student village at the University of Gloucestershire's Pittville Campus and the refurbishment of existing student facilities at the site. The guarantee was issued in January 2016	41	41	Sep-2051
University of Northampton	University of Northampton is a guarantee for public bonds and Local Authority loans raised to finance the construction of the University's new campus at the Waterside site near Northampton town centre. The guarantee was issued in November 2014	284	306	Mar-2056
	Total for infrastructure projects monitored by IPA	717	1,000	

[15] Maximum exposure is calculated at the principal amount of the borrowing guaranteed, plus one year's interest.

[16] The amount guaranteed was €285m. This is converted to GBP at the reporting date using the exchange rate per www.xe.com

Help to Buy guarantees[17]	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.	430	678 Dec-2023
Deposit guarantees[18]	Wholesale borrowings and deposits with B&B and borrowings, derivative transactions, and wholesale deposits in respect of NRAM.	-	213 Sept-2025

27. Group financial instruments - fair value hierarchy

	2019-20			2018-19		
In £m	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets: fair value through OCI						
Investments – listed entities	8,478	-	-	18,548	-	-
Investments – unlisted entities	-	6,576	-	-	5,999	-
Loans to banking customers	-	-	4,708	-	-	5,525
Derivative financial assets and liabilities						
Derivative financial assets	-	73,609	-	-	45,124	-
Financial assets: amortised cost						
Loans and advances	-	1,661	-	-	3,390	-
Financial liabilities: amortised cost						
Debt securities in issue	-	-	-	-	(210)	-
Financial assets: fair value through P&L						
Trade and other receivables	-	-	1,522	-	-	-
Financial liabilities: fair value through P&L						
Trade and other payables	-	-	8	-	-	-

[17] The basis of the calculation of the maximum exposure has been changed to reflect HMT's current exposure based on live accounts subject to potential claim at the reporting date which reflects a more realistic exposure in the event of a worst-case default event. The prior year comparative has been amended accordingly.

[18] Eliminated on consolidation.

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 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. For loans to banking customers, fair value is estimated by discounting expected future cash flows using market interest rates. The fair value has been calculated using models which incorporate the experience gained of market structures and pricing from recent sales transactions. Receivables and payables held at fair value through profit and loss are recognised in respect of Article 143 "Contingent financial liabilities related to loans for financial assistance, European Fund for Strategic Investments (EFSI), European Fund for Sustainable Development (EFSD) and the external lending mandate", Article 144 "Financial Instruments under direct or indirect implementation financed by the programmes of the 2014-20 MFF", Article 145 "European Coal and Steel Community in liquidation" and Article 146 "Union investment in the European Investment Fund" of the EU Withdrawal Agreement. The fair value of the financials assets and liabilities have been estimated on the basis of the value of the instruments as reported in the EU's annual accounts and other relevant available information from associated EU policy documentation for the instruments. Forecast future cash flows are discounted at the financial instrument rate set by HM Treasury under the Financial Reporting Manual to account for the timing of the cash flows as specified under the articles.
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, 2019-20: £6m (2018-19: £6m).

28. 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.

28.1 Group

In £m	2019-20 Fair Value	2019-20 Carrying Value	2018-19 Fair Value	2018-19 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	1,298	-	1,089
Trade and other receivables[19]	-	799	-	6,228
Loans and advances	1,661	1,620	3,390	3,261
Financial assets: fair value through OCI				
Equity Investments	-	15,054	-	24,553
Loans to banking customers	-	4,708	-	5,525
Financial assets: fair value through SoCNE				
Trade and other receivables [19]	-	1,522	-	-
Derivative financial assets	-	73,609	-	45,124
Financial liabilities and guarantees: amortised cost				
Trade and other payables[20]	-	(1,040)	-	(1,124)
Debt securities in issue	-	-	(210)	(204)
Financial guarantees	-	(113)	-	(133)
Financial liabilities: fair value through SoCNE				
Trade and other payables[20]	-	(8)	-	-

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.

[19] Trade and other receivables are shown net of non-financial assets.

[20] Trade and other payables are shown netof non-financial liabilities.

28.2 Core Treasury and Agencies

In £m	2019-20 Fair Value	2019-20 Carrying Value	2018-19 Fair Value	2018-19 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	66	-	61
Trade and other receivables[21]	-	790	-	1,596
Loans and advances	1,661	1,620	5,319	5,191
Financial assets: fair value through OCI				
Equity Investments	-	21,139	-	33,432
Financial assets: fair value through SoCNE				
Trade and other receivables[21]	-	1,522	-	-
Derivative financial assets	-	73,609	-	45,124
Financial liabilities and guarantees: amortised cost				
Trade and other payables[22]	-	(714)	-	(660)
Financial guarantees	-	(113)	-	(143)
Financial liabilities: fair value through SoCNE				
Trade and other payables[22]	-	(8)	-	-

29. 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 during the year, including material loan repayments and dividends (Note 13 – Loans and Advances, Note 6 – Finance Income).

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.

[21] Trade and other receivables are shown net of non-financial assets.

[22] Trade and other payables are shown net of non-financial liabilities.

30. Auditor's remuneration

Remuneration for the audit of the Treasury Group accounts was a notional cost of £410k (2018-19: £360k). In addition, £1,066k (2018-19: £1,101k) was charged by the NAO for other audit services, of which £134k (2018-19: £125k) was notional. £325k (2018-19: £138k, restated) was paid to the NAO in respect of non-audit services.

31. Events after the reporting period

31.1 Covid Corporate Financing Facility

At 31 March the CCFF had been in operation for less than a month (page 117 Contingent Liabilities outside the scope of IAS 37). Since the end of reporting period the scheme had continued to establish, and by August 2020 had purchased a total of £17.5bn of commercial paper, with an equivalent increase to the contingent liability.

31.2 Bank of England Asset Purchase Facility

In June 2020 the authorised purchase limit for the BEAPFF was further extended by £100bn to a maximum of £745bn. After the end of the reporting period the loan from the Bank of England to BEAPFF Ltd increased towards this amount, standing at £686bn by August 2020, with an equivalent increase to the contingent liability.

31.3 UK Guarantee Scheme

Subsequent to the year-end, HM Treasury issued guarantees to support the construction of rolling stock units in the UK.

HM Treasury remains exposed on guarantees of £295m up to 30 November 2021 and a further £98m up to 18 June 2022. During this period HM Treasury's liability under the guarantee could crystallise in the event of the manufacturer's insolvency and/or the manufacturer's failure to fulfil its obligations under the underlying Manufacture and Supply Agreement. HM Treasury will receive guarantees fees charged quarterly in arrears.

31.4 Royal Bank of Scotland

On 22 July 2020, Royal Bank of Scotland Group plc changed its name to NatWest Group plc. This will not have any financial effect on the Treasury, but all references to HMT's shareholding in RBS within the Annual Report and Accounts become references to the shareholding in NatWest in future.

31.5 EU Financial Settlement

After the reporting date of 31 March 2020, the EU proposed a number of interventions funded from the EU Budget in response to COVID 19. The financial effect of these Draft Amending Budgets on the provision for the financial settlement is immaterial. This is a non-adjusting event. COVID 19 and the associated responses by governments across the world after the reporting date has had an economic impact. The relative economic effect on the UK compared to the EU27 in 2020 could affect the size of the financial settlement provision through changing the UK's post-2020 financing share, which is based on the UK's financing share of Budgets over the 2014-20 period. The sensitivity of the financial settlement provision, receivables and payables to changes in the post-2020 financing share is disclosed in note 18 and note 26.3.

31.6 Loans to Banking Customers

Since the balance sheet date, the COVID-19 pandemic has continued to spread, and its impacts have continued to develop. Assessments of the effect of COVID-19 on the economy have continued to evolve, though the shape and speed of the recovery remain uncertain at this stage.

As a result of the challenging economic circumstances we expect the number of banking customers in arrears to increase during 2020-21 with a consequent increase in expected credit loss and decrease in the fair value of those loans. Note 26.2 - Financial Risk details the sensitivity of the loans to banking customers to the assumptions used.

31.7 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), and levies on the banking industry collected by the FCA to fund financial guidance to the public for the financial year 2019-20. 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. Further information on penalties applied by OFSI is available on gov.uk.[3]

The Financial Guidance and Claims Act 2018 requires the FCA to pay the Financial Guidance levies to the government after deducting its enforcement costs. The Money and Pensions Advice Service Levy and Devolved Administrations Debt Advice Levy were created, starting from 2019-20 following the transfer of the of the Money Advice Service's functions to DWP and the devolved administrations. HM Treasury pays these receipts to the Consolidated Fund so that they can be issued via supply to the department and devolved administrations to fund the provision of financial

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1 https://www.fca.org.uk/news/news-stories/2020-fines

2 https://www.bankofengland.co.uk/prudential-regulation/pra-statutory-powers

3 https://www.gov.uk/government/collections/enforcement-of-financial-sanctions

guidance to the public. Further information on levies applied by the FCA is available on the FCA website.[4]

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 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 54.

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 £206m in fine income (2018-19: £67m) and £114m in Levy income (2018-19: nil) from the FCA, £42m from the PRA (2018-19: nil) and £21m from OFSI fine income (2018-19: £0.01m) in the period ended 31 March 2020.

[4] https://www.fca.org.uk/firms/fees

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 2020 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 and the Prudential Regulatory Authority, the collection of fines and penalties without deduction for enforcement costs by the Office of Financial Sanctions Implementation, and levies net of collection costs paid to HM Treasury by the Financial Conduct Authority as at 31 March 2020 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

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the HM Treasury Trust Statement's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the HM Treasury Trust Statement have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the HM Treasury Trust Statement's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 the HM Treasury Trust Statement'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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the HM Treasury Trust Statement'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause HM Treasury Trust Statement to cease to continue as a going concern.

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 Foreword to the Trust Statement, but does not include 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 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

25 September 2020

Statement of Revenue and Expenditure
for the period ended 31 March 2020

In £m	Note	2019-20	2018-19
Net fine income	2	269	67
Net levy income	3	114	-
Net revenue for the Consolidated Fund		**383**	**67**

The notes on pages 223 to 225 form part of this statement.

Statement of Financial Position
as at 31 March 2020

In £m	Note	2019-20	2018-19
Current assets			
Receivable from the FCA/PRA		44	58
Cash and cash equivalents		-	-
Total assets		**44**	**58**
Balance on Consolidated Fund account	4	**44**	**58**

The notes on pages 223 to 225 form part of this statement.

Tom Scholar
Permanent Secretary

22 September 2020

Statement of Cash Flows
for the period ended 31 March 2020

In £m	Note	2019-20	2018-19
Net cash flow from operating activities	A	397	16
Cash paid to the Consolidated Fund		(397)	(16)
Increase in cash in this period		-	-

A: Reconciliation of net cash flow to movement in net funds

In £m	2019-20	2018-19
Net revenue for the Consolidated Fund	383	67
(Increase)/Decrease in non-cash assets	14	(51)
Net cash flow from operating activities	**397**	**16**

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 2019-20 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 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2019.

Their application is not expected to have any 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 2021.

IFRS 17 Insurance contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on, or after, 1 January 2023 (subject to endorsement by the UK).
There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the Trust Statement.

1.3 Accounting convention

The Trust Statement has been prepared on an accruals basis under the historical cost convention.

1.4 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 where these are deductible by legislation. 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. Levy 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 all, or substantially all, of the consideration promised by the levy payer has been received by the FCA and is non-refundable.

1.5 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 and levies have been received by the regulators, but the cash has not been transferred to HM Treasury as at the reporting date.

2. Net fine income

In £m	2019-20	2018-19
Fine income from Financial Conduct Authority	206	67
Fine income from Prudential Regulation Authority	42	-
Fine income from sanctions penalties	21	-
Net fine income	**269**	**67**

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 part).

There was £21m of income (2018-19: £15k) in relation to penalties from sanctions breaches issued by OFSI.

3. Net levy income

In £m	2019-20	2018-19
Levy income from FCA for financial guidance	114	-
Net levy income	**114**	-

Detailed information on levies collected can be found in the audited accounts of the FCA.

4. Balance on the Consolidated Fund Account

In £m	2019-20	2018-19
Balance on Consolidated Fund Account as at 1 April	58	7
Net revenue for the Consolidated Fund	383	67
Less amount paid to the Consolidated Fund	(397)	(16)
Balance on Consolidated Fund Account as at 31 March	**44**	**58**

5. Events after the reporting period

In June 2020 a one-off additional funding package for 2020-21 was agreed for the provision of additional free-to-consumer debt advice services as a result of COVID-19. The Money and Pensions Service (MaPS) received an additional £35m for the delivery of debt advice in England (and also reprioritised £3m from its existing 2020-21 budget towards the package), and the devolved administrations (DAs) received an additional combined £6m. £16m of the package is funded by an increase to the financial services levies (collected by the FCA) that funds MaPS and debt advice provision in the DAs, and £25m is funded by Central Government.

6. Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

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 in respect of qualifying regulatory provisions that come into force or cease to be in force during the Parliament. The Treasury duly sets out the department's recent regulatory provisions in the periodic government statements on the Business Impact Target.

Deregulatory measures from the previous fiscal year

The Treasury strives for efficient regulation that minimises unnecessary costs to businesses and consumers whilst maintaining vital protections. During the previous fiscal period (April 2019 to March 2020), the Treasury has delivered the following deregulatory measure to improve the efficiency of its regulations:

- At Autumn Budget 2018 the government committed to simplifying regulation to make it easier for Registered Social Landlords (RSLs) to refer their tenants to affordable lenders. The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2019 allows RSLs to confidently refer their tenants to credit unions and community development finance institutions without seeking Financial Conduct Authority authorisation. This reduces regulatory barriers for RSLs and delivers between £200,000 - £1,000,000 one-off savings.

Financial services Future Regulatory Framework Review

The approach taken to regulating financial services can make a huge difference to the sector's development and the contribution it makes to the wider economy. With many of the key regulatory reforms introduced following the financial crisis now in place and now that the UK has left the EU, now is the right time for the UK to take stock of its overall approach to financial regulation by looking at the framework within which regulation is developed and applied to the financial services sector. Last year, the Treasury launched the Financial Services Future Regulatory Framework

Review. The first phase of the Review, which concluded at Budget 2020, looked at coordination between UK regulatory bodies with responsibility for financial services regulation. The next phase of the Review, to be launched in the second half of this year, will look at how the regulatory framework needs to adapt to reflect the UK's position outside of the EU, exploring how the UK's expert, independent regulators can take the lead on designing and implementing the specific requirements that apply to firms, while ensuring there is appropriate democratic policy input.

For a more detailed forward look of upcoming regulatory change, the Treasury contributed to the recently launched Regulatory Initiatives Grid,[1] a regulator publication giving a forward-look of upcoming, publicly announced financial services regulatory initiatives.

1 https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid

Chapter 6
Sustainability report

The Treasury is committed to sustainability through both its policy development and its own operations.

The Treasury's single departmental plan sets out its objectives which include:

- place the public finances on a sustainable footing, ensuring value for money and improved outcomes in public service; and
- ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth as we leave the EU

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 transitioning to a Net Zero economy, protecting and enhancing biodiversity, 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 across HMG and pursued through policies that deliver value for money and are affordable. Sustainability is therefore embedded throughout HMT's governance, decision making and assurance processes.

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 and fulfilling the ambition of the 25 Year Environment Plan to be the first generation to leave the environment in a better condition than we inherited it
- Achieving the UK's climate change policy aims and objectives consistent with fiscal and economic objectives

However, the Treasury asks all departments to adhere to the Green Book[1] guidance when providing a business case for a policy, programme or project – not only those departments or proposals whose primary focus is climate and environmental policy. The supplementary guidance to the Green Book covers the practical application of techniques for valuing both positive and negative environmental impacts in policy appraisal, including greenhouse gas emissions or abatement, habitat loss or

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[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf

creation, changes in air or water quality, and the recreational and health benefits of public access to green space.

The Green Book also directs users to the Climate Change Risk Assessment (CCRA) to consider current and potential future climate risks and vulnerability to risks of an intervention. This may be of particular relevance when a policy has long term implications, for example, new infrastructure investment. The CCRA provides a framework that quantifies interactions with climate risk and enables a consideration of the role of climate in altering the scale and distribution of costs and benefits over the lifetime of the proposal. Supplementary guidance, Accounting for the effects of Climate Change, provides steps to determine whether climate risks are relevant in relation to the appraisal of an intervention.

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. In 2019-20 this has continued to improve other government departments' evaluation of the climate and environmental impacts of their policies, giving a more sophisticated picture of the environmental costs and benefits.

At fiscal events, all measures are assessed for consistency with the government's legally binding environmental targets including carbon budgets, air quality, and fuel poverty. HMT fulfils its responsibilities under equalities legislation to consider the impacts of all measures on protected characteristics, including with regards to gender, race, age and disability. HMT has an important role to play in driving the government's levelling-up agenda, and actively considers the regional impacts of policies and spending decisions – including on rural communities.

The Treasury has identified where its commitments, policies and programmes contribute to the delivery of the UN Sustainable Development Goals (SDGs). As an economics and finance ministry HMT has particular responsibility for SDG 8 (decent work and economic growth). However, its work directly and indirectly influences and supports the UK's approach across government to all 17 of the SDGs. The examples below are, by necessity, not exhaustive, but illustrate the depth and breadth of HMT's contribution.

Commitment	Principal Sustainable Development Goal
Spring Budget 2020 took a number of steps to decarbonise the economy and protect the UK's natural habitats, ensuring that every part of the UK economy is ready for the challenges of decarbonisation, and ready to capitalise on the opportunities to become leaders in the green markets of the future. Including: • Introducing a Green Gas Levy to help fund the use of greener fuels, increasing the Climate Change Levy that businesses pay on gas, and reopening and extending the Climate Change Agreement scheme by two years • Announcing investment in electric vehicle charging infrastructure, providing £532 million for consumer incentives for ultra-low emission	Contributes to SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all; SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation; SDG 12: Ensure sustainable consumption and production patterns; SDG 13: Take urgent action to combat climate change and its impacts; and SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation, and halt biodiversity loss

vehicles, and reducing taxes on zero emission vehicles • Announcing a Carbon Capture and Storage (CCS) Infrastructure Fund to establish CCS in at least two UK sites, one by the mid-2020s, a second by 2030 • Confirming that, to tackle plastic waste, a new Plastic Packaging Tax will be introduced from April 2022 • Providing £304 million to help local authorities reduce nitrogen dioxide emissions and improve air quality • £640m to plant enough trees to cover an area the size of Birmingham and restore peatlands, and providing a further £25m to protect the UK's unique plants and animals through a Nature Recovery Fund	
The Net Zero Review will consider the key economic and fiscal choices, including the balance of contributions between households, businesses and the taxpayer, as we transition to net zero by 2050.	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; and SDG 13: Take urgent action to combat climate change and its impacts
Continue work on the Economics of Biodiversity: The Dasgupta Review. The review is assessing the economic benefits of biodiversity globally; assessing the economic costs and risks of biodiversity loss; and identifying a range of actions that can simultaneously enhance biodiversity and deliver economic prosperity.	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; SDG 12: Ensure sustainable consumption and production patterns; SDG 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development; and SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation, and halt biodiversity loss
Deliver Spring Budget 2020 within the government's fiscal rules: • To have the current budget at least in balance by the third year of the rolling five-year forecast period; • To ensure that public sector net investment (PSNI) does not exceed 3% of GDP on average over the rolling five-year forecast period; • If the debt interest to revenue ratio is forecast to remain over 6% for a sustained period, the government will take action to ensure the debt-to-GDP ratio is falling.	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; and SDG 13: Take urgent action to combat climate change and its impacts

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 ensure sustainability, conducting a full review of the system	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
Invest record amounts in Britain's roads, railways, hospitals, broadband, housing and research	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; and SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
Support industry-led efforts to improve the gender balance in financial services through the Women in Finance Charter, which has over 350 signatories across the sector	Contributes to SDG 5: Achieve gender equality and empower all women and girls
Develop and deliver on the Government's Green Finance Strategy and its ambition to align private sector financial flows with clean, environmentally sustainable and resilient growth, and strengthen the competitiveness of the UK financial sector.	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

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, and to support wider staff understanding and engagement with the issues of Sustainable Development and climate change. The network's activities in 2019-20 included:

- working with building suppliers and HMT's corporate centre to identify ways of improving the environmental sustainability of the building and services it offers – including the introduction of food waste recycling and the use of compostable packaging in the staff canteen
- raising the profile of environmental issues across the department by sharing blog posts and through running group awareness-raising sessions
- ensuring the department participated in the Year of Green Action, which sought to connect people with nature, protect the environment and enhance nature. This included running a "Green Week" of events, including a series of guest speakers from other departments such as Defra, BEIS, and

DfID, to inform and educate HMT staff on the government's environmental agenda.

Biodiversity and the Treasury Estate

During 2019-20 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. Biological pest controls have also been introduced, which has reduced the need for chemical controls.

Sustainable Procurement

We are committed to sustainability in the way we procure goods and services and working with existing and prospective suppliers to improve their performance. Examples include:

- using Crown Commercial Service (CCS) commercial agreements which offer sustainable solutions that comply with all relevant and appropriate standards and 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 when scoping requirements and working collaboratively with our suppliers' post-award to drive improvements
- evaluation criteria 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 ensure alignment with GGC requirements

Performance against the Greening Government Commitments[2]

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.

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[3]
Paper usage	27,030	10%	42%	50%

In 2019-20 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 76% and paper consumption by 64% from the 2009-10 baseline figures. Treasury's performance against each target is set out below.

Since 2017-18, 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.

2 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. 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 2019-20, any shared costs for 1HGR are apportioned between the Treasury and other government departments, with Treasury averaging a 47% share over the year, and a similar share over the comparative periods.

3 Reduce amount of waste going to landfill to less than 10%; reduce the overall amount of waste generated and increase the proportion recycled

Summary of performance against GGC targets in 2019-20

Target 1: Reduce greenhouse gas emissions by 69%[4]

Cut carbon emissions from central government offices

The Treasury has reduced greenhouse gas emissions by 76% 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.

Energy and CO_2 emissions (restated)[5]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Electricity (mWh)	2,750	2,642	2,988	2,544	2,736	2,765
Gas (mWh)	35	31	29	25	27	27
Whitehall District Heating System (mWh)	1,005	710	768	742	689	625
Total CO_2 emissions (tCO_2e)[6]	1,751	1,517	1,245	1,180	1,028	945

Energy costs (£000s) (restated)[7]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Electricity	322	322	358	327	381	425
Gas	1	2	1	1	1	2
Whitehall District Heating System	178	166	153	144	167	130
Total	501	490	512	472	549	557

Cut domestic business travel flights by 30%

We have reduced the number of domestic flights. These are down 65% from the 2009/10 baseline, 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.

4 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

5 The figures reported in the 2018-19 Annual Report and Accounts for 2018-19 were incorrect and have been updated following an internal review.

6 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.

7 The figures have been restated to consistently include the Treasury's share of the 1HGR building only rather than incorrectly include the whole building.

Travel and CO_2 emissions (restated)[8]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Fleet[9] (km)	35,156	34,813	43,428	29,014	35,994	27,001
Domestic rail (km)	731,257	636,084	601,652	619,842	874,664	805,241
Domestic flights (km)	314,809	255,425	142,095	147,935	197,302	122,035
Standard taxis[10] (km)	10,266	19,745	10,441	11,558	10,913	6,733
Hybrid taxis (km)	10,275	12,401	12,261	14,411	12,076	10,130
Electric (km)	-	-	-	-	-	31
No. of domestic flights	372	389	229	175	260	143
Total CO_2 emissions (tCO_2e)	92	79	50	57	76	53

Travel Costs £000 (restated)[8]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Fleet (including Government Car Service)	274	309	252	221	229	187
Rail	410	339	310	324	401	282
Domestic flights	56	63	63	30	47	24
Taxis	47	74	57	75	55	41
Total	787	785	682	650	732	534

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 121 tonnes in 2019-20. This has been achieved with no waste being sent to landfill.

8 The figures reported in the 2018-19 Annual Report and Accounts for 2017-18 and 2018-19 were incorrect and have been updated following an internal review.

9 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.

10 Standard taxis include private hire, petrol or diesel and include people carriers or saloon cars. This does not include black cabs.

Waste (tonnes) (restated)[8]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Waste incinerated with energy recovery	78	72	78	56	53	49
Waste recycled	69	51	75	73	67	62
Waste sent for anaerobic digestion	6	5	6	11	9	10
ICT waste recycled	-	-	-	-	-	-
ICT waste reused	-	-	-	-	-	-
Total	153	128	159	140	129	121

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, and this continued throughout 2019-20 including with the implementation of paperless governance boards.

Paper consumption (reams) (restated)[5]

Reams	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
A4	14,052	15,358	15,794	12,696	13,044	9,591
A3	139	218	560	110	273	83
Total (A4 Equivalent)	14,330	15,794	16,914	12,916	13,590	9,757

Target 3: Reduce water consumption

In 2019-20 the Treasury's water consumption in 1HGR, calculated per FTE equivalent, was 8m³/FTE. The installation of further water meters across the estate in 2017-18 as part of a review of water consumption allowed the introduction of focused improvement measures, including the installation of push button (timed flow) showers in 2018-19 and the installation of push button taps in 2019-20. The spike in costs in 2017-18 was due to being undercharged in the previous year.

Water consumption (m^3) (restated)[5]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total consumption	11,327	9,498	11,577	11,541	13,030	12,222
Per FTE	10	8	10	9	9	8

Water cost (£000s) (restated)[7]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total cost	23	19	27	33	31	32

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.	James Richardson is the Accounting Officer and Acting 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.	Caroline Rainbird 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.	Justin Manson is the Accounting Officer and Interim 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.	Ian Hares is the Accounting Officer and Chief Executive.
UKGI Financing plc	Dormant company. Dissolved on 11 February 2020	James Neilson was 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 and Charging 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, which were redeemed in July 2019.	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.
Financial Reporting Advisory Board (FRAB)	Originally set up in 1996 following the publication of the July 1995 White Paper 'Better Accounting for Taxpayer's Money', the role of the Financial Reporting Advisory Board, or FRAB, is to ensure that government financial reporting meets the best possible standards of financial reporting. In 2000 the Government Resources and Accounts Act set out that the Treasury shall consult a group of appropriate people to advise on financial reporting and standards. This role is fulfilled by FRAB as an independent body, and put the existence of the board on to a more formal footing.	Vicky Rock represents HMT on the Board as a Relevant Authority.

HM Treasury contacts

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