National Loans Fund Account 2019-20

HC 763

September 2020

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Overview

Purpose and activities of the National Loans Fund

The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending which were until then accounted for as part of the Consolidated Fund (CF). The CF was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'. The NLF was set up in order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other. The accounts for the CF and NLF are now published separately.

Both the CF and NLF are administered by the Treasury with the bank accounts maintained at the Bank of England. The CF can therefore be regarded as central government's current account whereas the NLF can be regarded as central government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office (DMO) and National Savings and Investments (NS&I).

The DMO was established as an executive agency of the Treasury on 1 April 1998. Its remit is 'to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating in a risk appetite approved by Ministers in both cases'. Its operations are managed through the Debt Management Account (DMA) which is a bank account at the Bank of England linked closely with the NLF. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts on which the return is linked to movements in the Retail Prices Index (RPI). They are issued from the NLF and sold into the market by the DMO. In addition, the DMO issues Treasury Bills from the DMA and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt management report 2019-20[1] published by the Treasury in March 2019.

The Exchange Equalisation Account (EEA) was established in 1932 to provide a fund that could be used when necessary to regulate the exchange value of sterling. It holds the UK's reserves of gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights. Combined with the UK's Reserve Tranche Position (RTP) with the IMF, these assets comprise the UK's official holdings of international reserves. The RTP is an asset of the NLF. The Bank of England acts as the Treasury's agent in the day-to-day management of the EEA.

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

The NLF's borrowing operations include the temporary borrowing of balances in various government bank accounts that are surplus to immediate requirements. Such borrowing minimises the amount that the NLF needs to borrow from other sources. Where the money borrowed in this way already counts as Exchequer money, interest is not paid. For the rest of its borrowing however the NLF normally has to pay interest. If the NLF's interest income is less than the interest it pays on its borrowings, which it generally is, the shortfall is met by a transfer from the CF.

The NLF provides finance for both the DMA and EEA so surpluses and deficits of the DMA and EEA are income and expenditure of the NLF and their net assets are assets of the NLF. It also makes loans to various statutory

[1] https://www.gov.uk/government/publications/debt-management-report-2019-to-2020

public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB) for its loans to prescribed bodies, mainly local authorities. The profits of the Issue Department of the Bank of England are also paid to the NLF under section 9(1) of the National Loans Act 1968. The Issue Department is solely concerned with the issue of banknotes and the assets backing them. NS&I's savings products are liabilities of the NLF.

As the vast majority of the assets of the NLF comprise the advances to and net assets of the DMA and EEA and advances to the PWLB, the NLF is not exposed to significant credit risk. Further detail on how credit risk is managed is included in note 16 to the accounts. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts.

Key issues and risks

The key issues and risks facing the NLF are considered in the governance statement on pages 9 to 14. In addition, the financial risks related to the NLF are separately disclosed in note 16 on page 36 to 42.

Performance summary

The total comprehensive net expenditure of the NLF decreased by £5.0 billion from £41.5 billion in 2018-19 to £36.5 billion in 2019-20 primarily due to an increase in Other income of £4.4 billion from £6.2 billion in 2018-19 to £10.6 billion in 2019-20, alongside a decrease in Financing costs of borrowing of £0.5 billion from £51.1 billion in 2018-19 to £50.5 billion in 2019-20 and an increase in Gains on foreign exchange transactions of £0.1 billion from £0.1 billion in 2018-19 to £0.2 billion in 2019-20.

The NLF's total gross assets increased by £2.4 billion from £271.1 billion in 2018-19 to £273.5 billion in 2019-20. Total gross liabilities increased by £68.0 billion from £1,936.8 billion in 2018-19 to £2,004.8 billion in 2019-20. As a result, net liabilities increased by £65.6 billion from £1,665.7 billion in 2018-19 to £1,731.3 billion in 2019-20. Further details can be found in the Performance analysis.

Performance analysis

International Support

The UK has continued to support the International Monetary Fund (IMF) through the NLF in 2019-20 in line with our commitments as an IMF member. The UK has provided such support through its quota subscription and other lending to the Fund. The IMF's 14th General Quota Review, which involved a package of reforms of the Fund's governance and quota, became effective on 26 January 2016. As part of this reform package the UK's quota increased to SDR 20.2bn (£22.3bn). The UK's 2012 bilateral loan agreement (BLA) to the IMF worth SDR 9,178 million (£10,134 million) also became effective when the UK's quota was increased and the size of the UK's commitment under the New Arrangements to Borrow (NAB) was reduced by the amount of the BLA to SDR 9,479 million (£10,466 million). The 2012 BLA expired without being used at the end of 2016. The UK agreed to a third bilateral loan facility (2016 bilateral loan) to the IMF again worth SDR 9,178 million (£10,134 million) in October 2016. The NLF's net exposure to the IMF of £5.1 billion at 31 March 2020 (2018-19: £4.9 billion) is described in note 9 and comprises the reserve tranche position of £4.6 billion (2018-19: £4.1 billion) and loans of £0.5 billion (2018-19: £0.8 billion). The IMF maintains precautionary balances of retained earnings to absorb any losses it may incur. As at 31 March 2020, any losses that may be incurred by the IMF on loans to its member countries are not expected to result in losses to the NLF.

The UK's bilateral loan facility to Ireland has been funded by HM Treasury's Vote which is funded through the normal Supply procedures. Details can be found on the GOV.UK website[2]. The UK has a contingent liability in respect of European Union (EU) mechanisms that provide financial assistance to EU Member States and Third Countries including loans from the European Financial Stabilisation Mechanism, European Balance of Payments Facility, Macro Financial Assistance and the European Investment Bank. The CF is responsible for this remote contingent liability and details can be found in the Consolidated Fund Account 2019-20. The NLF is not party to either the bilateral loan to Ireland or the EU financial assistance arrangements.

Asset Purchase Facility

The Asset Purchase Facility was set up in 2008-09 at the Bank of England and is authorised to purchase assets financed by the issuance of central bank reserves (a process known as 'quantitative easing'). As at 31 March 2020, on an amortised cost basis, £397.5 billion (2018-19: £377.7 billion) of gilts from the NLF were held by the Bank of England for quantitative easing. Excess cash held in the facility, which arises largely from coupons on these gilts, is transferred to the Exchequer via HM Treasury from where it is paid to the CF as Extra Receipts. More information on the scheme can be found on the Bank of England's website[3].

Funding for Lending Scheme (FLS)

The FLS is designed to incentivise banks and building societies to boost their lending to the UK real economy. It was launched in July 2012 and subsequently extended to allow participants to borrow from the FLS until January 2018. The NLF issues Treasury Bills for sale to the DMA which makes them available to be borrowed by the Bank of England. Banks and building societies participating in the FLS can then borrow Treasury Bills from the Bank of England in exchange for eligible collateral. As at 31 March 2020, on an amortised cost basis, £3.2 billion (2018-19: £23.2 billion) of Treasury Bills issued to the DMA by the NLF for the FLS are outstanding. More information can be found on the Bank of England's website[4].

Outturn for 2019-20

The total comprehensive net expenditure of the NLF decreased by £5.0 billion from £41.5 billion in 2018-19 to £36.5 billion in 2019-20 primarily due to an increase in Other income of £4.4 billion from £6.2 billion in 2018-19 to £10.6 billion in 2019-20, alongside a decrease in Financing costs of borrowing of £0.5 billion from £51.1 billion in 2018-19 to £50.5 billion in 2019-20 and an increase in Gains on foreign exchange transactions of £0.1 billion from £0.1 billion in 2018-19 to £0.2 billion in 2019-20.

[2] https://www.gov.uk/government/publications/bilateral-loan-to-ireland
[3] https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility
[4] https://www.bankofengland.co.uk/markets/funding-for-lending-and-other-market-operations

The increase in Other income is mainly due to a £4.4 billion increase in the EEA's total comprehensive income, a gain of £6.3 billion in the current year compared to a gain of £1.9 billion in 2018-19. The decrease in Financing costs of borrowing was mainly as a result of £0.6 billion lower financing costs of gilts, while the increase in gains on foreign exchange transactions was mainly due to a £0.2 billion increase on the gain on the Reserve Tranche Position at the IMF.

The total comprehensive net income from the DMA was £3.7 billion in 2019-20 and is reported against Other income in the Statement of Comprehensive Net Expenditure; this compares to net income of £3.8 billion in 2018-19. The total comprehensive net income from the EEA was £6.3 billion in 2019-20 (reported against Other income) compared to a net income of £1.9 billion in 2018-19. The £4.4 billion difference was largely due to £1.9 billion increase in net trading income (primarily due to exchange rate related gains) and £2.5 billion increased fair value changes in gold as a result of a rise in the price of gold during 2019-20. Further information on the DMA and EEA can be found in their respective accounts which are published separately.

Excluding the profits and total comprehensive net income/expenditure of other entities, the NLF's total comprehensive net expenditure was £0.6 billion lower at £47.1 billion in 2019-20 compared to £47.7 billion in 2018-19, primarily as a result of lower financing costs of gilts:

	Note	**2019-20 £m**	2018-19 £m
Total comprehensive net expenditure		**36,502**	41,479
EEA total comprehensive net income	5	**6,305**	1,936
DMA total comprehensive net income	5	**3,748**	3,799
Profits of the Bank of England Issue Department	5	**541**	459
		47,096	47,673

Assets

The NLF's total gross assets increased by £2.4 billion from £271.1 billion in 2018-19 to £273.5 billion in 2019-20. This was primarily due to an increase in other assets of £10.7 billion (consisting of a £6.3 billion increase in the net assets of the DMA, a £3.7 billion increase in the net assets of EEA, and a £0.7 billion increase in cash held by NS&I), decreases in advances of £9.3 billion (consisting of a decrease in advance to the DMA of £23.0 billion, an increase in advance to the PWLB of £8.2 billion and an increase in advance to the EEA of £5.5 billion) and an increase in IMF Quota Subscription and Lending of £0.7 billion.

Liabilities

Total gross liabilities increased by £68.0 billion from £1,936.8 billion in 2018-19 to £2,004.8 billion in 2019-20. This is largely a result of liabilities to other public sector entities increasing by £40.2 billion from £47.9 billion to £88.1 billion, gilt-edged stock increasing by £35.7 billion from £1,681.0 billion to £1,716.7 billion, and NS&I liabilities increasing by £11.6 billion from £167.6 billion in 2018-19 to £179.2 billion in 2019-20 (reflecting significant inflows from Premium bonds and Direct saver accounts), partly offset by Treasury Bill issuance for the Funding for Lending scheme decreasing by £20.0 billion from £23.2 billion to £3.2 billion.

Public Sector Net Debt

As a result of these changes, the net liabilities of the Fund increased by £65.6 billion from £1,665.7 billion in 2018-19 to £1,731.3 billion in 2019-20. This is matched by a corresponding claim on the CF. The NLF lends to and borrows from other parts of the public sector. For example, it makes advances to the PWLB and borrows directly from a range of public sector bodies (as described in note 12). In addition, some of the gilts it has issued are held in the public sector, including by the DMA which retains a portfolio of gilts for use as collateral for its money market activities and by the Bank of England under the Asset Purchase Facility. The DMA also has large advances to and from the NLF. Therefore, the NLF's net liabilities do not equate to the Public Sector Net Debt ("PSND"), which is a calculation of the net debt of the whole of the public sector after eliminating intra-public sector balances. Figures for PSND are published jointly by HM Treasury and the Office for National Statistics in the monthly *Public Sector Finances Statistical Bulletin* which can be found on the Office for National Statistics and GOV.UK websites.

Forward Look

Net financing requirement

The Debt management report which included the financing remit for 2020-21 was published by the Treasury alongside the Budget in March 2020. The remit for May – July 2020 was subsequently revised to take into account the period of disruption caused by COVID-19 and the measures implemented to support the economy, as well as the impact on 2020-21 of the 2019-20 Central Government Net Cash Requirement (CGNCR) Outturn (excluding NRAM plc, Bradford and Bingley and Network Rail).

On 16 July, HM Treasury announced that total planned gilt sales over the period April to end of November 2020 will amount to a minimum of £385 billion. It was also announced that NS&I's financing remit has been increased to £35 billion within a range of £30 billion to £40 billion. A further update to the DMO's financing remit and planned issuance schedule for 2020-21 will be announced alongside the Autumn Budget 2020. The higher volume of issuance seen so far in 2020-21 due to COVID-19 is not expected to persist over the final four months of the year.

PWLB

Following a review of the role of the Public Works Loan Commissioners, the Infrastructure Act 2015 introduced a provision to enable HM Government to abolish the PWLB using the Public Bodies Act 2011. In May 2016, a consultation was launched on the transfer of functions from the PWLB to another entity. The results of this consultation were published in November 2016, concluding that the PWLB should be abolished and its powers transferred to HM Treasury. Parliament legislated to enact the reform set out in the consultation, with the effect that the powers, duties, assets and liabilities of the Board of Loan Commissioners were transferred to HM Treasury on 25 February 2020 under the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020.The reforms only affect the governance arrangements and do not change any of the policy or operational aspects of lending to local authorities, the existing lending or loan repayment arrangements for borrowers or the arrangements with the NLF.

Long-term expenditure trends

Since the function of the NLF is to account for government borrowing and lending, it has no long-term expenditure trends.

Tom Scholar
Accounting Officer
HM Treasury

21 September 2020

Accountability Report

The accountability report contains a Corporate governance report and a Parliamentary accountability and audit report. The purpose of the Corporate governance report is to explain the composition and organisation of the National Loans Fund's governance structures and how they support the achievement of the National Loans Fund's objectives. It includes the Statement of Accounting Officer's responsibilities and the Governance statement. The Parliamentary accountability and audit report includes key Parliamentary accountability information on regularity of expenditure and remote contingent liabilities as well as the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

Corporate governance report

Directors' report

Operationally, the NLF is part of HM Treasury and its staff are employees of HM Treasury. The NLF itself therefore has no employees of its own.

Directors' conflicts of interest

In 2019-20, no material conflicts of interest have been noted by the senior management overseeing the NLF.

Personal data related incidents

The NLF does not hold any protected personal data.

Statement of Accounting Officer's responsibilities

Under section 21(1) of the National Loans Act 1968 HM Treasury is required to prepare an account relating to the National Loans Fund for each financial year in the form and on the basis considered appropriate by the Treasury. The Account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and of its Comprehensive Net Expenditure and cash flows for the financial year.

In preparing the Account the Accounting Officer is required to:

- observe the relevant accounting and disclosure requirements of the Government Financial Reporting Manual in so far as they are relevant to the Account and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- prepare the accounts on a going concern basis as defined in the Government Financial Reporting Manual; and
- 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 judgments required for determining that it is fair, balanced and understandable.

The Treasury has appointed its Permanent Secretary, Tom Scholar, as Accounting Officer of the National Loans Fund.

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

The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the NLF's auditors are unaware, and that he has taken all the steps that he ought to have taken as Accounting Officer to make himself aware of any relevant audit information and to establish that the NLF's auditors are aware of that information.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Audit arrangements

The NLF accounts are audited by the Comptroller and Auditor General (C&AG) under the requirements of the National Loans Act 1968. The National Audit Office (NAO) bears the cost of all external audit work performed on the NLF. No non-audit work was undertaken by the NAO in relation to the NLF in 2019-20.

Governance Statement

1. Governance Framework

1.1 The National Loans Fund (NLF) is managed within the Treasury's overall risk and governance framework as set out in the Treasury's Annual Report and Accounts 2018-19. This includes the Treasury Board's assessment of its compliance with the *Corporate Governance Code for Central Government Departments*.

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

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

Audit and Risk Committee

1.4 The Audit and Risk Committee (ARC) provides independent, objective and constructive challenge on the robustness of the control mechanisms in place and the evidence provided to deliver the assurance needed by the Board. It supports the Permanent Secretary and the other core department Accounting Officers in their responsibilities for managing risk, control and governance. The Committee may consider any issue relating to the running of the Treasury as well as any delivery or reputational risk. The ARC has oversight of the production of the Treasury Annual Report and Accounts, Central Funds (Consolidated Fund, National Loans Funds, Contingencies Fund and Exchange Equalisation Account) and Whole of Government Accounts.

1.5 Details on the overall risk and governance structure of HM Treasury can be found in the Governance Statement in the Treasury's Annual Report and Accounts.

1.6 The Permanent Secretary appoints members of the Committee for periods up to three years, extendable by one additional three-year period. The Chair of the Committee (Richard Meddings) reports directly to the Permanent Secretary and is also a Non-Executive member of the Treasury Board.

1.7 The membership of the ARC at the 31 March 2020 was:

- Richard Meddings - 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 FRC (2008 – 2018) and Board member of International Chambers of Commerce UK (2007 – present); Non-Executive Director, Legal & General plc (December 2014 to May 2017); Non-Executive Director and Senior Independent Director of 3i Group plc (2008-2014) and Chair of Audit and Risk Committee; and Main Board Director (2002-2014) and Group Finance Director (2006–2014) Standard Chartered PLC.

- Tim Score - Tim's experience covers financial management and an in-depth knowledge of the technology sector. He was Chief Financial Officer of ARM Holdings plc from 2002 to 2015, Senior independent director, Chair of Audit and Interim Chairman at National Express Group (2005-2014), CFO of Rebus Group and William Baird PLC, Group Financial Controller at BTR Plc and LucasVarity PLC. Other roles: 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.

- Zarin Patel – Zarin Patel is a Non-Executive Director of John Lewis Partnership Plc, Anglian Water Services Limited and is a member of their respective Audit and Risk Committees. She is also a Trustee of National Trust and chairs its Audit and Risk Committee. She was appointed to the board of Post Office Limited in November 2019 and sits on its Audit and Risk Committee. She was formerly the Chief Financial Officer at the BBC and a member of its Executive Board.

- Sir Peter Estlin – Alderman, City of London; Independent Director, Rothschild & Co; Trustee, Trust for London (previously Group Financial Controller and acting Group CFO, Barclays).

1.8 The ARC met six times during 2019-20. Pre-meeting discussions with the National Audit Office and Internal Auditors were held before each session. Attendance is outlined in the table below:

	Attendance
Richard Meddings[5] (Chair)	6/6
Tim Score	5/6
Sir Peter Estlin[6]	1/1
Zarin Patel	5/6
Jacinda Humphry[7]	4/5

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

1.10 In addition to the independent members, the appropriate Accounting Officers, HM Treasury's Group Director of Finance and the Treasury Accountant (or, in their absence, the Head of Exchequer Accounts) also attend ARC meetings. Members have the opportunity for a pre-committee discussion with the NAO, Group Head of Internal Audit for HM Treasury and Head of Exchequer Funds Internal Audit (EFIA).

1.11 The ARC challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

1.12 Outside the planned ARC meetings individual members have shared their commercial and professional expertise with key officials across the Treasury.

1.13 The external auditor is the Comptroller and Auditor General and the NAO attend all ARC meetings on his behalf.

1.14 The ARC receives all NAO reports and a summary of EFIA reports relating to the NLF, as well as underlying reports on internal audits where issues are identified leading to Red or Amber assessments (no such report in 2019-20 and one such report in 2018-19).

Exchequer Funds Internal Audit (EFIA)

1.15 Internal Audit for the NLF is provided by EFIA, whose services are provided by the internal audit fucntion of the Debt Management Office. The Head of EFIA reports directly to both me and the Audit and Risk Committee on audit reporting matters.

1.16 For the NLF, an annual risk-based internal audit programme is agreed with the Treasury Accountant (or, in their absence, one of their managers) in advance of the ARC's approval. The work programme always includes a review of the receipts and payments process, due to the very high value of payments made by the NLF. The ARC reviews the work programme and is kept informed of progress and amendments.

Management of the National Loans Fund

1.17 The NLF is managed by the Treasury Accountant and their managers within the Exchequer Funds and Accounts (EFA) Team of HM Treasury. The EFA team reports any matters concerning the NLF directly to me.

[5] Requested suspension from 4 September 2018 for duration of his appointment as Executive Chairman of TSB. Returned on 1 May 2019
[6] 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.
[7] Stepped down on 29 February 2020

2. Risk Management

Treasury Risk management and reporting to the Treasury's Boards

2.1 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.

2.2 A risk management framework operates across the Treasury, including the NLF, ensuring the effective identification, assessment and management of operational risks, ensuring that they can be escalated as appropriate. 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.

2.3 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.

2.4 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.

2.5 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; Project Risk Group; risks related to the Department's arms-length bodies; and Legislative risk. Further, as a risk owner, the Treasury Accountant provides a quarterly risk return for the Consolidated Fund to a central Treasury team. This analysis complements 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 Treasury's Executive Management Board (EMB) and the Treasury Board (Sub Committee) (TB(SC)) on a quarterly basis, which enables EMB, TB(SC) and senior managers to take action where appropriate.

2.6 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 delivery of its objectives.

2.7 The Chair of the Audit and Risk Committee is invited to report concerns or issues to the TB(SC) and is a non-executive member of the Treasury Board.

National Loans Fund Risk management

2.8 EFA is managed within the Treasury's risk management framework as set out in the Treasury's Annual Report and Accounts. The Treasury Accountant has overall responsibility on a day-to-day basis for risk management of those Funds managed by EFA, and for ensuring that my financial, regularity and propriety responsibilities as Accounting Officer of the NLF are discharged appropriately. They are supported by members of EFA management who are responsible for ensuring that the tasks in their areas are compliant with operational policies and procedures, and legislation. In addition, during 2019-20, a new Central Funds Risks and Controls Review Panel comprising directors from both Treasury and the Debt Management Office was formed to provide me with additional assurance on EFA operations and risk management. The panel, chaired by the Fiscal Group Director, reviews the quarterly controls report and accompanying risk register produced by EFA management in advance of submission to me, providing challenge and input across the range of controls.

2.9 Risk management is key to all processes within EFA, including business continuity resilience planning for those public funds for which EFA is responsible. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and to identify appropriate mitigating actions. Significant risk issues are recorded in a risk register and are assessed by likelihood and impact. A risk owner, who is responsible for managing the risk, is assigned to each risk. The risk register is reviewed quarterly by EFA management and as noted above is circulated to me alongside the quarterly risks and controls report.

2.10 The Treasury Accountant is also chair of the Public Finance Business Continuity group, a network that links relevant teams across the Treasury, the Bank of England, Debt Management Office, NAO, HMRC and Government Banking to ensure business continuity risks are adequately and consistently addressed across all operational partners in the stewardship of Exchequer funds. The chair reports to me annually following certificates of assurance received from all member organisations.

2.11 There are sufficient experienced staff in the EFA team with an appropriate range and breadth of knowledge to manage the NLF, covering absences as necessary and maintaining resilience. EFA management ensures that staff members working on the NLF are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk awareness and management is provided as required, either by management or by attending appropriate courses. Training is also provided to staff to build the team's capability and to increase its resilience. EFA team members are encouraged to obtain professional qualifications in areas that are relevant to their roles.

3. The system of internal control

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

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

3.3 The system of internal control has been in place throughout the year ended 31 March 2020 and up to the date of approval of the financial statements, and accords with Treasury guidance. During the year, there were no significant changes to the control environment.

3.4 In the last quarter of the year new business continuity measures were introduced by EFA to mitigate the health risks to staff associated with Covid-19 while continuing to meet the increased operational demands placed on Exchequer fund management during this period. These measures have enhanced the internal control environment in terms of flexibility and resilience, but not significantly changed its existing structure and high level of efficacy.

4. Risk profile

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

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

- **Irregularity of transactions, including fraudulent or erroneous payments:** Clear separation of duties is enforced by appropriate user permissions within the accounting system and payment approval panels. Up-to-date policy and procedures manuals including job instructions are readily accessible to all operational staff. Payment instructions are computer-generated and are derived from underlying transaction records. This minimises the risk of keying errors. Separately, the Comptroller and Auditor General, through the NAO Exchequer Section approves the regularity of NLF payments in advance and reconciles NLF transactions on a daily basis. This is not part of the internal control environment but provides additional assurance to Parliament as to the legality of payments made. There is also a clear and comprehensive audit trail in the IT system, to which the NAO Exchequer Section has real-time access. During 2018-19, EFA was the subject of an advanced penetration test of its core IT system and the processes surrounding it by an external party. A report has been received and EFA is working with third party vendors to review the recommendations made. Overall, although some weaknesses were identified the overall process and controls in place were effective in preventing a third-party attempt at fraud.

- **Incorrect accounting:** Application controls exist within the IT system used to manage financial transactions and account for receipts and payments on the NLF. Interest and amortisation are generated automatically by the accounting system at month end using pre-defined rules. New general ledger accounts are authorised by the Treasury Accountant or one of their managers before being set up. Gilts issuances are reported to senior management and key operational staff. EFA reconciles the dividend claims received from the gilts registrar with its own records prior to each interest payment. The Debt Management Office reconciles principal amounts twice a year. Monthly management accounts for the NLF are also produced and reviewed by the Treasury Accountant (or, in their absence, the Head of Exchequer Accounts), and are provided to me. The accounting for any unusual transactions is suitably considered.

- **Failure of IT systems:** The Nippon Telegraph and Telephone Corporation (NTT) data centre offers high levels of resilience with the data centre platform availability set to 99.9% and the network connectivity availability set to 99.99%. NTT has dual centres which provides a high level of resilience. As part of disaster recovery measures, there is an Active/Active configuration across the two data centres, which ensures a superior level of availability across both sites with near instant failover. EFA also has its own contingency plans in place.

- **Failure to provide an effective service in adverse circumstances, including disaster situations:** To ensure operational resilience in key areas in the event of a threat to business continuity, staff within EFA are trained to provide cover for times when other staff members are absent. Measures are in place to facilitate the NAO Exchequer Section's normal payments approval process in the event of disruption to enable the essential payments business to continue. The risks that impact upon EFA's key stakeholders are managed by their involvement in business continuity planning and testing. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan and facilities. In preparation for issues related to Covid-19 EFA reviewed its operations and identified and implemented a number of operational and technical improvements to support home working over a sustained period.

- **Failure of principal counterparties to provide agreed services:** Well-developed Service Level Agreements (SLAs) for the provision of services from all principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe. Bi-annual meetings are held with managers at the Bank of England where service levels are discussed. A monthly report of any failure to meet the service requirements is also sent to the Bank of England by EFA. Regular meetings are held with DMO, Government Banking and HMRC management where service levels and incidents are discussed.

- **Information risk:** Data and information risk are managed in accordance with the Treasury's policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption and physical and IT security. HM Treasury adheres to Cabinet Office guidelines[8]. Further guidance on information security and assurance is available to all Treasury staff on the intranet. EFA's own Data Handling Policy identifies risks specific to EFA. This policy is reviewed as required.

- **Financial risk:** Adverse results of the Debt Management Account and the Exchange Equalisation Account will affect the NLF's results; therefore all financial risks inherent in these accounts are also inherent in the NLF. Responsibility for risk management and the system of internal control is clearly delegated to the Accounting Officers of those accounts, which have their own control frameworks in place.

[8] Available at https://www.gov.uk/government/publications/security-policy-framework

5. Review of effectiveness

5.1 In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of EFIA who provided positive assurance as to the management and control of the NLF in 2019-20, and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Group ARC, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. Information about the effectiveness of the Treasury's overall system of governance including board effectiveness, attendance, compliance with the Corporate Governance Code and quality of management information reviewed, is reported in the Treasury's Annual Report and Accounts.

5.2 The ARC considered the 2019-20 accounts in draft and provided me with its views before I formally signed the accounts.

5.3 No significant internal control issues, including data related incidents, have been identified in 2019-20, and no significant new risks specific to the operational management and performance of the NLF have been identified in the year. No ministerial directions have been given in 2019-20.

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

Parliamentary accountability and audit report

Regularity of expenditure

The expenditure and income of the NLF were applied to the purposes intended by Parliament.

The borrowings, investments and lending of the NLF were applied to the purposes intended by Parliament.

The above statements have been audited.

Losses and special payments

Currency losses from transactions with the IMF are disclosed within the financial statements.

The above statement has been audited.

Fees and charges

The NLF does not have any fees or charges.

The above statement has been audited.

Remote contingent liabilities

The NLF has two contingent liabilities which fall outside the scope of IAS 37 as the possibility of an outflow of resources is remote. Disclosure of these liabilities is necessary however under Parliamentary reporting requirements.

i) Under the National Loans Act 1968 section 9(3), the NLF has a contingent liability to the Bank of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This liability would only crystallise if government securities were insufficient to meet demand from holders of notes to exchange them for another instrument. The contingent liability was £72,677 million at 31 March 2020 (£72,067 million at 31 March 2019). No obligations crystallised or expired in 2019-20 (2018-19: none).

ii) The NLF has a contingent liability to the Commissioners for the Reduction of the National Debt (CRND) in respect of unclaimed dividends received in previous years. This represents old uncleared amounts surrendered by the gilts registrar to CRND and then onto the NLF and stood at £31.7 million at 31 March 2020 (£32.3 million at 31 March 2019). This contingent liability would crystallise if holders of gilts requested amounts owed to them in excess of an amount for settlement retained by CRND. No obligations crystallised or expired in 2019-20 (2018-19: none).

The above statements have been audited.

Tom Scholar
Accounting Officer
HM Treasury

21 September 2020

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

Opinion on financial statements

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2020 under the National Loans Act 1968. The financial statements comprise: the Statement of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in the Liability of the Consolidated Fund to the National Loans Fund, 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 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 the National Loans Fund's affairs as at 31 March 2020 and of total comprehensive net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury.

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 National Loans Fund 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 National Loans Fund's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the National Loans Fund have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the National Loans Fund'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 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 National Loans Act 1968.

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 National Loans Fund'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 National Loans Fund'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 National Loans Fund'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 the National Loans Fund 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.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions 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 and Accountability Report, but does not include 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 applicable law;
- in the light of the knowledge and understanding of the National Loans Fund 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 Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the 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; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

24 September 2020

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

Statement of Comprehensive Net Expenditure for the year ended 31 March 2020

	Note	**2019-20 £m**	2018-19 £m
Finance costs of borrowing	2	**50,570**	51,053
Income from lending operations	3	**(3,275)**	(3,334)
Gains on foreign exchange transactions	4	**(204)**	(89)
Other expenditure	5	**59**	66
Other income	5	**(10,648)**	(6,217)
Total comprehensive net expenditure		**36,502**	41,479

The notes on pages 23 to 43 form part of this Account.

Statement of Financial Position as at 31 March 2020

	Note	**At 31 March 2020 £m**	At 31 March 2019 £m
Assets			
Advances	6	**153,215**	162,508
Loans	7	**3,560**	3,343
Other assets	8	**93,892**	83,186
IMF Quota Subscription & Lending	9	**22,792**	22,112
Total assets		**273,459**	271,149
Liabilities			
Gilt-edged stock	10	**1,716,715**	1,680,955
National Savings and Investments products	11	**179,175**	167,570
Other debt:			
FLS Treasury Bills	12	**3,178**	23,165
Other	12	**88,079**	47,899
Liabilities to the IMF	9	**17,649**	17,211
Total liabilities		**2,004,796**	1,936,800
Net liabilities		**1,731,337**	1,665,651
Liability of the Consolidated Fund to the National Loans Fund		**1,731,337**	1,665,651

The notes on pages 23 to 43 form part of this Account.

Tom Scholar
Accounting Officer
HM Treasury

21 September 2020

Statement of Cash Flows for the year ended 31 March 2020

	2019-20	2018-19
	£m	£m
Cash flows from operating activities		
Interest received	**3,322**	3,300
Other receipts	**534**	415
Interest paid	**(42,855)**	(43,884)
Other (outflows) / inflows	**(307)**	204
Transfer from the Consolidated Fund for the cost of debt servicing	**39,306**	39,965
Net cash flow from investing activities	**-**	-
Cash flows from investing activities		
Net decrease in advance to the Debt Management Account	**23,000**	25,000
Net increase in advance to the Public Works Loan Board	**(8,256)**	(7,419)
Net decrease in loans	**34**	128
Net increase in advance to the Exchange Equalisation Account	**(5,500)**	(5,150)
Net cash inflow from investing activities	**9,278**	12,559
Cash flows from financing activities		
Net issuance of government stock	**29,385**	42,135
Net redemption of Treasury Bills for Funding for Lending	**(19,932)**	(15,977)
Net receipt of cash from National Savings	**9,551**	9,930
Net increase / (decrease) in other sterling borrowing	**40,189**	(13,074)
Net transfers of IMF non-interest bearing securities	**19**	(1,232)
Net Foreign currency borrowing	**-**	-
Net transfers to the Consolidated Fund	**(68,490)**	(34,341)
Net cash outflow from financing activities	**(9,278)**	(12,559)
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning and end of year	**-**	-

The notes on pages 23 to 43 form part of this Account.

Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund for the year ended 31 March 2020

	2019-20 **£m**	2018-19 £m
Liability of the Consolidated Fund to the National Loans Fund at 1 April	**1,665,651**	1,599,560
Adjustment for removal of DMA revaluation reserve due to the introduction of IFRS 9*	**-**	*30,236*
Liability of the Consolidated Fund to the National Loans Fund at 1 April adjustment	**1,665,651**	1,629,796
Net cash paid to the Consolidated Fund	**68,490**	34,341
Payment from the Consolidated Fund for the cost of debt servicing during the year	**(39,306)**	(39,965)
Total comprehensive net expenditure	**36,502**	41,479
Liability of the Consolidated Fund to the National Loans Fund at 31 March	**1,731,337**	1,665,651

* Further information on this adjustment can be seen in the DMA Accounts which are published separately

The notes on pages 23 to 43 form part of this Account.

Notes to the Account

1 Accounting Policies

i Accounting convention

The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending which were until then accounted for as part of the Consolidated Fund (CF). The NLF Account has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context in so far as they are relevant to transactions and balances within the NLF.

ii New accounting standards and applicable accounting standards and interpretations issued but not yet adopted

The accounting policies are consistent with the prior financial year. There are no accounting standards in issue or revised but not yet effective that would impact on the NLF.

iii Basis of presentation

The NLF Account is stated in millions of pounds sterling (£m). This Account presents the results and transactions of the NLF. The Statement of Financial Position is presented in order of liquidity. The NLF is the government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts.

iv Recognition of finance income and costs

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

The majority of the NLF's financial assets and liabilities have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

v Recognition of finance income – Special Drawing Rights (SDR)

The IMF remunerates the UK in SDRs on its Reserve Tranche Position (RTP) for balances in excess of SDR 700 million and on its bilateral loans. Under section 3(2) of the Exchange Equalisation Act 1979 any SDRs received by the Government must be treated as assets of the EEA, therefore all SDR income is accounted for in the EEA and not the NLF.

vi Financial assets and liabilities

The assets and liabilities of the NLF are all accounted for as financial assets and liabilities except for those arising from the net assets of the EEA and the DMA which are accounted for as explained in accounting policy ix. In accordance with IFRS 9 all financial assets and liabilities are initially recognised at fair value.

The NLF's financial assets are all designated as debt instruments at amortised cost as defined in IFRS 9. The classification is based on both the entity's business model for managing the financial assets (determined as held to collect contractual cashflows) and the contractual cash flow characteristics of the financial assets (being solely payment of principal and interest). Subsequent measurement is therefore at amortised cost using the effective interest rate method.

The NLF's financial liabilities are not held for trading and are therefore also subsequently measured at amortised cost using the effective interest rate method in accordance with IFRS 9. If gilts are issued by a syndication process, the syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written off as incurred.

The distinction between loans and advances derives from the legislation that governs the operation of the NLF. On loans, interest must be charged at a rate that at least covers the cost that the Fund would have to bear if it were to borrow the same sum for the period of the loan, plus the Treasury's own administration costs. There is no such requirement for advances, although interest is charged at Bank Rate on advances to the DMA. No interest is charged on advances to the EEA. The NLF does not charge interest on its advances to PWLB but interest on loans by the PWLB to local authorities financed by NLF advances is paid to the NLF under section 3(3) of the National Loans Act 1968.

As required by IFRS 7 *Financial Instruments: Disclosures*, the fair values of the financial assets and liabilities are disclosed in note 14. They are calculated by reference to market prices where instruments are traded on an active quoted market or, where this is not the case, as the net present value of future cash flows.

Impairment of financial assets

Per IFRS 9, impairment of financial assets held at amortised cost is based on an expected credit loss (ECL) model. This requires impairment to be based on the deterioration of credit risk since initial recognition. If the credit risk has not increased significantly (Stage 1), IFRS 9 requires allowances based on 12 month expected losses. If the credit risk has increased significantly (Stage 2) and if the loan is 'credit impaired' (Stage 3), the standard requires allowances based on lifetime expected losses.

The FReM includes an exemption from recognising stage 1 and stage 2 losses on balances with other Government Exchequer Funds or Government Departments and also on assets held by Government Exchequer Funds (which includes the NLF) where repayment is ensured by primary legislation.

For all assets not covered by the above exemptions, Exchequer Funds and Accounts (EFA) assesses at the end of each reporting period whether there is any objective evidence of a deterioration of credit risk since initial recognition in accordance with IFRS 9. This will include consideration of any financial difficulties experienced by the borrower and breach of loan conditions such as a default or delinquency in interest or principal payments. No impairment losses have been recognised during the year.

vii Foreign currencies

The financial statements of the NLF are presented in sterling which is the Fund's functional currency, being the currency of the primary economic environment in which it operates. Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are reported at the rates of exchange prevailing at that date. Liabilities to the IMF are denominated in sterling but are subject to a revaluation adjustment reflecting movement in the SDR to sterling exchange rate.

viii Administration expenditure

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

ix Exchange Equalisation Account and Debt Management Account

Under section 11 of Schedule 5A to the National Loans Act 1968, any excess of the assets of the DMA over its liabilities shall be a liability of the DMA to the NLF. Over time, the NLF has advanced sterling to the EEA in order to finance the UK's reserves of gold, foreign currency assets and IMF Special Drawing Rights. As a result, having been derived from initial NLF financing, the EEA's net assets are ultimately due to the NLF. Annual financial statements are prepared for both the DMA and the EEA. The net assets of the DMA and EEA are reported in Other Assets (note 8) and the total comprehensive net expenditure or income recognised in the Statement of Comprehensive Net Expenditure as Other Expenditure or Other Income (note 5). These NLF assets and net income or expenditure are the result of activity in the EEA and DMA during the year and the various accounting policies applied by them to that activity.

x Critical accounting judgements and key sources of estimation uncertainty

The NLF's accounting policy for impairment losses arising on financial assets is described in vi above. No impairment losses have been recognised in the year. There are no other areas of the financial statements which are reliant on management's judgement in the process of applying the Fund's accounting policies. Fair values are included for disclosure purposes only. Their calculation is described in note 14. As mentioned in accounting policy iv, the majority of the NLF's financial assets have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Note 16 applies various assumptions to demonstrate the sensitivity of NLF's assets and liabilities to changes in interest rates, inflation and foreign currency exchange rates.

2 Finance costs of borrowing

	2019-20 £m	2018-19 £m
Gilt-edged stock	**47,516**	48,128
National Savings and Investments products	**2,567**	2,448
Treasury Bills (Funding for Lending)	**89**	193
Other finance costs	**398**	284
Total finance costs of borrowing	**50,570**	51,053

3 Income from lending operations

	2019-20 £m	2018-19 £m
Interest on loans advanced by the National Loans Fund to:		
Public corporations	**39**	42
Central government bodies	**73**	74
	112	116
Interest on loans by the Public Works Loan Board financed by National Loans Fund advances	**3,045**	2,900
Interest on funding advanced to the Debt Management Account	**118**	318
Total income from lending operations	**3,275**	3,334

4 Gains and losses on foreign exchange transactions

	Note	2019-20 £m	2018-19 £m
Gain on Reserve Tranche Position at the IMF	9	**(179)**	(57)
Gain on lending to the IMF	9	**(25)**	(32)
Net gain on foreign currency transactions		**(204)**	(89)

5 Other income and expenditure

	2019-20 **£m**	2018-19 £m
Other expenditure		
Expenditure in respect of depreciation of Issue Department Assets [2]	**56**	62
Miscellaneous expenditure	**3**	4
Total: Other expenditure	**59**	66
Other income		
EEA total comprehensive net income [1]	**(6,305)**	(1,936)
DMA total comprehensive net income	**(3,748)**	(3,799)
Profits of the Bank of England Issue Department [2]	**(541)**	(459)
Income in respect of appreciation of Issue Department Assets [2]	**(49)**	(18)
Miscellaneous receipts	**(5)**	(5)
Total: Other income	**(10,648)**	(6,217)
Net total	**(10,589)**	(6,151)

[1] The EEA made a profit of £6,305 million (2018-19: £1,936 million profit). Of the £6,305 million net income from the EEA, £41 million (2018-19: £41 million) relates to interest income from the IMF Reserve Tranche Position and bilateral loans to the IMF in line with accounting policy v.

[2] Under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the NLF. In addition, the Bank of England Issue Department is required by the Currency and Bank Notes Act 1928 to hold investments equal to the value of bank notes in issue. These investments are revalued to market value quarterly. If the market value is less than the value of notes in issue, legislation requires the NLF to pay an amount equal to the deficiency to the Issue Department to finance the purchase of additional investments. Conversely, if the market value of the assets exceeds the value of notes in issue, the Issue Department sells investments to the value of the surplus and pays the proceeds to the NLF.

6 Advances

	Public Works Loan Board		Debt Management Account		Exchange Equalisation Account		Total	
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
	2019-20	2018-19	**2019-20**	2018-19	**2019-20**	2018-19	**2019-20**	2018-19
Principal outstanding at 1 April	**77,531**	70,112	**23,000**	48,000	**61,147**	55,997	**161,678**	174,109
Advances	**10,422**	9,131	**20,000**	55,000	**10,250**	7,400	**40,672**	71,531
Advances repaid	**(2,166)**	(1,712)	**(43,000)**	(80,000)	**(4,750)**	(2,250)	**(49,916)**	(83,962)
Principal outstanding at 31 March	**85,787**	77,531	**-**	23,000	**66,647**	61,147	**152,434**	161,678
Accrued interest	**779**	806	**2**	24	**-**	-	**781**	830
Total advances outstanding	**86,566**	78,337	**2**	23,024	**66,647**	61,147	**153,215**	162,508

7 Loans and commitments to lend

Loans			**2019-20**			2018-19
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Principal outstanding at 1 April	**624**	**2,701**	**3,325**	655	2,481	3,136
Loans advanced	**215**	**415**	**630**	351	382	733
Loans repaid	**(238)**	**(177)**	**(415)**	(382)	(162)	(544)
Principal outstanding at 31 March	**601**	**2,939**	**3,540**	624	2,701	3,325
Accrued interest	**9**	**11**	**20**	7	11	18
Total loans outstanding	**610**	**2,950**	**3,560**	631	2,712	3,343

Commitments to lend			**At 31 March 2020**			At 31 March 2019
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Undrawn commitments to lend	**-**	**250**	**250**	6	-	6

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made either for a fixed period or have no specific maturity but are cancellable by the lender. The NLF does not have any loans or commitments to lend to financial institutions classified as 'Public Financial Corporations' following the banking crisis. In addition to the above, the NLF has loans and a loan commitment to the IMF which is explained in note 9.

8 Other assets

	At 31 March 2020 £m	At 31 March 2019 £m
Exchange Equalisation Account net assets	**39,960**	33,655
Debt Management Account net assets	**52,127**	48,380
Cash held by National Savings and Investments	**1,745**	1,095
Sterling balances at Bank of England advanced to IMF	**60**	56
Total other assets	**93,892**	83,186

9 IMF Reserve Tranche Position and Lending to the IMF

The United Kingdom's relationship with the International Monetary Fund (IMF) is accounted for in the NLF and the EEA. The UK's quota subscription to the IMF, 20,155 million Special Drawing Rights (SDRs) - equivalent to £22,254 million[9] at 31 March 2020 (£21,350 million at 31 March 2019) - was paid from the NLF and is recognised as an NLF asset. Part of the subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS) which totalled £16,958 million at 31 March 2020 (£16,939 million at 31 March 2019). NIBS represent a liability of the NLF to the IMF. There is a remaining small liability of £60 million (£56 million at 31 March 2019) against which an equal amount of sterling cash is made available in an account at the Bank of England for drawdown by the IMF.

The difference between the gross quota subscription and the NLF's sterling liability to the IMF is the UK's reserve tranche position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value in SDR terms of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May. The cumulative valuation adjustment at 31 March 2020 was £631 million loss (£216 million loss at 31 March 2019). The table below sets out the composition of the RTP and the make-up of changes over the year.

[9] The GBP/SDR exchange rate at 31 March 2020 was 0.905665 (31 March 2019: 0.94403)

NLF Assets and Liabilities: Composition of the Reserve Tranche Position and Lending[10] to the IMF

	Asset	Liabilities				Reserve Tranche Position
	IMF Quota Subscription	**Non-interest-bearing securities**	**Other quota liability**	**Valuation adjustment**	**Total liabilities**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Balances at 31 March 2019	21,350	(16,939)	(56)	(216)	(17,211)	4,139
Exchange rate gains for the year on the Quota subscription	904				-	904
Change in year-end valuation adjustment				(415)	(415)	(415)
Change in loan notes as a result of the valuation settlement		(310)			(310)	(310)
Change in cash on No 1 account			(4)		(4)	(4)
Net increase in loan notes		291			291	291
Balances at 31 March 2020	**22,254**	**(16,958)**	**(60)**	**(631)**	**(17,649)**	**4,605**

Lending to the IMF	**£m**
Lending as at 31 March 2019	762
Loans advanced in 2019-20	-
Loans repaid in 2019-20	(249)
Gain on foreign exchange	25
Lending as at 31 March 2020	**538**
IMF Quota Subscription and Lending	**22,792**

The RTP is a net asset of the NLF. It represents an SDR asset that can be drawn on by the UK if needed and is considered part of the UK's foreign exchange reserves. Sterling transactions by the IMF impact on the level of non-interest-bearing securities (NIBS) and hence on the RTP. Under current policy, changes in the RTP lead to adjustments in the composition of other reserve assets (held in the EEA) in order to keep the portfolio composition of the reserves in line with plan. Interest is payable by the IMF on the RTP balance in excess of SDR 700 million. This interest is retained in the EEA.

Separately, the EEA also holds the UK's allocation of SDRs (SDR 10,134 million at 31 March 2020) as a liability to the IMF and retains an asset in the form of the UK's holdings of SDRs (SDR 10,370 million at 31 March 2020).

During 2019-20 a net payment was made from quota of £291 million to the IMF in support of funding programmes (a net payment from the IMF of £1,031 million was made in 2018-19).

[10] Lending includes both loans made under the New Arrangements to Borrow (NAB) and the bilateral loan facility

During 2009-10 the UK agreed to provide a bilateral loan facility (2009 bilateral loans) to the IMF for an amount up to the equivalent of SDR 9,920 million (£10,953 million at the 31 March 2020 exchange rate). In March 2011, all outstanding claims under the 2009 bilateral loan agreement were folded into the New Arrangements to Borrow (NAB) (see below). The total drawn loans represent a claim on the IMF and are therefore an asset of the NLF and the undrawn loans are a commitment of the NLF. Interest is payable by the IMF on the loan balance and is retained in the EEA in line with accounting policy v.

In April 2012, a G20-led agreement to a temporary increase in IMF resources was reached. As part of this, the UK agreed to provide a new bilateral loan facility (2012 bilateral loans) worth SDR 9,178 million (£10,134 million). This loan facility expired without being used in October 2016.

The UK agreed to a third bilateral loan to the IMF, again worth SDR 9,178 million (£10,134 million), in October 2016 (2016 bilateral loans). The 2016 bilateral loan facility has not been used yet.

On 1 April 2011 IMF members agreed to the first activation of the expanded New Arrangements to Borrow (NAB), the second line of defence after quota resources. The UK's commitment to the NAB at that point was SDR 18,657 million (£20,600 million at the 31 March 2020 exchange rate). The NAB can only be used to finance drawings under IMF commitments approved during its activation periods. The NAB was re-activated during 2015-16 for further six month periods on 1 April and 1 October 2015. The expanded NAB was reduced and deactivated in February 2016 when the Fourteenth General Review of Quotas (GRQ – see below) was implemented. Accordingly, the UK's NAB commitment was reduced to SDR 9,479 million (£10,466 million).

On 26 January 2016, the IMF's Fourteenth GRQ, agreed in November 2010, took effect. As a result, the UK's quota subscription increased from SDR 10,739 million to SDR 20,155 million, an increase of SDR 9,416 million. Related transactions were completed on 23 February 2016, as approved by Parliament in July 2011.

In December 2019, at the IMF's 15th General Review of Quotas, it was agreed that overall level of IMF resources will remain the same but that the New Arrangements to Borrow (NAB) will double in size, while Bilateral Borrowing Agreements (BBAs) will be reduced. This agreement is set to take effect on 1st January 2021. As a result of this, the UK's NAB commitment will increase to 18,958 million SDR (£20,933 million at the 31 March 2020 exchange rate), while the UK's commitment to the BBAs will decrease to 3,954 million SDR (£4,366 million at the 31 March 2020 exchange rate) in January 2021. This will be a net increase in UK commitments to borrowed resources of 4,255 million SDR (£4,698 million at the 31 March 2020 exchange rate). This will require an increase to the limit on lending under the International Monetary Fund Act 1979, and the draft Statutory Instrument to implement this increase was laid in Parliament on 1 July 2020. In April 2020, IMF members agreed to keep demands on the IMF's resources under close review.

UK's total commitment to the IMF

		At 31 March 2020			At 31 March 2019	
	Total commitment	**Total drawn**	**Total undrawn**	Total commitment	Total drawn	Total undrawn
Quota (SDRm)	**20,155**	**4,172**	**15,983**	20,155	3,906	16,249
Loans (SDRm)	**18,657**	**487**	**18,170**	18,657	720	17,937
Total (SDRm)	**38,812**	**4,659**	**34,153**	38,812	4,626	34,186
Quota (£m)	**22,254**	**4,605**	**17,649**	21,350	4,139	17,211
Loans (£m)	**20,600**	**538**	**20,062**	19,763	762	19,001
Total (£m)	**42,854**	**5,143**	**37,711**	41,113	4,901	36,212

Changes to the UK's quota subscription and loans to the IMF are subject to Parliamentary-approved limits.

10 Gilt-edged stock

	Conventional £m	Index-Linked £m	Total £m
At 31 March 2019	1,196,334	484,621	1,680,955
Receipts from gilt issuance	114,733	23,134	137,867
Payments for gilt redemption	(98,943)	(9,539)	(108,482)
Amortisation of premiums and discounts	(2,968)	(1,386)	(4,354)
Change in accrued interest	141	10,588	10,729
At 31 March 2020	**1,209,297**	**507,418**	**1,716,715**

The NLF issues gilts directly to the DMA for use by the Debt Management Office in its money market activities managing the Exchequer's daily cash requirement. These gilts do not contribute directly to Exchequer financing. All other gilts are sold into the primary gilt market to meet government financing needs.

The analysis below shows two large holdings of the gilt liability by UK public sector entities, the DMA and Bank of England.

	At 31 March 2020 £m	At 31 March 2019 £m
Debt Management Account (DMA)	**112,863**	121,166
Bank of England (for quantitative easing)	**397,524**	377,734
Other investors	**1,206,328**	1,182,055
Total gilt-edged stock	**1,716,715**	1,680,955

Syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written off as incurred. Total syndication fees for the year were £32 million (2018-19: £35 million).

11 National Savings and Investments (NS&I) products

	2019-20 £m	2018-19 £m
Principal outstanding at 1 April	**166,947**	155,999
Cash repayments from the National Loans Fund	**(27,153)**	(26,916)
Principal cash received in the National Loans Fund	**36,704**	36,846
Capitalised interest and other returns to savers	**1,431**	1,496
Change in cash holdings for principal	**643**	(478)
Principal outstanding at 31 March	**178,572**	166,947
Accrued interest and other returns to savers	**603**	623
Total principal and accrued interest outstanding	**179,175**	167,570

NS&I provides more detail on this liability in a set of Product Accounts which are published with the NS&I resource accounts on the NS&I website[11].

[11] http://nsandi-corporate.com/about-nsi/our-performance/our-annual-report-and-accounts/

12 Other debt

	At 31 March 2020 £m	At 31 March 2019 £m
FLS Treasury Bills	**3,178**	23,165
Other:		
Debt Management Account	**55,333**	16,546
Bank of England Issue Department	**370**	370
Balances from government accounts at the Government Banking Service	**25,291**	22,946
Deposits from public sector bodies	**6,582**	7,409
Other	**503**	628
	88,079	47,899
Total other debt payable	**91,257**	71,064

Treasury Bills have been issued by the NLF to the DMA in connection with the Bank of England's Funding for Lending Scheme (FLS). Further information on the scheme is provided in the Performance report.

The next two items reflect deficit funding from the DMA and the Issue Department of the Bank of England. The fourth item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at Government Banking. Deposits from public sector bodies represents deposits by public sector bodies which are directly held with the NLF. "Other" comprises mostly certificates of tax deposit held by the NLF. From 23 Nov 2017, the CTD scheme has been closed for new purchases, but existing certificates will continue to be honoured until 23 November 2023.

At 31 March 2020, there was no foreign currency debt outstanding in the NLF.

13 Reconciliation of liabilities arising from financing activities

	Liability at 31 March 2019	Interest paid (cashflow from operating activities)	Cashflow from financing activities	Finance costs of borrowing (Note 2)	Exchange rate gains (Note 9)	Movement in cash held by third parties on behalf of the NLF	Liability at 31 March 2020
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gilt-edged stock	1,680,955	(41,141)	29,385	47,516	-	-	**1,716,715**
National Savings and Investments products	167,570	(1,163)	9,551	2,567	-	650	**179,175**
Other debt:							
FLS Treasury Bills	23,165	(144)	(19,932)	89	-	-	**3,178**
Other	47,899	(407)	40,189	398	-	-	**88,079**
Liabilities to the IMF	17,211	-	19	-	415	4	**17,649**
Total	**1,936,800**	**(42,855)**	**59,212**	**50,570**	**415**	**654**	**2,004,796**

14 Fair Values

Carrying Value and Fair Value of NLF assets and liabilities

	At 31 March 2020		At 31 March 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Assets	**£m**	**£m**	£m	£m
Advances:				
Public Works Loan Board	**85,787**	**140,101**	77,531	113,580
Debt Management Account	**-**	**-**	23,000	23,000
Exchange Equalisation Account	**66,647**	**66,647**	61,147	61,147
Accrued interest	**781**	**781**	830	830
Loans:				
Principal	**3,540**	**3,907**	3,325	3,844
Accrued interest	**20**	**20**	18	18
Other assets	**93,892**	**93,892**	83,186	83,186
IMF quota subscription & lending	**22,792**	**22,792**	22,112	22,112
Total assets	**273,459**	**328,140**	271,149	307,717
Liabilities				
Gilts	**1,716,715**	**2,380,483**	1,680,955	2,168,070
National Savings & Investments:				
Principal	**178,572**	**178,976**	166,947	167,507
Accrued interest	**603**	**703**	623	645
IMF liabilities	**17,649**	**17,649**	17,211	17,211
Other debt:				
Treasury Bills (Funding for Lending)	**3,178**	**3,183**	23,165	23,172
Debt Management Account	**55,333**	**55,333**	16,546	16,546
Issue Department of Bank of England	**370**	**370**	370	370
Government balances	**25,291**	**25,291**	22,946	22,946
Deposits from public sector bodies	**6,582**	**6,582**	7,409	7,409
Foreign currency debt	**-**	**-**	-	-
Other	**503**	**503**	628	628
Total liabilities	**2,004,796**	**2,669,073**	1,936,800	2,440,497

The NLF's assets are classified as financial assets except for the net assets of the EEA (£39,960 million, 2018-19: £33,655 million) and DMA (£52,127 million, 2018-19: £48,380 million), reported in Other Assets (note 8). The carrying value of financial assets is £181,372 million (2018-19: £189,114 million) and their fair value is £236,053 million (2018-19: £225,682 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to market prices where instruments are traded on an active quoted market or, where this is not the case, as the net present value of future cash flows.

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

The fair value of gilts and Treasury Bills are calculated by reference to their market prices. They will generally be redeemed at their book values so any difference between their fair value and book value will not normally be realised in the NLF accounts.

15 Maturity of assets and liabilities

The following table shows the split between current and non-current assets and liabilities based on contract date of maturity or expected maturity if there is no contract date.

	At 31 March 2020			At 31 March 2019		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	£m	**£m**	**£m**	£m	£m	£m
Assets						
Advances	**3,563**	**149,652**	**153,215**	3,032	159,476	162,508
Loans	**290**	**3,270**	**3,560**	253	3,090	3,343
Other assets	**1,805**	**92,087**	**93,892**	1,150	82,036	83,186
IMF quota subscription (SDR) & lending	**-**	**22,792**	**22,792**	-	22,112	22,112
Total assets	**5,658**	**267,801**	**273,459**	4,435	266,714	271,149
Liabilities						
Gilts						
Conventional	**97,973**	**1,111,324**	**1,209,297**	106,589	1,089,745	1,196,334
Index-linked	**24,052**	**483,366**	**507,418**	10,396	474,225	484,621
Gilt-edged stock	**122,025**	**1,594,690**	**1,716,715**	116,985	1,563,970	1,680,955
National Savings and Investments	**177,980**	**1,195**	**179,175**	167,570	-	167,570
IMF liabilities	**-**	**17,649**	**17,649**	-	17,211	17,211
Treasury Bills for FLS	**3,178**	**-**	**3,178**	23,165	-	23,165
Other debt payable	**88,079**	**-**	**88,079**	47,899	-	47,899
Total liabilities	**391,262**	**1,613,534**	**2,004,796**	355,619	1,581,181	1,936,800

All National Savings and Investments products are payable on demand and therefore classified as current liabilities except for investments in Guaranteed Bonds made on or after 1 May 2019, which repay at maturity.

The following table shows an analysis of current and non-current assets and liabilities by type of counterparty.

			At 31 March 2020			At 31 March 2019
	Current	**Non-current**	**Total**	Current	Non-current	Total
	£m	**£m**	**£m**	£m	£m	£m
Assets						
Balances with:						
Other central government bodies	**5,522**	**244,476**	**249,998**	4,314	244,036	248,350
NHS Trusts	**-**	**-**	**-**	-	-	-
Public corporations and trading funds	**136**	**533**	**669**	121	566	687
Total intra government balances	**5,658**	**245,009**	**250,667**	4,435	244,602	249,037
Balances with bodies external to government	**-**	**22,792**	**22,792**	-	22,112	22,112
Total assets	**5,658**	**267,801**	**273,459**	**4,435**	**266,714**	**271,149**
Liabilities						
Balances with:						
Other central government bodies	**89,976**	**106,131**	**196,107**	72,778	111,635	184,413
NHS Trusts	**6,691**	**-**	**6,691**	5,763	-	5,763
Public corporations and trading funds	**22,858**	**387,812**	**410,670**	38,107	352,359	390,466
Total intra government balances	**119,525**	**493,943**	**613,468**	116,648	463,994	580,642
Balances with bodies external to government	**271,737**	**1,119,591**	**1,391,328**	238,971	1,117,187	1,356,158
Total liabilities	**391,262**	**1,613,534**	**2,004,796**	**355,619**	**1,581,181**	**1,936,800**

16 Financial risks related to the NLF

The Government's debt management objective is set out in the annual Debt and Reserves Management Report:

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

This is achieved by:

- meeting the principles of openness, transparency and predictability;
- developing a liquid and efficient gilt market;
- issuing gilts that achieve a benchmark premium;

- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments.

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

The NLF's liabilities include conventional and index-linked gilt-edged securities, NS&I product liabilities, certificates of tax deposit, Treasury Bills issued to the DMA for the Funding for Lending scheme, deposits from other public sector accounts and liabilities to the IMF. There is a wide spread of maturities.

NLF assets include advances to the DMA, PWLB and EEA, loans to UK public bodies, net assets of the DMA and EEA, NS&I product-related cash holdings and the UK's gross Quota Subscription and lending to the IMF, denominated in SDRs.

Set out below are certain risk factors that could affect the NLF's operations.

Interest rate and inflation risk

The NLF is exposed to cash flow interest rate risk on its floating rate borrowing and lending due to the risk that future interest rates will fluctuate. It is not exposed to fair value interest rate risk as its financial assets and liabilities are measured at amortised cost and not fair value. Some of the NLF's assets and liabilities have no associated interest income or expense (are "zero-rated") and are therefore not exposed to changes in interest rates.

Inflation risk arises because interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in the UK Retail Prices Index (RPI) since the initial issue of each stock.

The table below analyses the NLF's interest rate and inflation risk. Assets and liabilities are included at carrying amount and are shown at the earlier of contractual re-pricing or maturity dates.

Interest rate and inflation risk analysis as at 31 March 2020

	Up to 1 month/ repayable on demand £m	**1-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Zero-rated £m**	**Total carrying value £m**	**Fixed rate £m**	**Floating rate £m**
Assets								
Advances	369	2,527	9,451	73,347	67,521	**153,215**	85,284	410
Loans	46	225	1,023	2,247	19	**3,560**	3,541	-
Other assets	-	-	-	-	93,892	**93,892**	-	-
IMF quota subscription	-	-	-	-	22,254	**22,254**	-	-
IMF loans	-	-	-	-	538	**538**	-	-
Total	**415**	**2,752**	**10,474**	**75,594**	**184,224**	**273,459**	**88,825**	**410**
Liabilities								
Gilts								
Conventional	-	90,453	299,838	811,486	7,520	**1,209,297**	1,201,777	-
Index-linked	506,399	-	-	-	1,019	**507,418**	-	506,399
Gilt-edged stock	506,399	90,453	299,838	811,486	8,539	**1,716,715**	1,201,777	506,399
National Savings and Investments	155,864	3,146	19,515	-	650	**179,175**	22,991	155,534
IMF liabilities	-	-	-	-	17,649	**17,649**	-	-

Treasury Bills for FLS	40	3,138	-	-	-	**3,178**	3,178	-
Other debt payable	65,384	5,509	-	-	17,186	**88,079**	6,572	64,321
Total	**727,687**	**102,246**	**319,353**	**811,486**	**44,024**	**2,004,796**	**1,234,518**	**726,254**
Period gap	**727,272**	**99,494**	**308,879**	**735,892**	**(140,200)**	**1,731,337**		
Cumulative gap	**727,272**	**826,766**	**1,135,645**	**1,871,537**	**1,731,337**			

Interest rate and inflation risk analysis as at 31 March 2019

	Up to 1 month/ repayable on demand £m	1-12 months £m	1-5 years £m	Over 5 years £m	Zero-rated £m	**Total carrying value £m**	Fixed rate £m	Floating rate £m
Assets								
Advances	23,502	2,095	8,367	66,557	61,987	**162,508**	76,948	23,573
Loans	-	233	931	2,160	19	**3,343**	3,324	-
Other assets	-	-	-	-	83,186	**83,186**	-	-
IMF quota subscription	-	-	-	-	21,350	**21,350**	-	-
IMF loans	-	-	-	-	762	**762**	-	-
Total	**23,502**	**2,328**	**9,298**	**68,717**	**167,304**	**271,149**	**80,272**	**23,573**
Liabilities								
Gilts								
Conventional	-	99,210	299,460	790,285	7,379	**1,196,334**	1,188,955	-
Index-linked	483,573	-	-	-	1,048	**484,621**	**-**	483,573
Gilt-edged stock	483,573	99,210	299,460	790,285	8,427	**1,680,955**	1,188,955	483,573
National Savings and Investments	143,199	5,656	18,021	-	694	**167,570**	24,329	142,547
IMF liabilities	-	-	-	-	17,211	**17,211**	-	-
Treasury Bills for FLS	7,213	15,952	-	-	-	**23,165**	23,165	-
Other debt payable	26,125	5,968	-	-	15,806	**47,899**	7,397	24,696
Total	**660,110**	**126,786**	**317,481**	**790,285**	**42,138**	**1,936,800**	**1,243,846**	**650,816**
Period gap	**636,608**	**124,458**	**308,183**	**721,568**	**(125,166)**	**1,665,651**		
Cumulative gap	**636,608**	**761,066**	**1,069,249**	**1,790,817**	**1,665,651**			

Foreign currency risk

The NLF is exposed to foreign exchange risk through transactions with the IMF as the reserve tranche position (quota subscription less UK liability) and lending to the IMF are denominated in SDRs (note 9). In addition to the risk of unrealised revaluations of the assets and liability, foreign exchange gains and losses are realised as the NLF transacts with the IMF on the UK liability and loans. As it is not possible to predict the size and timing of these transactions with any certainty it has not been deemed cost-effective to attempt to mitigate this risk through hedging arrangements.

Sensitivity analysis

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the NLF's financial assets and liabilities to changes in UK interest rates, the UK Retail Prices Index and the SDR to sterling exchange rates. The sensitivity analysis has been calculated on the basis that the components of financial assets and liabilities, the amount of instruments held at fixed, floating and zero interest rates and the amount of instruments held in SDRs are all constant and are as at the end of the reporting period.

The following assumptions have been made in calculating sensitivity:

- All sensitivities impact the Statement of Comprehensive Net Expenditure and thereby the net liability of the CF to the NLF.
- Finance income and costs and the net liability of the CF to the NLF will be affected by changes in interest rates on floating rate instruments.
- All instruments are held at amortised cost and are therefore not subject to changes in fair value as a result of interest rate changes.
- No sensitivity is provided for interest accruals where these are based on pre-agreed interest rates and are therefore not susceptible to further rate changes.
- 100 basis points and 10 percent are management's assessment of the reasonably possible change in interest, RPI and FX rates at the end of the reporting period. This is not a forecast.

Using the above assumptions, the following table shows the illustrative impact on the Statement of Comprehensive Net Expenditure that would result from an increase in UK interest rates and the UK Retail Prices Index and if the SDR to sterling exchange rate was to strengthen.

	2019-20 Statement of Comprehensive Net Expenditure	2018-19 Statement of Comprehensive Net Expenditure
	£m	£m
UK interest rates + 100bp expense	**2,194**	1,437
UK Retail Prices Index + 100bp expense	**5,064**	4,836
SDR exchange rate + 10% income	**(514)**	(490)

An equal, but opposite effect would result if there were a decrease in UK interest rates and the UK Retail Prices Index, and if the SDR to sterling exchange rates was to weaken.

Liquidity risk

Liquidity risk is the risk that the NLF will encounter difficulty in meeting obligations associated with financial liabilities. Its exposure to liquidity risk arises because of its fundamental purpose of being the Government's main borrowing account. NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments, and thus liquidity risk, across a wide time period into the future. The longest stock in existence at 31 March 2020 matures in 2071. Deposits in the NLF have a shorter maturity profile since they can change on demand. However, in practice, balances change only slowly due to re-investment. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts. Most of the NLF's borrowing needs are met through borrowing on its behalf by the DMO and NS&I.

Contractual undiscounted cash flows of financial liabilities

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

The treatment of coupon payments is of particular significance. The table includes contractual coupon payments for the period to maturity based on coupon rates and, in the case of index-linked gilts, the Retail Prices Index at 31 March 2020. Because of the many coupon payments to be made for longer dated gilts the table below reports coupon cash flows of £604,512 million (£621,107 million at 31 March 2019) whereas the gilts liability in the Statement of Financial Position contains coupon accruals to the end of the reporting period of £8,617million (£8,446 million at 31 March 2019).

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

At 31 March 2020

	0-12 months	1-2 years	2-5 years	Over 5 years	Undated	Total
Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Conventional Gilts:						
Principal	**90,237**	**91,464**	**205,470**	**776,882**	**-**	**1,164,053**
Coupons	**35,061**	**32,264**	**84,218**	**403,270**	**-**	**554,813**
Index-Linked Gilts:	-	-	-	-	-	
Principal	**22,957**	**-**	**60,744**	**371,514**	**-**	**455,215**
Coupons	**3,714**	**3,427**	**9,171**	**33,387**	**-**	**49,699**
Total Gilts	**151,969**	**127,155**	**359,603**	**1,585,053**	**-**	**2,223,780**
National Savings and Investments	**177,933**	**608**	**587**	**-**	**46**	**179,174**
IMF	**17,649**	**-**	**-**	**-**	**-**	**17,649**
Treasury Bills For FLS	**3,185**	**-**	**-**	**-**	**-**	**3,185**
Temporary Deposits	**6,591**	**-**	**-**	**-**	**-**	**6,591**
Other debt payable	**81,496**	**-**	**-**	**-**	**-**	**81,496**
	438,823	**127,763**	**360,190**	**1,585,053**	**46**	**2,511,875**

The cash flow analysis after five years is:

	5-10 years	10-20 years	20-30 years	30-40 years	Over 40 years	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Conventional Gilts:						
Principal	**216,851**	**209,181**	**196,127**	**101,635**	**53,088**	**776,882**
Coupons	**114,433**	**159,062**	**82,812**	**35,715**	**11,248**	**403,270**
Index-Linked Gilts:						
Principal	**65,170**	**113,038**	**105,940**	**49,229**	**38,137**	**371,514**
Coupons	**11,758**	**13,164**	**5,871**	**2,271**	**323**	**33,387**
	408,212	**494,445**	**390,750**	**188,850**	**102,796**	**1,585,053**

At 31 March 2019

Liabilities	0-12 months £m	1-2 years £m	2-5 years £m	Over 5 years £m	Undated £m	Total £m
Conventional Gilts:						
Principal	98,943	90,237	207,198	758,430	-	1,154,808
Coupons	36,967	33,716	85,248	413,208	-	569,139
Index-Linked Gilts:						
Principal	9,273	22,338	39,471	366,229	-	437,311
Coupons	3,888	3,597	9,547	34,936	-	51,968
Total Gilts	149,071	149,888	341,464	1,572,803	-	2,213,226
National Savings and Investments	167,497	-	-	-	73	167,570
IMF	17,211	-	-	-	-	17,211
Treasury Bills For FLS	23,240	-	-	-	-	23,240
Temporary Deposits	7,221	-	-	-	-	7,221
Other debt payable	40,692	-	-	-	-	40,692
	404,932	149,888	341,464	1,572,803	73	2,469,160

The cash flow analysis after five years is:

	5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Conventional Gilts:						
Principal	233,723	176,811	184,820	88,603	74,473	758,430
Coupons	115,805	161,552	85,041	37,731	13,079	413,208
Index-Linked Gilts:						
Principal	76,962	89,454	98,508	64,161	37,144	366,229
Coupons	11,916	13,998	6,085	2,539	398	34,936
	438,406	441,815	374,454	193,034	125,094	1,572,803

Credit risk

The NLF makes loans to UK public corporations and central government entities, advances to other UK central Exchequer Funds and subscribes to the IMF. The NLF also lends to the IMF. As a result, the NLF is not exposed to significant credit risk. Details of this can be found in notes 6, 7 and 9. Total loans and advances stand at £156,775 million (2018-19: £165,851 million) and gross IMF exposure stands at £22,792 million (2018-19: £22,112 million).

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

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

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

Ceilings on total lending from the NLF to specific bodies are prescribed in the statutes governing each loan. The PWLB is allowed to lend up to an aggregate amount of £95 billion. For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

The IMF maintains precautionary balances (comprising retained earnings) as prudential cover in order to ensure the continued security and liquidity of its members' claims. Other factors that help safeguard the Fund's resources include the conditionality associated with lending by the IMF and the IMF's status as a creditor with preferential right to receive payment.

None of the NLF's financial assets are past due or impaired.

Derivatives and hedging

The NLF itself does not use derivatives or undertake hedging. However, some of the risks on the NLF are offset by the activities of the EEA. The Exchange Equalisation Account Act 1979 constrains how the EEA may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold by the NLF to the EEA for sterling. While the NLF remains exposed to the interest and exchange rate risks from the foreign currency debt it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps. There was no foreign currency debt outstanding in the NLF at 31 March 2020.

17 Related Parties

The Treasury is the ultimate controlling party of the NLF. There have been no direct transactions between the Treasury and the NLF in 2019-20.

The main related parties of the NLF are the CF, DMA, EEA, PWLB, Bank of England and NS&I. The relationship between the NLF and CF is explained in the Overview within the Performance report. The NLF has provided finance in the year to the DMA, EEA, PWLB and to various statutory public sector bodies. The NLF has also transacted with the Bank of England and NS&I. Transactions with these bodies are all disclosed in these accounts. The NLF has also had a significant number of transactions with other government bodies via its temporary borrowing of balances in various Government Banking bank accounts.

During the year, there have been no transactions between key management personnel at the Treasury and the NLF.

18 Events after the Reporting Period

Shortly after COVID-19 was declared a pandemic on 11 March 2020 the government began to make a series of announcements to support public services, workers and businesses. As previously announced by the Chancellor, the government's intention is to meet the additional financing requirements necessitated by the period of disruption caused by COVID-19 through its normal debt management operations. As a result, and in light of reduced taxation income, Government borrowing (and therefore the net liabilities of the NLF) will increase. As at the end of August the DMO has raised £280.3 billion via gilt sales in 2020-21 (£50.6 billion at the same point in 2019-20).

The Office for Budget Responsibility's (OBR) Fiscal Sustainability Report (FSR)[12], published on 14 July 2020, suggested that the gross financing requirement (GFR) for the full financial year could be in the range of £393 billion to £521 billion based on the OBR's three new medium-term scenarios for the economy and public finances. These are however illustrative scenarios, rather than a central forecast. The Chancellor outlined the government's

[12] https://obr.uk/fsr/fiscal-sustainability-report-july-2020

response to the OBR's 2020 FSR and 2019 Fiscal Risks Report in his written statement to the Houses of Parliament on 14 July[13].

19 Date of Authorisation for Issue of Account

These financial statements have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

[13] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-07-14/HCWS364/

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