HM TREASURY

Annual Report and Accounts 2011-12

HC 46

July 2012

HM TREASURY

Annual Report and Accounts 2011-12

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

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

Annual Report and Accounts presented to the House of Lords by Command of Her Majesty

Ordered by the House of Commons to be printed on 16 July 2012

HC 46 London: The Stationery Office £29.00

This is part of a series of Annual Reports and Accounts which, along with the Main Estimates 2012-13 and the document Public Expenditure Statistical Analyses 2012, present the Government's outturn and planned expenditure for 2012-13.

Any queries regarding this publication should be sent to us at: public.enquiries@hm-treasury.gov.uk.

This publication is also available on http://www.official-documents.gov.uk/

ISBN: 9780102978346
PU1302

Printed in the UK by the Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

Printed on paper containing 75% recycled fibre content minimum

ID P002493255 07/12

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Foreword

By the Chancellor of the Exchequer, the Rt Hon George Osborne MP

The intensifying euro area crisis represents the biggest challenge to the world economy today, and has continued to have a chilling effect here, as well as elsewhere.

The Government has taken decisive action to protect the economy in this period of global uncertainty, and despite the ongoing difficult international conditions, our strategy of deficit reduction and economic rebalancing has secured stability and positioned the UK as a relative safe haven, with interest rates near record lows.

Over the last year, the Government has taken the necessary steps to ensure that we maintain the UK's fiscal credibility, and continue to build on our plans to reform and rebuild the economy, with the Treasury leading the agenda.

In response to lower growth expectations as a result of the ongoing financial crisis, we took action at the Autumn Statement 2011 to stay on track to meet our fiscal targets, including setting plans for public spending in 2015-16 and 2016-17 in line with spending reductions over the Spending Review 2010 period.

Our strategy has allowed the independent Monetary Policy Committee (MPC) to keep Bank Rate lower than it would have otherwise been and deliver additional monetary stimulus through quantitative easing.

It has also allowed us to use the UK's credibility in financial markets to directly pass on the benefits of lower interest rates to businesses: we have launched a £21bn programme of credit easing, including the National Loan Guarantee Scheme (NLGS), which uses government guarantees to lower the cost of bank borrowing for businesses. Over 10,000 businesses have already been offered cheaper loans under the NLGS since its launch.

A stable financial services sector is essential for a healthy economy, and we must ensure that the near-collapse of the banking system in 2008 never happens again. To prevent the mistakes of the past being repeated the Government is fundamentally reforming the structure of the banking system through the Financial Services Bill, which will replace the old tripartite system of regulation with a new clear, coherent and comprehensive regulatory framework. The Financial Services Bill was introduced to Parliament in January and is expected to receive Royal Assent by the end of the calendar year.

The Independent Commission on Banking published its final report in September, and we have confirmed that we will take forward Sir John Vickers' recommendations with all legislation completed by the end of this Parliament. This includes ring-fencing high street banking activities so taxpayers are better protected when things go wrong, and banks will be required to bail in creditors if they fail rather than turning to the public purse.

We have also sold Northern Rock, representing an important step in returning public sector stakes in banks to the private sector.

Reforming the UK's tax system to make it more efficient, fair, and competitive has remained a top priority for the Government over the course of the year. Our increases to the income tax personal allowance have already taken one million of the lowest paid workers out of income tax altogether. The action we have taken to cut fuel duty and defer further increases means that motorists are paying 10 pence per litre less than they would be paying under the previous fuel duty plans. We have also given the UK a far more competitive top rate of tax.

In April this year we reduced the main rate of corporation tax by two percentage points to 24 per cent, which is further supporting enterprise and growth.

To tackle tax avoidance and make sure that people and business pay their fair share of tax, the Government has re-invested £900 million in HMRC resources, which will bring in around £7 billion in additional tax each year by the end of the parliament; signed an agreement with Switzerland to stop UK residents evading tax; and is introducing a new General Anti-Avoidance Rule in the tax system that will improve HMRC's ability to deter and counter artificial and abusive tax avoidance schemes without damaging the competitiveness of the UK as a place to do business.

Building on *The Plan for Growth*, published alongside Budget 2011, the Autumn Statement accelerated our supply side reforms to invest in infrastructure, support enterprise, and build a stronger and more balanced economy in the medium term. *The National Infrastructure Plan 2011*, also published last autumn, set out a comprehensive and detailed strategy for coordinating and planning public and private investment in UK infrastructure, along with a clear pipeline of over 500 infrastructure projects.

We continue to work closely with our international partners in response to global economic risks such as the sovereign debt problems in the euro area, whilst insuring that the UK's interests and the single market are protected.

The support provided to myself and ministerial colleagues by the officials in the Treasury Group remains of the highest standards. I would like to thank them on behalf of Treasury Ministers for their continued dedication and hard work. I would also like to thank our Non Executive Board Members for their continued hard work on ensuring the Treasury is well run in this challenging time.

The Rt Hon George Osborne MP

Lead Non-Executive Board Member's Report

By Baroness Sarah Hogg

In common with many lead Non-Executive Board Members across government, this is my first Departmental progress report. The year 2011-12 has seen the Treasury work hard to implement its reform agenda, and the headcount reductions and cost savings born out of its Spending Review settlement. The Department has achieved these aims while supporting Ministers in facing difficult economic and financial challenges, maintaining its core role in the effective management of the public finances.

Over the course of the year, the Treasury's Non-Executives have considered the performance of the Department under the five broad headings common to departmental reviews: strategic clarity, commercial sense, talented people, results focus and the quality of management information.

Strategic clarity

This is the second year the Treasury has engaged on a comprehensive business planning round, aiming to match resources to priorities and build in enough flexibility to respond quickly to events. By challenging the Executive and Ministers on resource deployment, Non-Executives have endeavoured to help the Treasury make difficult choices in times of high pressure, while planning ahead for future needs.

We have been impressed by the Executive's response to our challenge. Senior management have shared contingency plans which test the Treasury's ability to respond to crisis. The Treasury's flexibility has been enhanced by the structural changes it has made. However, we remain concerned about the sufficiency of resource at mid to senior levels.

One of the issues highlighted by both the Capability Action Plan and this year's Board Effectiveness review is the need for more external scrutiny and collaboration on strategy and policy development. Over the course of 2012-13 the Board will come together more frequently to discuss and question the Department on its horizon scanning, longer term thinking and the weight of work it continues to bear in relation to its size and budget.

Commercial sense

The Treasury Board and senior executives have been very welcoming of the business perspective Non-Executives bring to Board discussions. The assessment of risk and scrutiny of particular project delivery plans, for example the Equitable Life Payment Scheme, have been enhanced by the experience of external Board Members.

Non-Executives have noted the Department's significant progress in making savings across the full range of its spending. Decisions have been taken on the management of the Treasury estate, with space in Horse Guards Road now more efficiently allocated to staff, allowing additional tenants to share building costs. Services are also now being shared with the Cabinet Office to drive even more savings.

Talented people

The Treasury has experienced a high turnover of staff, reflecting a demand for its talented people from organisations that are not so pay-constrained. Over the course of 2011-12 the *Review of HM Treasury's management response to the financial crisis* highlighted the difficulties that current civil service pay arrangements pose for senior management in retaining financially highly-qualified officials. Non-Executives have expressed their concerns over the impact of pay constraints on the Treasury's capability. We have also urged robust succession planning for key posts throughout the Department.

During the year, the Executive Management Board has demonstrated greater focus on succession planning, by identifying several 'generations' of staff with the potential to fill these key posts. It has also focused on working with staff to develop their potential, gaining experience in feeder positions and broadening their skills both inside and outside the Department. The Nominations Committee, established on a more formal footing this year, will monitor this important development work.

Results focus / Management information

The Treasury has been very open to working with us on improving the information presented to the Board to assess the progress and performance of the Department. Management Information has developed over the course of the year. It now incorporates centrally-mandated transparency information (such as the Quarterly Data Summary), together with the Department's own assessment of performance against objectives. Proposals from Non-Executives on key areas of concern, such as the monitoring of staff turnover, have been incorporated into the Department's suite of metrics.

Through 2011-12 the Treasury Board Sub-committee has focused on the better alignment of risk management information with the Department's ongoing assessment of performance. Reporting to the Board now draws together this information into one, more results-focused, set of papers which will continue to evolve over the course of 2012-13. However, the Non-Executives look to see further progress this year in the distillation of this information into a core set of relevant Key Performance Indicators.

Looking ahead

The Treasury has historically responded well to domestic and international crises, and the Non-Executives continue to be impressed with the Department's resilience and the capability and dedication of staff. The pressure of events, combined with downsizing and turnover, has made it harder to clear time and resources for forward-looking risk assessment and horizon-scanning. We are looking forward to playing our part in helping the Treasury in tackle this challenge, continuing to hold it to account on leadership and organisational capability.

In addition to Ministerial and Executive Board colleagues, I would like to thank my fellow Non-Executive Directors for their continuing help in guiding and challenging this vital department, as it works hard to deliver its demanding agenda. I would also like to thank the officials at the Treasury which have provided the Board with such excellent support. I look forward to being able to report further progress in a year's time.

Sarah Hogg

Baroness Hogg

1 Introducing the Treasury

About this Report

1.1 This report covers the period from 1 April 2011 until 31 March 2012. The document provides a comprehensive account of the Treasury Group's use of resources and information about the Treasury's core activities. It also describes the Treasury's performance and achievements against the Departmental Business Plan. For the first time the Treasury's Lead Non Executive Board Member, Baroness Sarah Hogg, provides her assessment of the Department's progress throughout the year.

1.2 The report is divided into nine chapters:

Chapter 1: Introducing the Treasury introduces the Treasury's people, including the Ministerial team; and provides detail about the Department's work and achievements during the year.

Chapter 2: Delivering the Treasury's priorities sets out the Department's progress against objectives in the Business Plan and explains the issues taken into consideration as policy is developed and delivered. Concluding the chapter is a section reporting against the impact and input indicators published alongside the business plan to measure the effectiveness of the Treasury's delivery plans.

Chapter 3: Governing the Treasury describes the governance systems in place across the Treasury Group, identifies the responsibilities of the Accounting Officer, gives insight into the organisation's risk profile and provides evidence of the mechanisms employed to assure control. The Treasury's relationships with its Arms Length Bodies are also explained.

Chapter 4: Managing the Treasury provides information on the way the Treasury manages itself, including its people, infrastructure and relationship with Parliament. Headcount, security of data and common areas of spend information is also provided.

Chapter 5: Overview of Treasury's finances presents an overview of the finances of the Treasury Group through comparative tables and additional information.

Annual Accounts

Under the Government Resources and Accounts Act 2000, the Department is required to prepare Annual Accounts for each financial year. To demonstrate how the Treasury fulfilled this obligation, this section of the report contains:

Chapter 6: Statement of Accounting Officer responsibilities sets out the responsibilities of the Permanent Secretary and Additional Accounting Officers with regard to the Annual Accounts.

Chapter 7: Ministers and senior managers' remuneration report provides required information and data on the levels of remuneration for Ministers and senior managers.

Chapter 8: Certificate and Report of the Comptroller and Auditor General provides the independent audit opinion on these annual accounts.

Chapter 9: Resource Accounts provides the core financial tables and data, including the

Statement of Parliamentary Supply, Statement of Comprehensive Net Expenditure, Consolidated Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Taxpayers Equity.

About Treasury Ministers

1.3 The Chancellor of the Exchequer, Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is supported by:

- the Chief Secretary to the Treasury, Rt Hon Danny Alexander MP;
- the Financial Secretary to the Treasury, Mark Hoban MP;
- the Exchequer Secretary to the Treasury, David Gauke MP;
- the Economic Secretary to the Treasury, Chloe Smith MP, and
- the Commercial Secretary to the Treasury, Lord Sassoon.

1.4 Justine Greening MP held the post of Economic Secretary to the Treasury until 14 October 2011.

1.5 Ministerial responsibilities are illustrated at the end of this chapter.

1.6 Payment to Ministers serving during 2010-11 and 2011-12 can be found in the Ministers and senior managers' remuneration report.

About the Treasury Group

1.7 At the date of publication there are nine members of the Treasury Group:

- HM Treasury
- Asset Protection Agency[1] (Executive Agency)
- Financial Services Compensation Scheme[2] (Company limited by guarantee)
- Money Advice Service[3] (formerly the Consumer Finance Education Body, Company limited by guarantee)
- Office for Budget Responsibility[4] (Non Departmental Public Body)
- Office of Tax Simplification[5] (Independent Office of the Treasury)
- Royal Mint Advisory Committee[6] on the Design of Coins, Medals, Seals and Decorations (Advisory Non Departmental Public Body)
- UK Debt Management Office[7] (Executive Agency)
- UK Financial Investments Ltd[8] (Company, with HM Treasury as sole shareholder)

1.8 During 2011-12, the Performance and Reform Group moved resources and delivery responsibilities from the core Department to the Cabinet Office. A diagram showing the Department's Group structure at 31 March 2012 is included at the end of this chapter.

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1 http://www.hm-treasury.gov.uk/apa.htm
2 http://www.fscs.org.uk/
3 http://www.moneyadviceservice.org.uk/
4 http://budgetresponsibility.independent.gov.uk/
5 http://www.hm-treasury.gov.uk/ots.htm
6 http://www.royalmint.com/aboutus/advisory-committee
7 http://www.dmo.gov.uk/
8 http://www.ukfi.co.uk/

The work of the Treasury

1.9 The Government has emphasised that over the course of the Parliament the Treasury should focus on:

- Reducing the structural deficit in a fair and responsible way;
- Securing an economy that is more resilient, and more balanced between public and private sectors; and
- Reforming the regulatory framework for the financial sector to avoid future financial crises.

1.10 It will do this while continuing to deliver the Treasury's Spending Review settlement, which requires cost savings of one-third and a reduction in staff numbers to 1000 FTE by March 2014. To assist with this challenge, the Department continues to build on the 2010 Strategic Review[9] which challenged the Department to enhance both its efficiency and effectiveness.

1.11 The Treasury has already embedded reforms set out in the Strategic Review: moving to a more flexible Group structure, supported by professional Group Management Services; improving business planning and the Department's strategy and prioritisation, managing resources more flexibly within and between Groups; modernising information and communications technology (ICT); and making better use of the Treasury's buildings.

Capability Review of the Department

1.12 The recent Capability Review[10] of the Department presented an opportunity to take stock of the implementation of the 2010 Strategic Review. It demonstrated that real progress has been made, as attested by both internal and external stakeholders. At the same time, the *Capability Action Plan* identifies areas where the Department needs to develop further by:

- Developing its people and demonstrating it has a stake in their future career paths;
- Articulating the Department's direction more clearly and consistently, both within the Department and with its external stakeholders;
- Capitalising on the good start made on business planning, by continuing to confront resourcing trade-offs, and strengthening the Department's framework and relationships with stakeholders; and
- Continuing to set high standards to ensure rigorous analysis, evidence and customer insight underpin the policy-making process.

Meeting the challenge

1.13 Unprecedented turbulence in the global economy and uncertainty in the eurozone present the most significant challenge to financial stability and growth. The Treasury's ability to maintain confidence in the UK's fiscal policy framework will be critical, and the Department's management of deficit reduction is an important driver of this. While continuing to control spending effectively in the near-term, the Treasury is also alert to pressures building over the longer term. The stability and sustainability of the tax base will make an important contribution to deficit reduction, and is a growing challenge given demographic and other changes.

[9] http://www.hm-treasury.gov.uk./d/annual_report_aacounts140711.pdf (Chapter 5 paragraph 5.17)
[10] http://www.hm-treasury.gov.uk/about_capability.htm

1.14 The Treasury has led the Government's reform of financial sector regulation to help guard against future financial services crises, and will seek to withdraw from its temporary support for the sector when conditions are right. Meanwhile, the Treasury continues to develop and implement measures to support the supply-side reform and wider economic recovery domestically, and to promote strong, sustainable growth globally. The Treasury will engage actively with the G20 and the EU to foster greater international cooperation to achieve this, and will prepare for its G7/8 Presidency in 2013.

1.15 The emerging debate on the future of Scotland, and its broader implications for the UK, has become a significant policy priority; one that cuts across the Treasury's economic and finance ministry functions.

1.16 Work is ongoing to ensure government departments work within their Spending Review limits and the Treasury continues to coordinate key fiscal events including the Autumn Statement and the Budget[11].

1.17 In November 2011 the Treasury published the first Whole of Government Accounts (WGA)[12]. The accounts are a consolidated set of financial statements for the UK public sector. They bring together audited financial information from around 1500 organisations spanning central government departments, local authorities, devolved administrations, the health service and public corporations.

1.18 The accounts will enable better understanding and scrutiny of how taxpayers' money is spent. As this is the first year in which WGA is published, there is no historical data for comparison. Over time, annual publications of WGA will allow the user to build up a clear and consistent picture of trends and changes in the Government's fiscal position.

1.19 The Treasury regularly publishes policy announcements, Ministerial speeches, and consultation documents on the internet. All documents are available for download from the Department's website[13].

[11] During the 2011-12 financial year, the Autumn Statement took place on 29 November 2011; the Budget Statement was delivered on 21 March 2012.

[12] http://www.hm-treasury.gov.uk/psr_government_accounts.htm

[13] http://www.hm-treasury.gov.uk

Treasury Ministers
Structure of the Treasury

Ministerial responsibilities


1


2


3


4


5


6

1. The Rt Hon George Osborne MP
Chancellor of the Exchequer

The Chancellor has overall responsibility for the work of the Treasury.

He is supported by:

- the Chief Secretary to the Treasury;
- the Financial Secretary to the Treasury;
- the Exchequer Secretary to the Treasury;
- the Economic Secretary to the Treasury; and
- the Commercial Secretary to the Treasury.

2. The Rt Hon Danny Alexander MP
Chief Secretary to the Treasury

- Responsibility for public expenditure including:
  - spending reviews and strategic planning;
  - in-year spending control;
  - public sector pay and pensions;
  - Annually Managed Expenditure (AME) and welfare reform;
  - efficiency and value for money in public service;
  - procurement; and
  - capital investment.
- Treasury interest in devolution.

3. Mark Hoban MP
Financial Secretary to the Treasury

- Responsibility for financial services policy including:
  - banking and financial services reform and regulation;
  - financial stability;
  - City competitiveness;
  - wholesale and retail markets in the UK, Europe and internationally; and
  - the Financial Services Authority.
- Banking support, including responsibility for the Asset Protection Scheme and other schemes.
- UK Financial Investments.
- Bank lending.
- Equitable Life.
- Personal savings and pensions policy.
- The Government Actuary's Department.
- The EU budget.
- Support to the Chancellor on EU and wider international finance issues.

4. David Gauke MP
Exchequer Secretary to the Treasury

- Strategic oversight of the UK tax system including direct, indirect, business and personal taxation.
- Corporate and small business taxation, with input from the Commercial Secretary.
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency.
- Lead Minister on European and international tax issues.
- Overall responsibility for the Finance Bill.

5. Chloe Smith MP
Economic Secretary to the Treasury

- Environmental issues including taxation of transport, international climate change issues and energy issues.
- North Sea oil, gas and shipping taxation.
- Tax credits and child poverty, and assisting the Chief Secretary on welfare reform.
- Charities, the voluntary sector and gift aid.
- Excise duties and gambling, including excise fraud and law enforcement.
- Stamp duty land tax.
- The Royal Mint, Crown Estate and Departmental Minister for HM Treasury Group.
- Support for the Chief Secretary on public service pensions.
- Working with the Exchequer Secretary on the Finance Bill.

6. Lord Sassoon
Commercial Secretary to the Treasury

- The Treasury spokesman in the House of Lords.
- Enterprise and productivity, including industrial strategy, better regulation, competition policy, infrastructure, and microeconomic reform.
- Corporate finance, including public corporations and public private partnerships.
- Assisting the Financial Secretary on financial services and banking policy, including UKFI.
- Working with the Financial Secretary to promote the Government's financial services policies and the competitiveness of the UK.
- Asset freezing and financial crime.
- Foreign exchange reserves and debt management policy, National Savings and Investment and Debt Management Office.
- Contact Minster for the Government's relationship with the UK's six major energy supplier.

HM Treasury (at 31 March 2012)

HM TREASURY

Executive Management Board

Nick Macpherson
Permanent Secretary

Tom Scholar
Second Permanent Secretary

Michael Ellam Director General
International and EU

Sharon White Director General
Public Spending

Jonathan Taylor Director General
Financial Services

Director led Groups

Ministerial and Communications
Nick Macpherson, Permanent Secretary

Responsible for decision making, coordination and management of the department and communications with media and the public

Economics
Dave Ramsden, Director General

Responsible for UK economic analysis, surveillance, and professionalism

Financial Stability
Mridul Hegde, Director

Responsible for ongoing stability issues and resolution of financial interventions

Financial Regulations and Markets
Nikhil Rathi, Director

Responsible for the financial services regulatory framework and for financial markets policy issues

Financial Services
Alison Cottrell, Director

Responsible for policy with respect to financial services

Strategy, Planning and Budget
James Bowler, Director

Responsible for defining forward strategy, work programme, the Budget, and short-term priority policy projects

Business and International Tax
Mike Williams, Director

Responsible for business tax, indirect taxes and international tax

Personal Tax, Welfare and Pensions
Indra Morris, Director

Responsible for personal tax, welfare, labour market, and HMRC/DWP expenditure, pensions and savings

International and EU
Peter Curwen, Director (Europe)
Shona Riach, Director (International Finance)

Responsible for advancing the UK's economic and fiscal interests overseas

Dave Ramsden Director General
Chief Economic Adviser

Edward Troup Director General
Tax and Welfare

Alison Cottrell Director
Corporate Services

Julian Kelly Group Director
Finance and Commercial

James Bowler Director
Strategy, Planning and Budget

Corporate Centre
Julian Kelly, Group Director Finance and Commercial
Alison Cottrell, Director Corporate Services

Enabling the Treasury to deliver by managing and developing corporate policies and processes, including correspondence and public enquiries, HR, estates, IT, domestic finances and commercial activities, as well as the implementation of departmental change programmes

Fiscal
Sam Beckett, Director

Responsible for fiscal strategy, funding and debt management and monitoring fiscal position

Public Spending
James Richardson, Director

Responsible for public spending control

Public Services
Tamara Finkelstein, Director

Responsible for oversight of major public service expenditure

Enterprise and Growth
Jonathan Mills, Interim Director
Geoffrey Spence, Chief Executive, Infrastructure UK

Responsible for growth-related policy and expenditure; includes infrastructure strategy and delivery, and public private partnerships (PPP)

Treasury Legal Advisors
Stephen Parker, Director

Responsible for provision of advisory and other legal services across the Treasury and certain other agencies and departments

Financial Management and Reporting
Lindsey Fussell, Interim Director

Responsible for embedding good governance and financial management across government

Treasury Group structure (at 31 March 2012)

Core Department[1]

HM Treasury, OTS and IUK
Nick Macpherson
Permanent Secretary

Executive Agencies of the Treasury[2]

DMO
Robert Stheeman
Chief Executive

APA
Bill Dickinson
Chief Executive

Other Treasury bodies[3]

FSCS
Mark Neale
Chief Executive

MAS
Tony Hobman
Chief Executive

RMAC
Adam Lawrence
Chief Executive
of the Royal Mint

UKFI
Robin Budenberg
Chairman

OBR
Robert Chote
Chairman

[1] Core Treasury includes HM Treasury, the OTS, IUK and IFUL.
[2] Executive Agencies of the Treasury. The UK DMO has its own set of NDPBs including the Public Works Loans Board.
[3] Other Treasury bodies. This includes a mix of HM Treasury sponsored NDPBs, and other Treasury sponsored bodies.

List of acronyms:

APA – Asset Protection Agency
DMO – Debt Management Office
FSCS – Financial Services Compensation Scheme
IFUL – Infrastructure Finance Unit Ltd
IUK – Infrastructure UK
MAS – Money Advice Service
NDPBs – Non departmental public body
OBR – Office for Budget Responsibility
OTS – Office of Tax Simplification
RMAC – Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations
UKFI – UK Financial Investments Ltd

2 Delivering the Treasury's priorities

2.1 The Treasury's role is to support the delivery of the Government's priorities and policies. This chapter sets out the Department's progress against the objectives in the 2011-2015 Business Plan[14] and explains the issues taken into consideration as policy is developed and delivered. Concluding the chapter is a section reporting against the impact and input indicators published alongside the business plan to measure the effectiveness of the Treasury's delivery plans.

Departmental Business Plan

2.2 In May 2011 the Treasury published an update to the Departmental Business Plan. This Plan aimed to reflect progress made from the time of initial publication in November 2010 and to identify both developing and new work streams. A further iteration of the Departmental Business Plan was published on 31 May 2012[15]. The Treasury will continue to make monthly progress reports against this plan.

Progress made against Structural Reform actions in 2011-12

2.3 Under its 2011-12 Structural Reform Plan the Treasury progressed 65 actions split between three Coalition priorities:

- Reducing the structural deficit in a fair and responsible way;
- Securing an economy that is more resilient, and more balanced between public and private sectors; and
- Reforming the regulatory framework for the financial sector to avoid future financial crises.

2.4 33 of these actions were scheduled to be completed within the year. Six actions were not completed by the deadline published in the business plan. Of these four actions were delayed due to external factors. As at 31 March 2012, two remained outstanding.

2.5 A further 32 actions remained ongoing as they were due to end after 31 March 2012.

2.6 The tables on the following pages illustrate progress against each priority over the course of 2011-12. Where deadlines have been missed, an explanation has been provided.

[14] http://transparency-archive.number10.gov.uk/transparency/srp/

[15] http://www.hm-treasury.gov.uk/about_business_plan.htm

Priority 1: Reduce the structural deficit in a fair and responsible way

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
5	4	0	0	1

Deadlines missed

Action 1.4(iv) – due for completion in June 2011.
Confirm detailed implementation plan for the increase in employee contributions announced in the Spending review, in response to the recommendation in the interim report of the Independent Public Service Pensions Commissioner

Reason for delay
On 1 April 2012 increased pension contribution rates for members of public service pension schemes came into effect, following consultations in 2011. The new rates can be found on departmental websites.
The Government remains committed to further increases to member contributions to secure in full the Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, and will consult formally on implementation in due course. There will be a review of the impact of the 2012-13 contribution increases, including on opt-out, before taking final decisions on how future increases will be delivered.

The funded nature of the local government scheme puts it in a different position and contributions rates are being considered in tandem with wider pension reforms as part of ongoing discussions with trades unions and employer groups. Responses to DCLG's consultation on contribution increases, which closed on 6th January, feed into those discussions. As set out in the Heads of Agreement signed in December, reform to the local government scheme may include zero contribution increases for all or the vast majority of members provided that overall financial restraints are met.
Explanation provided by HM Treasury and published by Number 10 in the May 2012 SRP update. This action remains ongoing.

Source: HM Treasury

2.7 At 31 March 2012 four actions against Priority 1 remained ongoing as these were scheduled to end after this date.

Priority 2: Secure an economy growing sustainably which is more resilient, and balanced between public and private sectors.

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
21	18	1	0	2

Deadlines missed

Action 2.5(vii) – due for completion in June 2011
Extend the Air Passenger Duty to business jet passengers for the first time, and consult on the future structure of Air Passenger Duty.

Reason for delay
The Government's response to the Air Passenger Duty consultation was published on 6 December 2011. This confirmed that the existing structure of Air Passenger Duty will be retained, and from 1 April 2013 the tax will be extended to cover flights taken aboard business jets.
Explanation provided by HM Treasury and published by Number 10 in the December 2011 SRP update. Action now complete.

Action 2.12 – due for completion in July 2011
Work with the Scotland Office and Her Majesty's Revenue and Customs (HMRC) to implement the relevant proposals of the Calman Commission.

Reason for delay
The progress of the implementation of the finance aspects of the Calman Commission is determined by passage of the Scotland Bill in the UK Parliament. This has now entered the Lords stages and Second Reading took place on 6 September. The Committee stages commenced on 26 January 2012. The Bill allows for the transfer of fiscal powers to Scotland to begin from April 2013 onwards.
Explanation provided by HM Treasury and published by Number 10 in the January 2012 SRP update. Action now complete.

Action 2.15 – due for completion in March 2012
Consult on changes to Money Laundering Regulation

Reason for delay
Publication of the outcome of the consultation is pending further work on the impact assessment following review by the Regulatory Policy Committee and subsequent approval by the Reducing Regulation Committee.
Explanation provided by HM Treasury and published by Number 10 in the March 2012 SRP update. This action remains ongoing.

Source: HM Treasury

2.8 At 31 March 2012, 21 actions against Priority 2 remained ongoing as they were planned to end after this date.

Priority 3: Reform the regulatory framework for the financial sector to avoid future financial crises

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
7	5	1	0	1

Deadlines missed

Action 3.9 (i) – due for completion in May 2011
3.9(i) Through the Consumer Financial Education Body (CFEB), financial advice service launched, including face to face advice and a new financial health check

Reason for delay
National Financial Advice Service launched April 2011. The Financial health check tool was launched by the Money Advice Service on 8 June 2011.
Explanation provided by HM Treasury and published by No 10 in the June 2011 SRP update. Action complete.

Action 3.10(i) due for completion in July 2011.
Undertake a joint review with BIS of consumer credit and personal insolvency in the UK, including developing measures to address unfair bank charges.

Reason for delay
The joint BIS-HMT Review of Consumer Credit and Personal Insolvency was published on Monday 21 November 2011.
Explanation provided by HM Treasury and published by No 10 in the November 2011 SRP update. Action complete.

Source: HM Treasury

2.9 At 31 March 2011 seven actions against Priority 3 remained ongoing as they were planned to end after to this date.

Development and delivery of policy

2.10 The Treasury is committed to delivering new policy in as open and transparent way as possible.

2.11 The Treasury is also committed to taking into consideration both statutory and government policy commitments in order to deliver measures that have been carefully evaluated and are fair to those they impact upon. During the development phase this will involve considering issues such as impact assessments, the better regulation agenda and sustainability.

Consultations and impact assessments

2.12 The Treasury publishes details of all formal and informal consultations conducted within the Department on the Treasury website[16]. Examples of consultations conducted during 2011-12 include: Consultation on the Patent Box; Remote gambling review; Consultation on draft legislation for Finance Bill 2012; and the Real Estate Investment Trust (REIT) consultation.

2.13 Attached to public consultations are Impact Assessments (IA), a policy tool used to assess the impact, in terms of costs, benefits and risks of any proposed regulation which could affect businesses, charities or the voluntary sector. These are also published on the Treasury website[17]. The Treasury has guidance in place to assist officials with assessing the impact of measures, covering issues such as tax impacts, equalities and rural proofing[18].

Better Regulation

2.14 The Treasury has two important roles with regard to regulation. The Department seeks to promote a Better Regulation agenda across Government in order to reduce burdens on business and encourage growth. The Department is also responsible for the stock and flow of its own regulation, particularly in the area of Insurance and Financial Services, much of which comes from Europe. We apply principles of Better Regulation to this work as well, and seek to ensure it is no more burdensome than is necessary.

The Better Regulation agenda

2.15 The cumulative burden of new regulation has the potential to inhibit growth. The Government has introduced the One-In, One-Out rule, whereby no new regulation is introduced unless it is off-set by deregulation of an equivalent value[19]. Additionally, In March 2010, the Chancellor announced a moratorium on new regulation for micro-businesses (those with ten employees or fewer) and start-ups. As a result of these policies in 2010-11 the Government saved businesses over £3bn through deregulation.

2.16 The Government is also concerned by the burden imposed by the existing stock of regulation. The Red Tape Challenge, an evaluation process for existing regulations, was announced in the 2011 Budget. Regulations are published on a dedicated internet site with proposals sought from the public on addressing any burdens[20]. So far nearly 1500 regulations have been examined and over half of these regulations will be scrapped or improved, with 147 changes implemented by the end of June 2012.

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[16] http://www.hm-treasury.gov.uk/consult_fullindex.htm

[17] http://www.hm-treasury.gov.uk/consult_ria_index.htm

[18] Rural Proofing of policy is included in guidance accompanying the Treasury's Green Book. This guidance for Central Government, sets out a framework for the appraisal and evaluation of all policies, programmes and projects. It describes how the economic, financial, social and environmental assessments of a proposal should be combined and aims to ensure consistency and transparency in the appraisal process throughout government.

[19] The Department for Business Innovation and Skills leads on the Better Regulation agenda. More information about this and the One-In, One-Out rule is available on the BIS website, http://www.bis.gov.uk/policies/bre

[20] http://redtapechallenge.cabinetoffice.gov.uk

2.17 The 2012 Budget announced the results of the environmental theme of the Red Tape Challenge, which will rationalize environmental regulation to reduce costs to business by at least £1 billion over five years without reducing environmental protections.

HM Treasury regulation

2.18 The Treasury has deregulated to save businesses £28m a year, while only imposing £1.5m per year in new regulatory costs. At the same time, the Department has introduced and revoked regulations that meet international or European obligations, or tackle systemic financial risk. These types of legislation are out of scope of One-In, One-Out.

2.19 It is important that new regulations are evidence based. All regulations require an Impact Assessment, quality assurance of which is provided by the independent Regulatory Policy Committee. In 2011-12, 89 per cent of Treasury Impact Assessments received "fit for purpose" opinions when first submitted to the Committee. This is an improvement from the 2010-11 score of 75 per cent and is the highest for any central Government department. The average across Government in 2011 was 72 per cent.

2.20 The Treasury is continuing to carry out fundamental reform of the UK's financial regulation system to deliver more judgement-led, focussed and effective regulation of the financial services sector. A key part of this reform is the creation of a Financial Policy Committee in the Bank of England (BoE) that will: take charge of macro-prudential regulation; give authority to the BoE to regulate settlement systems and central counterparty clearing houses; create of the Prudential Regulation Authority (PRA) as a BoE subsidiary (responsible for micro-prudential regulation), undertake the prudential regulation of deposit takers, insurers and certain investment firms; and create the Financial Conduct Authority (FCA).

2.21 The FCA will focus on delivering the right outcomes for consumers, and regulating conduct of business generally, market conduct, investment exchanges and listing. The FCA will also be responsible for consumer protection in financial services and for prudential regulation of non-PRA regulated firms. The Treasury aims to establish the FCA by April 2014.

2.22 The Treasury continues to implement alternatives to regulation wherever possible. For example:

- The Government announced a new agreement with the major personal current account providers to bring in new measures to allow customers to easily access clear and transparent information about the charges that may apply if they exceed their credit or arranged overdraft limit.
- In response to concerns over the way in which store cards are marketed to consumers, rather than legislate, the Government agreed a strong package of voluntary measures with industry which included banning particular "tempting incentives" and other measures to improve the way store cards are offered, including a good practice training scheme and a ban on direct commission for sales staff.

2.23 A high proportion of regulation the Treasury is responsible for originates in the EU. The Department conducts impact analysis which is used to influence EU–level negotiations. An example of where this has worked well is the inclusion of a proportionate disclosure regime for rights issues in the Prospectus Directive. This regime lowers costs for Small to Medium Sized Enterprises (SMEs) in some circumstances by reducing the amount of information they are required to include in a prospectus, without compromising investor protection. The proportionate disclosure regime was agreed in EU legislation following a UK–evidence based industry consultation.

Sustainable development

2.24 The Treasury is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside the objectives of tackling climate change, and the sustainable use of natural resources. As part of its role as the UK's economics and finance ministry, the Treasury is central to ensuring that these aims are accounted for in policy appraisal and pursued through policies that deliver value for money and are affordable.

2.25 In the Departmental Business Plan, the Treasury has committed to:

- Assess and manage environmental social and economic impacts and opportunities in its policy development and decision making;
- Deliver the actions in the business plan to increase environmental sustainability, including by increasing the proportion of revenue accounted for by environmental taxes;
- Implement the Department's plan to deliver on the Greening Government Commitments, and
- Procure from small businesses with the aspiration that 25 per cent of contracts should be awarded to SMEs.

2.26 The Treasury is also committed to ensuring all policies with long term implications developed within the Department are cognisant of the need to adapt to climate change.

2.27 In March 2010 each central government department published an adaptation plan explaining its proposed actions to meet the challenge of a changing climate. The table overleaf charts the Treasury's progress against this plan.

Table 2.A: Treasury progress against Departmental Adaptation Plan on Climate Change

Priority/Action	Progress	Deadline
Work with other Departments, seeking appropriate evidence on spending proposals to manage risks or mitigate impacts of climate change.	Treasury played a key role in ensuring that departmental evidence on spending proposals was of a quality and consistency to underpin decisions in the Spending Review.	Ongoing
Use the forthcoming Climate Change Risk Assessment and Adaptation Economic Assessment to better inform evaluation of climate change risks, economic implications and policy response.	Treasury contributed to the DEFRA-led process of preparing the CCRA which was published on 25 January 2012. It is now participating in work on the AEA and National Adaptation Programme with respect to economic, fiscal and financial services impacts. This will continue over the coming year, leading to their publication.	2012
Jointly with DEFRA as lead department: work with the insurance industry to ensure that climate change risks are borne in the most appropriate and efficient way following the ending of the current statement of principles in 2013	Treasury is supporting DEFRA as lead department in addressing flood risk impacted through climate change including through improving value for money in flood defence procurement, supporting the new partnership funding approach, and engaging with the insurance industry on arrangements for coverage.	2013
Use Treasury Environment Network (TEN) events and external speakers to broaden knowledge and understanding of adaptation issues.	The questions raised by the need to adapt to climate change have been communicated and discussed across the areas of Treasury that they affect through the TEN.	Ongoing
Replace the IT infrastructure with a modern commercial provision that is more secure against climate change threats.	The IT rationalisation project has delivered a new infrastructure that is laptop based enabling staff to work remotely. In addition, HM Treasury servers are hosted on resilient servers in an offsite purpose built data centre. The data centre can be replicated to an alternative site for DR purposes if necessary.	Completed
Prepare a list of climate change risks to the estate and carry out a risk assessment for inclusion in a risk register and future action plans.	Rationalisation of the Treasury Estate is ongoing, with further changes to occupancy taking place during 2012. The climate change risk assessment template will be reviewed when full occupancy is achieved with tenants from across the Department's estate.	Ongoing
Source: HM Treasury		

Performance indicators

2.28 The Treasury's May 2011 Business Plan quoted a number of Impact and Input Indicators; enhanced from the original November 2010 plan. These were chosen to reflect the work of the Treasury and to help the public judge whether policies and reforms are having the desired effect.

Impact indicators

2.29 During the 2011-12 financial year the Treasury reported against 17 indicators (five input and 12 impact).

2.30 Every quarter the Treasury publishes an update to this data within the Quarterly Data Summary (QDS) The Treasury reports against its Input and Impact indicators on a quarterly basis in the Quarterly Data Summaries.

Table 2.B: Impact indicators

Indicators	2011-12	2010-11	Notes
1.Cyclically adjusted current deficit[21]	-4.6	-4.4	Data is given as a percentage of GDP [From OBR March forecast. 2010-11 data do not reflect latest outturn. Latest non-cyclically adjusted current budget outturn for 2010-11 is £1.3bn better than OBR forecast]
2. Public Sector debt as a percentage of GDP[22]	66.1	60.5	Estimates of PSND as a percentage of GDP have changed slightly largely due to updated estimates of GDP
3. Departmental DEL Outturn	Original Total DEL limit: £368.9bn OBR Forecast total DEL outturn: £364.0bn	Original Total DEL limit: £379.6bn OBR Forecast total DEL outturn: £375.1bn[23]	Data consistent with Chapter 3 of the PESA 2012 command paper published by HM Treasury
4. GDP per capita [adjusted for inflation]	-0.4	1.1 per cent	GDP per capita figures are consistent with latest ONS estimates[24] and are prone to revision over time.
5. Regional Employment Rate			*See table 2.C*
6. Main Corporate tax rate[25]	24	26 per cent	

[21] Excludes the temporary effect of financial sector interventions

[22] Excludes the temporary effect of financial sector interventions

[23] http://www.hm-treasury.gov.uk/2011budget.htm

[24] Data in the 2011 QDS publication was consistent with the 2011Q1 UK Economic Accounts, (available at *http://www.ons.gov.uk/ons/rel/naa1-rd/united-kingdom-economic-accounts/q1-2011/index.html*)
Data in the 2012 QDS publication is consistent with the 2012Q1 UK Economic Accounts publication and the 2012 Blue Book (available at *http://www.ons.gov.uk/ons/rel/naa1-rd/united-kingdom-economic-accounts/q1-2012/index.html*)

[25] http://www.hm-treasury.gov.uk/budget2012.htm

7. No of top-50 European Companies (by market capitalisation) listed in the UK	23 listed (or joint listed) in the UK 1st in Europe for number of companies UK listed in top 50	22 listed (or joint listed) in the UK 1st in Europe for number of companies UK listed in top 50	Latest quarterly data published as at 31 December 2010[26] Details of listings taken from individual company websites.
8. Total gross new lending by Barclays, HSBC, Lloyds Banking Group, RBS and Santander, (quarterly Bank of England data)	Total lending £214.9bn Lent to SMEs £74.9bn	-	Data is for 12 months December 2011. Project Merlin is an annual target, so there is no formal quarterly measure against which to compare the banks' performance
9. Changes to Government's financial exposure to the financial sector through its exceptional support measures[27].		*See Table 2.D Banking Impact Indicators*	

[26] http://media.ft.com/cms/73f82726-385d-11e1-9f07-00144feabdc0.pdf

[27] Includes: Government shareholdings in Royal Bank of Scotland; Government shareholdings Lloyds Banking Group; Government shareholdings in Northern Rock; Government shareholdings in Bradford and Bingley; The Credit Guarantee Scheme; The Asset Protection Scheme; Loans in relation to the resolution of Dunfermline Building Society; Loans in relation to the resolution of the Icelandic banks; Government indemnities of Bank of England measures (Special Liquidity Scheme and Asset Purchase Facility)

Regional Employment Rate

2.31 Annual data for Regional Employment is released in February each year; more frequent data is published monthly.

Table 2.C: Regional Employment Rate

	Employment Rates (per cent)	
	2011	**2010**
North East	65.8	66.9
North West	68.7	69.1
Yorkshire & the Humberside	68.1	68.7
East Midlands	71.7	70.7
West Midlands	67.9	68.8
East	74.6	73.7
London	68.2	68.5
South East	74.6	74.9
South West	73.5	73.8
Wales	68.2	67.1
Scotland	71.2	70.5
Northern Ireland	67.5	66.1
Total for the UK	70.5	70.5
Source: Office for National Statistics		

2.32 Further information is available on the Office for National Statistics website[28].

[28] http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?table-id=18A&dataset=lms and http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?table-id=18B&dataset=lms

Changes to Government's financial exposure to the financial sector through its exceptional support measures:

2.33 The table below summarises the Government's financial exposure as at 31 March 2011 and 31 March 2012. The financial exposures span a range of interventions, details of which can be found in notes 26 to 36 of the Resource Accounts. All of the figures are drawn from HM Treasury's audited 2010-11 and 2011-12 Resource Accounts.

Table 2.D: Banking indicators

Indicator	Description	2011-12 £000s	2010-11 £000s	Note reference for Resource Accounts
RBS	Comprises equity investments and a contingent capital commitment.	34,853,605	47,262,455	13,24
Lloyds Banking Group	Comprises equity investments.	9,276,476	16,037,814	13
Northern Rock Asset Management	Comprises contingent capital, deposit guarantees and loan balance.	32,038,339	37,792,514	15,24
Northern Rock	Comprises equity investment (at historic cost) and deposit guarantees.	810,000	1,988,000	13,24
Dunfermline	Comprises loan balances.	922,203	1,011,014	15
Icelandic Banks	Comprises statutory debt, FSCS and DIGF loan balances.	4,142,353	5,660,352	15
Bradford and Bingley	Comprises working capital facility, statutory debt, deposit guarantees, and pension scheme guarantees.	29,145,921	31,740,984	15,24
Credit Guarantee Scheme	Comprises maximum contingent liability based on scheme size.	24,200,000	115,000,000	36.1
Asset Protection Scheme	Comprises maximum contingent liability based on scheme size and first loss piece.	54,700,000	110,000,000	36.6
Government indemnities of Bank of England Special Liquidity Scheme	Comprises maximum contingent liability based on scheme size.	-	91,000,000	36.4
Government indemnities of Bank of England Asset Purchase Fund	Comprises maximum contingent liability based on scheme size.	325,000,000	200,000,000	36.2

Source: HM Treasury

Input indicators

2.34 The Treasury published within the *Business Plan 2012-2015* five input indicators which identify the costs of activities specific to the Department's work.

Table 2.E: Table input indicators

Indicator	**2011-12** £000s	**2010-11** £000s
Cost of public expenditure planning and control	12,566	10,317
Cost of supporting tax policy	8,754	9,921
Cost of international engagement and financial services policy	21,313	18,730
Cost of supporting and developing macroeconomic and fiscal policy	32,735	35,479
Cost of supporting debt management	11,270	14,734
Source: HM Treasury		

2.35 All of the figures in the table 2.E are net figures and are therefore stated after deducting cost recoveries and other related income.

2.36 Income relating to the cost of public expenditure planning and control was lower in 2011-12 than 2010-11 resulting in a higher cost, despite underlying expenditure not increasing. This is due to the 2010-11 cost of public expenditure planning and control including non-recurring income of £3 million received from the administration of Barlow Clowes.

2.37 The cost of international engagement and financial services policy was also higher in 2011-12 than in the prior year. This was primarily due to the management fee for UK Financial Investments being £3 million higher than the previous year, reflecting the costs of disposing of Northern Rock.

2.38 Further detail about these numbers is available within the Resource Accounts.

Other data

2.39 The Treasury publishes a range of additional data sets that can be found at the data.gov.uk website[29].

[29] http://www.data.gov.uk/data/publishers/HerMajesty'sTreasury

3 Governing the Treasury

3.1 The Treasury's governance arrangements exist principally to help the Department manage its risks, both policy and operational, and are part of the system of internal control.

3.2 While an organisation can never totally eliminate risk, it is right that it puts in place structures and processes to manage risk to a reasonable level. These structures and processes are designed to ensure risks are identified, prioritised and when possible, appropriately mitigated.

3.3 The Management of the Treasury has a responsibility to ensure that the organisation remains as agile as possible, able to plan for risks that it can manage and foresee, as well as being able to respond flexibly and professionally to events and any changes in the Government's plans.

3.4 The Treasury faces many obvious challenges as the UK's economics and finance ministry as well as a Whitehall department. This chapter sets out how the Treasury manages itself to best face those challenges – its structures, management of risks and relationship with the wider Treasury Group. It aims to explain the system of internal control, provide insight into the dynamics between the Ministerial team who decide policy and the civil servants who deliver it, and provide a narrative as to the stewardship of the public funds.

Corporate governance and structures

3.5 Within every government department there is a clear split in responsibility and accountability between Ministers and civil servants.

Accountability – Ministerial team

3.6 The Chancellor of the Exchequer, Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is accountable to Parliament for the exercise of powers on which the Treasury depends. The Chancellor has a duty to Parliament to account, and be held to account, for all the policies, decisions and actions of the Department, including its arms length bodies.

3.7 While Treasury civil servants may exercise powers of the Chancellor, the Chancellor remains responsible to Parliament for decisions made under his powers. Within the Treasury, the Chancellor has chosen to devolve responsibility for a defined range of Departmental work to junior ministers. Ministerial responsibilities can be found in Chapter 1.

Accountability – Civil servants

3.8 The Permanent Secretary of the Treasury, Nick Macpherson, is also its Principal Accounting Officer. In accordance with Chapter 3 of *Managing Public Money*, he is responsible and accountable to Parliament for the organisation and quality of management of the Department including the use of public money and stewardship of assets.

3.9 If the Permanent Secretary is directed by the Chancellor to take a course of action he believes is contrary to *Managing Public Money*, he may seek a written direction. Any written directions will be sent to the head of the National Audit Office, the Comptroller and Auditor General, who will inform the Committee of Public Accounts. The Treasury Board will also be informed and any direction that would be disclosable under the Freedom of Information Act will be published in the Annual Report and Accounts. The Permanent Secretary did not seek a direction in 2011-12.

3.10 The Permanent Secretary has responsibility amongst officials in the Department to deliver the aims and priorities of Ministers, but also delegates responsibility as he sees fit. An annual business planning process sets the Department's priorities for the year ahead – focusing on the Treasury's core functions, Ministerial priorities and risks. The Permanent Secretary is supported by the Second Permanent Secretary, Tom Scholar, and five Directors General who act as senior policy advisers to the Chancellor on specific areas: Michael Ellam, DG International and EU; Dave Ramsden, Chief Economic Advisor; Jonathan Taylor, DG Financial Services; Edward Troup, DG Tax and Welfare; and Sharon White, DG Public Spending.

3.11 Directors General, alongside the Permanent Secretary and Second Permanent Secretary, are the senior management team for the Department. To discharge their corporate responsibilities, they meet once a week as the Executive Management Board (EMB) alongside the Directors for Finance and Commercial, Corporate Services and Strategy, Budget and Planning, focusing their time on the management and coordination of the Department as a whole, ensuring it delivers against its work programme and allocating its resources efficiently and effectively. The Principal Accounting Officer and his Executive team take personal and corporate responsibility for the operational success of the Department.

3.12 The Strategy and Capability Board (SCB), formed of the Directors for Finance and Commercial (Julian Kelly), Corporate Services (Alison Cottrell) and Strategy, Budget and Planning (James Bowler), was established at the end of the financial year and established as a sub-committee of EMB to support the senior management team in enhancing the Department's strategy, delivery and capability.

3.13 The Treasury is divided into Director-led Groups. Each Director has responsibility delegated to them from the Executive Management Board for the specific management of risk within their Group. They are also responsible for ensuring that policy or operational risks in their Groups are shared across the Department to help actively manage the cross-cutting risks facing the Treasury. The Group structure is outlined in Chapter 1.

3.14 The Principal Accounting Officer has appointed Additional Accounting Officers for certain responsibilities. The Central Funds – the Consolidated Fund, the National Loans Fund, the Contingencies Fund and Exchange Equalisation Account – are reported on independently of the Treasury's Annual Report and Accounts. Each Accounting Officer produces an individual Governance Statement for their corresponding accounts[30].

Treasury Board and Committees

Treasury Board

3.15 The Enhanced Departmental Board, known as the Treasury Board, is the most senior of the Department's committees. It has been set up to support and challenge Ministers and Officials on the effective running of the UK's economic and finance ministry and considers the long term strategy for the Department. It draws together Ministerial and Civil Service leaders with experts from outside Government to form a collective strategic and operational leadership group.

3.16 The Treasury Board draws on the experience of attendees to provide advice, support and challenge on the Department's performance and risk management, and progress against delivery of its objectives and priorities. The Board does not decide policy or exercise the power of Treasury Ministers; it does however advise on the operational implications and effectiveness of

[30] www.official-documents.gov.uk

policy proposals and reflect on strategic plans. It also provides a forum for dialogue between Ministers and Officials as to the service the Department provides the Ministerial team.

3.17 The Treasury Board is chaired by the Chancellor of the Exchequer in his role as lead minister in the Department. The Board is made up of an equal number of Ministers, Non Executive Board Members and Executive Board Members. Membership of the Ministerial Board at 31 March 2012 was as follows:

Ministerial Members:

- Rt Hon George Osborne MP – Chancellor of the Exchequer and Chair
- Rt Hon Danny Alexander MP – Chief Secretary to the Treasury
- David Gauke MP – Exchequer Secretary to the Treasury
- Chloe Smith MP – Economic Secretary to the Treasury

Executive Board Members:

- Nick Macpherson – Permanent Secretary
- Tom Scholar – Second Permanent Secretary
- Dave Ramsden – Chief Economic Adviser
- Julian Kelly – Group Director, Finance and Commercial

Non Executive Board Members:

- Baroness Sarah Hogg – Chair of the Financial Reporting Council, Senior Independent Director of BG Group, Non-executive director of John Lewis Partnership and Chairman of the Frontier Economics Group (Lead Non Executive Board Member)
- Dame Deirdre Hutton DBE – Chair of the Civil Aviation Authority; Non Executive Director of Thames Water, Non Executive Director Castle Trust, and former Chair of the Food Standards Agency
- Sir Callum McCarthy – Chairman of European Operations, JC Flowers; Non Executive Chairman Castle Trust, Non Executive Director, One Savings Bank, NICB, ICBC and Intercontinental Exchange and former Chairman of the Financial Services Authority
- Michael O'Higgins – Chairman of the Audit Commission; Chairman of the Pensions Regulator; Chairman, Investec Structured Products Calculus VCT plc

3.18 During 2011-12 the Board membership changed due to some members leaving the Treasury or temporarily stepping down. Justine Greening, the Economic Secretary to the Treasury, became Secretary of State for Transport and was replaced by Chloe Smith. Sir Callum McCarthy stepped down temporarily from the Board to manage a conflict of interest relating to the sale of Northern Rock.

3.19 The Board is scheduled to meet quarterly. The Chair may convene additional sessions if necessary. The Board met formally once during 2011-12. All members attended with the exception of Sir Callum McCarthy. Two meetings of the Board were cancelled at short notice – in one case due to the Whip being applied and in the other due to pre-Budget pressures.

3.20 To discharge the duties of the Board, the Chair has delegated responsibility for certain activities to several supporting committees. A summary of the work of each committee is provided below.

Treasury Board (Sub-committee)

3.21 The Non Executive Board Members meet six weeks either side of the Ministerial Board with the Executive Management Board to consider the Department's performance and key risks.

3.22 During 2011-12 the Sub-committee's membership changed due to some members leaving the Treasury Group or temporarily stepping down. Andrew Hudson, Director General, Public Services, and Mark Bowman, Director for Strategy, Planning and Budget, left the Treasury. They were replaced by Sharon White and James Bowler. Sir Callum McCarthy stepped down temporarily from the Board to manage a conflict of interest relating to the sale of Northern Rock. The Sub-committee met four times in 2011-12.

3.23 Over the year, the Treasury Board and Sub-committee focused on the Executive Management Board's plans for:

- Managing recruitment, retention and talent management, and succession planning;
- The effectiveness of contingency plans for dealing with potential changes in the external economic and international environment; and
- Actions being progressed by the Treasury in meeting the Government's objectives for growth and fiscal consolidation.

3.24 On people management and contingency planning, this included agreeing the Department's Capability Review as well as the response to the Financial Crisis Management Review. These issues are further covered in the risk section.

3.25 The Treasury's Non Executive Board Members provide challenge to help shape the strategic thinking of Ministers and Officials. They are experts from outside government but with significant experience of working with the public and/or third sectors and have strong commercial expertise. Using this expertise they influence and advise the Department, challenging where appropriate.

3.26 The Treasury has three main risk groups that report directly to the Board. These three groups focus on Economic, Fiscal and Operational risks and are each chaired by a member of the Executive Management Board. Teams that monitor risks to public spending and tax, for example, report directly into these three groups.

Treasury Group Audit Committee

3.27 The Audit Committee supports the Permanent Secretary in his role as head of the Department and as the Principal Accounting Officer. It also supports the Treasury Additional Accounting Officers in their responsibilities for managing risk, internal control and governance, related to the Central Funds and the Group's Resource Account.

3.28 Members of the Committee are appointed by the Permanent Secretary for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary and is a Non Executive Member of the Treasury Board. The membership of the Committee at the close of 2011-12 was:

- Michael O'Higgins (Chair) – Chairman of the Audit Commission; Chairman of the Pensions Regulator; Chairman, Investec Structured Products Calculus VCT plc;
- Mike Ashley – Head of Quality and Risk Management, KPMG Europe LLP; Board Member, KPMG Europe LLP;
- Janet Baker – Crown Commercial Lead, Better Business Models, Cabinet Office; Board Member and Audit Committee Member, Audit Commission; Non Executive

Director, Remuneration Committee Chair and Audit Committee Member, Defence Support Group, MoD; Non Executive Board Member and Audit Committee Member, Rural Payments Agency; and

- Bradley Fried – Managing Partner, Grovepoint Capital LLP, Non Executive Director of the Group Board, Investec plc, Non Executive Director and Audit Committee Chair, Investec Wealth and Investment Limited.

3.29 In 2009, due to the financial interventions resulting from the financial crisis and the additions to the Treasury's balance sheets, the Department's Audit Committees were merged and reconstituted. Five new independent non executive Members were recruited with financial sector expertise and experience. The Audit Committee was reconstituted to provide a stronger degree of financial rigor, challenge and assurance around the Treasury's new assets.

3.30 During the last three years, a more forensic and risk based approach has been brought to the meetings thanks to the challenge from the independent Committee members. While the Treasury's balance sheet remains complicated, it has moved to a more steady state, so the Permanent Secretary and Chair of the Committee agreed to streamline the membership slightly but keep the sound principles established in place.

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

3.32 The Audit Committee took the opportunity for pre-committee discussions with the National Audit Office and the Group Head of Internal Audit. The Committee met five times in 2011-12.

3.33 As well as scrutinising the Treasury's financial management and balance sheet risks including loans and assets, the Committee challenged the Principal Accounting Officer and senior management on the system of internal control which governs the Department. In addition, specific meetings focused on issues such as the sale of Northern Rock, risk management, the implications to the Department of Clear Line of Sight, delivery of the Whole of Government Accounts, and headcount and turnover management.

Group Internal Audit

3.34 The Group Head of Treasury Internal Audit is the nominated officer for the Treasury's whistle blowing policy and she has direct access to the Chair of the Audit Committee and Accounting Officer.

3.35 Government Internal Audit Standards require each Internal Audit Unit to have undertaken an external quality assurance review at least every five years. Treasury Group Internal Audit (TGIA) was restructured in April 2007 as part of the Group Shared Services Structure when the Finance, HR and IT departments of the Treasury and Office of Government Commerce merged. During 2011 a new Treasury Group Head of Internal Audit was appointed and performed an equivalent external quality assurance review.

3.36 The Head of Internal Audit has provided an annual report on the effectiveness of the risk management, control and governance processes for the Treasury Group to the Accounting Officer and Audit Committee. The Treasury's Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

Nominations Committee

3.37 The Permanent Secretary meets with the Non Executive Board Members as the Nominations Committee. The Committee meets to consider succession planning within the Department and review the systems in place to identify and develop leadership potential. The

Committee also considers the performance and remuneration of the senior management team. Meetings occur biannually in advance of Mid and End Year performance appraisals and the Director of Corporate Services may be asked to attend.

Board effectiveness

3.38 The Treasury strongly believes in the principles of the Corporate Governance Code. In May, the Board undertook a self assessment led by the Treasury's lead Non Executive Board Member. Baroness Hogg's foreword to this report sets out her conclusions to this assessment.

The Corporate Governance Code

3.39 The Treasury has undertaken an assessment of its compliance with the Corporate Governance Code. The Department complies fully with the principles of the Code, putting in place over the course of 2011-12 several formal processes to more robustly evidence what had previously been achieved on a less formal basis. For example, the Permanent Secretary and Non Executive Board Members met formally as the Nominations Committee rather than informally as a closed session of the Treasury Board Sub-committee. The Department will continue to embed these new processes to further strengthen its governance arrangements.

Risks faced by the Treasury in 2011-12

3.40 Over 2011-12, the environment in which the Treasury was operating was constantly evolving, reflecting the continuing uncertainty in the global economy and its impact on the domestic economy. Recovery from the global downturn remains uneven with the continuing European sovereign debt crisis having a significant effect on global trade and growth. The Department continues actively to monitor events in the eurozone and world economy, and – working with other departments and organisations, as appropriate – is drawing up contingency plans which consider the breadth and depth of the Treasury's tools and powers to respond to a crisis.

3.41 To ensure that the Department has learned lessons from its response to the financial crisis in 2008, the Principal Accounting Officer commissioned a review into the Treasury management's response to that crisis. The *Review of HM Treasury's management response to the financial crisis*[31] was published in March 2012. While commending the commitment and dedication of staff working during the crisis, the review highlighted the need for: improved risk management including constructive criticism from outside the Department; stronger contingency planning; better investment in financial services capability and capacity; strengthened relationships with the Bank of England as well as other financial institutions; and active management of the Treasury's turnover rate including consideration of its reward policies and succession planning. The Treasury welcomed the findings and the Permanent Secretary wrote to the Chair of the Public Accounts Committee and the Chair of Treasury Committee with the Department's response to the review in July 2012.

3.42 Fiscal consolidation remains the main priority for the Treasury but reducing the structural deficit must be managed in a fair and responsible way, balancing fiscal restraint with a strong economic narrative. The Treasury uses a variety of data including tax receipts from Her Majesty's Revenue and Customs (HMRC), Office for National Statistics (ONS) and the Office for Budget Responsibility (OBR) analysis, and COINS returns from departments to monitor and manage departmental spending pressures. The Combined Online Information Service (COINS) collects financial data from across Government to support management of the public finances. The system is currently being replaced. Its replacement is critical to the functioning of the Treasury as the information held is used to monitor the public finances, prepare robust analysis to inform

[31] http://www.hm-treasury.gov.uk/about_review_fincrisis_response.htm

ministerial decisions and help produce Parliamentary Estimates. Publication of COINS data has generated understandable public interest and continues to be a key Treasury contribution to the Government's transparency agenda.

3.43 As the UK's economics and finance ministry, the Treasury must look long term at the health of the public finances beyond the Parliamentary cycle. Horizon scanning is therefore an important part of the Treasury's risk management framework and the Department, using their own forecasts and those of the OBR, considers fiscal sustainability in its spending and tax raising policies. The Department also works closely with the Debt Management Office (DMO) and National Savings and Investments (NS&I) to manage the country's debt and borrowing.

3.44 Recovery in the domestic economy is still slow with the country now in recession. The Treasury has levers and responsibilities to monitor the health of the economy and develop policies that encourage growth, a key priority for the Government. As well as launching the *National Infrastructure Plan 2011*[32] alongside the Autumn Statement, the Treasury has looked to introduce policies that stimulate growth across the economy such as the Plan for Growth[33] and National Loan Guarantee Scheme[34], a £20 billion package of credit easing measures to help provide small and medium sized businesses with better access to affordable funding.

3.45 Corporately, the Treasury faces challenges as an organisation and a Whitehall department in its own right. Like most of the rest of Whitehall, the Treasury was subject to its own Spending Review settlement. The 33 per cent budget reduction following the 2010 Spending Review required the Treasury to complete a fundamental reassessment of its organisation, purpose and core functions. The outcomes of this strategic review began to be implemented from April 2011 when new structures and processes were introduced. The Department has subsequently undergone a second formal business planning round which paved the way for an agreed work programme for 2012-13.

3.46 The Treasury recognises that its main resource is its people. It is therefore important that the headcount reductions required by the Spending Review settlement, be managed actively and carefully. The *Review of HM Treasury's management response to the financial crisis* also highlighted concerns over staff turnover, and proposed that a target be set for reducing this. The distinct but related challenges of managing both headcount reduction and turnover have been acknowledged by the Executive Management Board and reflected in both better management information and monitoring, agreed objectives for disaggregated measures of turnover, and more active policies relating to talent management, staff development (including the launch of a Foundation Skills Programme, currently being rolled out across all grades) and retention.

3.47 The Treasury, like much of Whitehall, took part in the Capability Review process managed by the Cabinet Office. The Capability Reviews provide a fundamental assessment of how a department manages itself. Dame Deirdre Hutton, one of the Treasury's Non Executive Board Members, was active in ensuring the robustness of the process and depth of challenge undertaken on the Department. The Capability Review found the Treasury was good at delivering its core purpose and adding value to the work of its stakeholders. While there is passion and drive amongst its staff, the Department needs to do more.

3.48 A Capability Action Plan was written in response to the findings of the review and focuses on: board visibility and collective ownership; retaining and recognising the contribution of staff; strategic engagement with stakeholders; strengthen customer and stakeholder insight to inform policy-making and analysis; and embed effective delivery. The Executive team is accountable for their commitments to staff.

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[32] http://www.hm-treasury.gov.uk/national_infrastructure_plan2011.htm

[33] http://www.hm-treasury.gov.uk/ukecon_growth_index.htm

[34] http://www.hm-treasury.gov.uk/press_24_12.htm

Equitable Life Payment Scheme

3.49 As part of the 2010 Spending Review settlement, the Government announced that around £1.5 billion would be available for the Equitable Life Payment Scheme, of which up to £1 billion would be paid out upfront over the three years of the Spending Review period. In May 2011 details of the scheme were set out in *The Equitable Life Payment Scheme design*[35].

3.50 As the Treasury traditionally focuses on policy development rather than operational delivery, establishing the Equitable Life Payment Scheme posed challenges to the Treasury. A dedicated team with programme management experience was established to manage the scheme, working closely with NS&I, appointed as the Treasury scheme delivery partner. Payments began as planned on 30 June 2011. By the end of the financial year 2011-12, approximately 230,000 payments had been made to eligible policy holders totalling £168 million. By 30 June 2012 payments made had increased to £279 million.

Counter illicit finance policy and financial sanctions

3.51 The Treasury is responsible for managing the threat to the UK financial system from money laundering and for the regulatory framework for combating the financing of terrorism and proliferation of weapons of mass destruction. The Treasury co-chairs the Money Laundering Advisory Committee, alongside the Home Office, which provides a forum for Government, industry, consumer representatives and law enforcement agencies to develop their strategic approach to tackling money laundering in the UK. The Treasury also represents the Government at the Financial Action Task Force (FATF), which has recently agreed a new set of international standards on countering illicit finance.

3.52 The Treasury supports the Government's counter terrorism and broader foreign and security policy agenda through implementing and operating financial sanctions. This work has had increasing importance and corresponding pressures in the last year as a result of the events known as the Arab Spring. The sanctions and counter illicit finance work undertaken by Government, in which the Treasury has a key role, has understandable security and finance implications. The Treasury works closely with its operational partners across Government as well as in industry to manage the security, legal, operational and financial risks that this work poses.

Financial Risks

3.53 Northern Rock was nationalised in 2008. The Treasury split the bank into two businesses; a small retail bank (Northern Rock) which resumed mortgage lending and a separate company (Northern Rock Asset Management) which contained the remaining liabilities and assets from Northern Rock. Northern Rock Asset Management would be retained in public ownership until the mortgages were paid off, but the Treasury committed to sell Northern Rock.

3.54 In November 2011, the Government sold Northern Rock to Virgin Money. The sale was conducted in an open, transparent and non-discriminatory manner in line with the state aid requirements laid out by the European Commission. The Treasury took advice from UK Financial Investments (UKFI) and their independent advisers who analysed all the bids as well as other options for the future of Northern Rock. The Government received £747 million in cash on closing of the sale with further additional cash payments and capital instruments in the future.

3.55 The Treasury continues to carry a number of financial exposures on its balance sheets. The Resource Accounts provides a narrative of the main changes to the Treasury's stewardship responsibilities through this period.

[35] http://www.hm-treasury.gov.uk/fin_equitable_life.htm

Information and security risks

3.56 The Treasury is best served by an open flow of information amongst Officials. However, the Department is mindful of the risks posed by the sensitive and increasing quantities of information to which Officials are privy. All staff are bound by the rule of law, the Civil Service Code, the *HMG Security Policy Framework*[36] and the Treasury's own conduct policies, including those relating to propriety, ethics and security. The Department holds those responsible to account for ensuring compliance and demonstrably valuing and communicating the Treasury's data and information. All staff complete annual mandatory e-learning courses relating to protecting our information.

3.57 Further information on the Department's security monitoring can be found in Chapter 4.

Governance of the wider Treasury Group and related bodies

3.58 This year, the Treasury Group was expanded and new and established members were consolidated into the Treasury's accounts under Clear Line of Sight. This programme aims to better align the budgeting and estimates process which in turn will improve financial reporting, accountability and transparency.

3.59 The Treasury Group now consists of HM Treasury, its Executive Agencies and related bodies including: the Asset Protection Agency, the Financial Services Compensation Scheme, the Money Advice Service, the Office for Budget Responsibility, the Office of Tax Simplification, the Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations, UK Debt Management Office and UK Financial Investments.

3.60 Nick Macpherson, Principal Accounting Officer for the Treasury Group, along with other senior officials holds regular meetings with all Group Accounting Officers to seek assurance on the running of their organisations. He is also responsible for the appraisals of some Group Accounting Officers.

3.61 He and other senior officials hold regular meetings with all Group Accounting Officers to seek assurance on the running of their organisations.

3.62 The Treasury's Finance Team are engaged with all members of the Treasury Group, in some cases providing back office services to those organisations. For each member of the Treasury Group, the Treasury has established a policy link through sponsoring teams. Examples of oversight include regular bilaterals, Treasury officials attending or sitting on the boards of Group members and memorandums of understanding.

3.63 The **Asset Protection Agency**[37] **(APA)** was set up to administer the Asset Protection Scheme (APS) following the bank recapitalisation programme in 2008 which bolstered Lloyds Banking Group (LBG) and the Royal Bank of Scotland (RBS). The APA therefore has an uncertain life span based on the presence of these institutions in the scheme. RBS has publically stated that they wish to exit the APS in the fourth quarter of 2012. While it is not clear whether they will exit the scheme at this time, the APA must manage the scheme in a proportionate way and plan for a winding down of the Agency. The Treasury is assisting the APA in these plans, focusing both on a safeguarding of the institutions within the scheme and the efficient and effective closure of the Agency and transfer of any residual responsibilities.

3.64 The **Financial Services Compensation Scheme**[38] **(FSCS)** was set up by Financial Services Authority (FSA) in accordance with Part XV of the Financial Services and Markets Act 2000

[36] http://www.cabinetoffice.gov.uk/resource-library/security-policy-framework
[37] http://www.hm-treasury.gov.uk/apa.htm
[38] http://www.fscs.org.uk/

(FSMA). The FSCS is manager of a single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it. FSCS is operationally independent of the FSA in carrying out its statutory function. However, the FSA must take such steps as are necessary to ensure that the Service is, at all times, capable of exercising its function.

3.65 The role of the Board under the Companies Act 2006 is to lead and oversee the affairs of FSCS. The FSCS Board responsibilities include overseeing the discharge by the executive management of the day-to-day business of the Scheme, setting appropriate policies to manage risks to the Scheme's operations and seeking regular assurance that the system of internal control within the Scheme is effective at risk mitigation, and maintaining a sound system of financial control. The Chief Executive of the FSCS as Accounting Officer Designate is personally responsible for ensuring the Scheme as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management that are set out in Managing Public Money.

3.66 The Money Advice Service[39] (MAS) was established under the Financial Services and Markets Act 2000 (FSMA) as an independent body to enhance public understanding of financial matters. Its statutory duties are to enhance the understanding and knowledge of members of the public of financial matters (including the UK financial system) and the ability of members of the public to manage their own financial affairs. MAS is independent of the Financial Services Authority (FSA) in carrying out its statutory function. However, the FSA must take such steps as are necessary to ensure that the Service is, at all times, capable of exercising its function.

3.67 The MAS board ensures that effective arrangements are in place to provide assurance on risk management, governance and internal control. The MAS Audit and Risk Committee is chaired by an independent non-executive member to provide independent advice and the board is expected to assure itself of the effectiveness of the internal control and risk management systems. The MAS Chief Executive as Accounting Officer Designate is personally responsible for ensuring that the Service as a whole is run on the basis of the standards in terms of governance, decision-making and financial management that are set out in Managing Public Money[40].

3.68 The Principal Accounting Officer must balance the need to give MAS and FSCS autonomy, while ensuring that monies received by them by way of levy are properly accounted for in achieving high and reliable standards of propriety and regularity.

3.69 The Office for Budget Responsibility (OBR)[41] was created in 2010 to provide independent and authoritative analysis of the UK's public finances. It is an NDPB sponsored by the Treasury. The legal underpinnings for the OBR are set out in the Budget Responsibility and National Audit Act 2011. The OBR's Chairman, Robert Chote, is also its Accounting Officer.

3.70 The Office of Tax Simplification (OTS)[42] was created in 2010 to provide the Government with independent advice on simplifying the UK tax system. It is an independent office of the Treasury. The Non Executive Chair and Tax Director are responsible to Ministers for the OTS's work. The other two members of the OTS's Board, one each from the Treasury and HMRC, are senior full-time executives of their respective departments. Edward Troup, the Treasury's Director General for Tax and Welfare, is its Additional Accounting Officer.

3.71 The Royal Mint Advisory Committee[43] was established in 1922. Its original purpose was to raise the standard of numismatic art and this remains its primary concern, being charged, on

39 http://www.moneyadviceservice.org.uk/
40 http://www.hm-treasury.gov.uk/psr_mpm_index.htm (Chapter 3 Box 3.1)
41 http://budgetresponsibility.independent.gov.uk/category/publications/annual-report/
42 http://www.hm-treasury.gov.uk/ots.htm
43 http://www.royalmint.com/aboutus/advisory-committee

behalf of the Treasury and other government departments, with the recommendation of all new designs for UK coins and official medals. It is an advisory NDPB sponsored by the Treasury and the Royal Mint's Chief Executive, Adam Lawrence, is its Accounting Officer.

3.72 The UK Debt Management Office (DMO)[44] was established as an Executive Agency of the Treasury in 1998. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. The Chief Executive Officer, Robert Stheeman, is its Accounting Officer.

3.73 The UK Financial Investments Ltd (UKFI)[45] is a Companies Act Company and Treasury is its sole shareholder. It was established in 2008 as part of the UK's response to the financial crisis and is responsible for managing the Government's shareholdings in the Royal Bank of Scotland Group plc and Lloyds Banking Group plc. UKFI is also responsible for managing the Government's 100 per cent shareholding and loans in UK Asset Resolution Ltd and its subsidiaries. UKFI's Chairman, Robin Budenberg, is also its Accounting Officer.

Statement by the Permanent Secretary

3.74 The Treasury Group Resource Account is audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out in Chapter 8. The cost of the external audit is set out in Notes 7.1 and 8 of the Resource Accounts.

3.75 As the Principal Accounting Officer, I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Treasury's Resource Account's auditors are aware of that information. So as far as I'm aware, there is no relevant audit information of which the auditors are unaware.

Nick Macpherson
Permanent Secretary
10 July 2012

[44] http://www.dmo.gov.uk/index.aspx?page=publications/Annual_Reports
[45] http://www.ukfi.co.uk/publications/

4 Managing the Treasury

4.1 This chapter provides information on the way the Treasury manages itself, including people, infrastructure and relationship with Parliament. It does not include data relating to Financial Services Compensation Scheme (FSCS) or Money Advice Service (MAS) which are not consolidated into the Treasury Group for management purposes.

People

4.2 As at 31 March 2012, the Treasury Group had 1,329 Full Time Equivalent (FTE) staff. The following tables describe the Treasury Group – its size and workforce dynamics.

Table 4.A: Treasury Group – Staff Numbers[46]

Full time Equivalents (FTEs)	**2010**	**2011**	**2012**
Core Treasury			
CS Permanent	1,278	1,204	1,148
CS Casual	72	45	30
Total Gross Control Total	1,350	1,249	1,178
DMO			
CS Permanent	90	93	104
CS Casual	1		
Total Gross Control Total	91	93	104
APA			
CS Permanent	29	35	29
CS Casual	7		1
Total Gross Control Total	36	35	30
OBR			
CS Permanent			16
CS Casual			1
Total Gross Control Total			17
HM Treasury Group			
CS Permanent	1,397	1,332	1,297
CS Casual	80	45	32
Total Gross Control Total	1,477	1,377	1,329
Source: HM Treasury			

[46] Staffing numbers for core Treasury, DMO and APA have been compiled and are in accordance with ONS reporting requirements. These figures exclude contract and agency workers and staff who are on unpaid maternity leave, unpaid sick absence and career breaks. Core Treasury numbers include PRU, because although the staff moved to the Cabinet Office from February 2012, Treasury continued to pay their salaries until April 2012.

Table 4.B: Treasury Group – Workforce Size[47]

		31 Mar 2011	31 Mar 2012
Payroll Staff			
	Department and Agencies	1,332	1,281
	Non-departmental public bodies	0	16
	Department Family	1,332	1,297
Average Staff Costs (£)		£56,471	£56,920
Contingent Labour			
	Department and Agencies	45	31
	Non-Departmental public bodies	0	1
	Department Family	45	32
Source: HM Treasury			

Table 4.C: Treasury Group – Number of Senior Civil Service staff by pay band

Range	31 March 2011	31 March 2012
F	92	82
G	27	22
H	7	8
Total	126	112
Source: HM Treasury		

Table 4.D: Treasury Group – Workforce[47]

		31 March 2012	31 March 2011
Workforce Shape (%)	Administrative Assistants and Officers	7.4	9.2
	Executive Officers	11.1	11.8
	Higher and Senior Executive Officers	35.4	31.9
	Grade 7//6	27.9	29.2
	Senior Civil Servants	8.4	9.0
	Other grades	9.8	8.9
	Part Time	8.3	7.1
Workforce Dynamics	Recruitment Exemptions (number)	125	83
	Annual Turnover rate (%)	25.2	23.2
Attendance (AWDL)	Actual	4.0	3.4
(Days)	Standardised	6.3	6.9
Source: HM Treasury			

Recruitment

4.3 The Treasury implemented the May 2010 civil service recruitment freeze, and only posts of a business critical nature, where skills are not available internally, are advertised externally.

47 Each quarter all departments are required to provide a Quarterly Data Summary (QDS). These summaries contain a detailed analysis of staff numbers. This analysis is shown below in tables and for the purposes of this report data is calculated on an annual rather than a quarterly basis.

4.4 Due to high turnover rates and increased demand for Range Ds, the Treasury ran an external graduate recruitment campaign and encouraged managers to consider converting those on loan from other government departments to permanent contracts.

4.5 This has resulted in a higher number of Range Ds recruited than in the previous year. The increased number of Range Es recruited on permanent contracts is as a result of an increase in permanent transfers from other Government departments and loan to permanent conversions.

Table 4.E: Treasury Group – Recruitment 2011-12 (2010-11)[47]

Range	Permanent appointments[48]	Fixed-term appointments[49]	Loans from other government departments	Secondments	Total
B	9 (10)	2 (9)	0 (0)	0 (0)	11 (19)
C	13 (8)	1 (2)	0 (5)	0 (0)	14 (15)
D	126 (34)	4 (9)	30 (23)	4 (26)	164 (92)
E	27 (9)	7 (2)	23 (28)	17 (6)	74 (45)
SCS	3 (2)	1 (0)	1 (2)	1 (0)	6 (4)
Total	178 (63)	15 (22)	54 (58)	22 (32)	269 (175)

Source: HM Treasury

Diversity

4.6 The Treasury seeks to promote a culture that values difference and recognises that diversity enriches the economy and society and is an essential ingredient of change and progress. In February 2012 the Treasury's internal Diversity Action Plan was launched and made available to all employees. The objectives in the Diversity Action Plan are all owned by individual members of the Treasury's Executive Management Board. The Treasury has also published its equality objectives as required by the Equality Act 2010.

4.7 As an employer, the Department seeks to be open and inclusive in its management policies and processes and seeks to recruit and develop a diverse and talented workforce that is representative of the society it serves. The table overleaf provides diversity statistics for staff employed by the Treasury.

[48] Including permanent transfers from other Departments

[49] Excludes the 34 sandwich and placement students recruited via the Government Economic Service

Table 4.F: Diversity as at 31 March 2012 (31 March 2011)

Range	Women (per cent)	People from minority ethnic backgrounds (per cent)	People with disabilities (per cent)
B[a]	69.0 (76.7)	36.0 (36.9)	10.0 (9.7)
C	69.0 (62.6)	31.6 (30.7)	9.7 (9.2)
D	43.0 (44.5)	19.9 (15.2)	5.4 (3.2)
E	38.0 (37.9)	5.4 (5.5)	4.9 (5.3)
F, G, H	46.0 (38.0)	7.0 (5.6)	2.0 (2.7)
Total	47.3 (47.8)	17.2 (16.0)	5.9 (5.4)

Source: HM Treasury

[a] range B includes students

4.8 In common with other government departments, the Treasury continues to work towards meeting all its April 2013 diversity targets (on the representation of women, employees from ethnic minority background and employees with disabilities). As part of this work, the Treasury participates fully in the civil service wide diversity agenda led centrally by the Department for Work and Pensions.

Reward and Recognition

4.9 The Treasury Group has a policy to recognise those staff who have performed exceptionally in their roles through the payment of bonuses. Bonuses are paid in two circumstances:

- Performance bonuses are linked to the annual staff appraisal system
- Special bonuses are paid to staff in-year to recognise specific contributions or pieces of work

4.10 Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. Therefore, bonuses paid in 2011-12 related to performance in 2010-11. Total performance bonuses paid in 2011-12 came to £805,597 (2010-11: £904,856) and special bonuses came to £164,467 (2010-11: £127,383).

Health, safety and well-being

4.11 The Treasury actively promotes the Health, Safety and Wellbeing of its staff. This helps to boost morale and staff engagement which can result in achieving excellent performance.

4.12 Sickness absence in the Treasury continues to be low compared with the average for government departments.

4.13 In 2011-12 there were 4.0 average working days lost per staff year within the Treasury and its agencies (2010-11: 3.4 days). For Core Treasury the figure was 3.9 days (2010-11: 3.4 days). The proportion of staff with no sickness absence recorded by the Treasury and its agencies was 67 per cent (2010-11: 66 per cent). For Core Treasury 69 per cent of staff had no recorded sick absence during the year (2010-11: 68 per cent).

4.14 The primary causes of long term sickness absences are musculoskeletal disorders and stress, anxiety or depression. During the calendar year January to December 2011 there was a total of 451 working days lost due to musculoskeletal disorders, of which 282 were due to long term conditions. These figures are higher than the previous calendar year January – December 2010, when there was a total of 208 days lost, none of which were due to long term conditions.

4.15 Stress, anxiety or depression resulted in 701 working days lost during the same period in 2011. This includes long term absences amounting to 578 days. However, there was a 31 per cent reduction in the total number of sickness absence days lost to stress, anxiety or depression, compared to calendar year January – December 2010, when there were 1016 days lost.

4.16 Our Occupational Health provider has ensured that if required, those with long term conditions have received one to one medical support and advice relating to the condition, so assisting the individuals' return to work following long term sickness absence.

4.17 In the financial year April 2011 – March 2012 there were six people injured as a result of slips, trips and falls, which is comparable to the five incidents reported in financial year 2010-11. There were also seven other accidents or near misses of various causes including scalds, injuries caused by moving objects and collisions with doors. This year there were no incidents that met the criteria for reporting to the Health & Safety Executive (HSE) under the Reporting of Injuries, Diseases or Dangerous Occurrences Regulations 1995, compared with last year when there were three such incidents reported.

4.18 We have made some changes to our Welfare provision. Having implemented the Employee Assistance Programme (EAP) provided by our contractor Right Corecare and to avoid duplication of work, we brought our in-house Welfare provision to an end. Use of the Right Corecare confidential service, which is available by telephone 24/7 remains comparable to the same period in financial year 2010-11.

4.19 In August 2011 a Fire Safety Audit was carried out by the Chief Fire & Rescue Adviser from The Crown Premises Inspection Group (CPIG) who have enforcement powers. There were three minor deficiencies identified which needed attention. Action has been taken to rectify these deficiencies to ensure compliance with the Regulatory Reform (Fire Safety) Order 2005. No enforcement action was taken by CPIG.

People Survey

4.20 The results of the survey are published on the Treasury's website[50] and summarised in the QDS.

Table 4.G: People Survey

(c) Department Only		2011 Survey	2010 Survey
Engagement Index (%)		65	65
Theme Scores (%)	Leadership and Managing Change	51	51
	My Work	78	75
	My Line Manager	64	65
	Organisational Objectives and Purpose	82	80
Source: HM Treasury			

Common Areas of Spend

4.21 Other data reported in the QDS include the costs of Common Areas of Spend. These costs are based on standard definitions developed by the Cabinet Office in conjunction with departments. For Common Areas of Spend these cover People, Estate Costs, Procurement, Major Projects, ICT, Corporate Services, Fraud Error and Debt, SME and VCS.

[50] http://www.hm-treasury.gov.uk/about_staff_surveys.htm

Table 4.H: Common Areas of Spend

		2011-12	2010-11
Estate Costs	Total office estate (m2)	20,000	19,625
	Net cost of office estate (£ million)	22.0	23.8
	Cost per FTE (£)	16,529	17,299
	Cost per m2 (£)	1,098	1,214
Procurement	Total Procurement Spend (£ million)	95.53	108.05
	Price of standard box of A4 white copier paper (£/2500 sheets)	11.55	11.23
	Average price of energy (£/KWH)	0.067	0.090
IT	Total 3rd Party ICT Cost (£million)[51]	9.34	5.52
	Cost of desktop provision per FTE (£)[52]	1,603	1,000
Corporate Service cost	Human Resources (£million)[53]	4.5	4.9
	Finance (£million)	1.6	1.8
	Procurement (£million)	0.6	0.7
	Legal (£million)	4.0	3.3
	Communications (£million)	1.4	1.9
Fraud, Error, Debt	Total Identified Fraud (£million)	0	<0.1
	Total known Errors (£million)	0	0
	Total Debt (£million)	0	0
	Debtor Days	0	0
Voluntary and community sector (VCS)/Small and medium enterprises (SME)	Procurement spend with SME (£million)[54]	5.28	13.68
	Procurement spend with VCS (£million)	0	0
	Grants to VCS (£million)	0	0
Source: HM Treasury			

[51] Third party ICT cost has for 2010-11 reflects partial year of ICT support contract

[52] The cost of desktop provision changed because the basis of calculation has been changed to follow the QDS standard definition which was introduced in 2011-12.

[53] HR costs include exits and other centralised expenditure such as Learning and Development, central pay and benefits and Diversity.

[54] SME spend reduction due to change in major supplier and overall reduction in expenditure

Security

4.22 The Department continues to monitor and assess its information and security risks in order to identify and address any weaknesses.

4.23 No protected personal data incidents were recorded in the Department during 2011-2012. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Table 4.I: Summary of Protected Personal Data Related Incidents formally reported to the Information Commissioner's Office in 2011-12

Date of Incident (month)	**Nature of Incident**	**Nature of Data involved**	**Number of people potentially affected**	**Notification steps**
None				
Further action on information risk	The Department will continue to monitor and assess its information risks in order to identify and address any weakness and ensure continuous improvement of its systems			

Table 4.J: Summary of Other Protected Personal Data Related Incidents in 2011-12

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures		
Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

Payment of suppliers

4.24 In May 2010, the Government introduced a five day target for SME suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2011-12, the Treasury Group made 92.88 per cent of all supplier payments within five days (against a target of 90 per cent).

Relationship with Parliament

House of Commons Treasury Committee

4.25 The Treasury has maintained close links with the House of Commons Treasury Committee on a wide range of issues including the Budget, Bank of England accountability, and the development of a new financial regulatory structure.

4.26 Details on specific evidence sessions before the Treasury Committee from 1 April 2011 to 31 March 2012 are listed below:

Table 4.K: Parliamentary Hearings in 2011-12 – House of Commons Treasury Committee

Date of Hearing	Subject
July 2011	Accountability of the Bank of England
November 2011	Financial Conduct Authority
December 2011	Autumn statement
January 2012	Independent Commission on Banking
January 2012	HM Treasury Annual Report and Accounts
March 2012	Budget 2012
Source: House of Commons Treasury Committee	

Parliamentary Questions

4.27 Treasury Ministers and officials are committed to providing timely and accurate responses to parliamentary questions. The Government has agreed to provide regular statistics to the Procedure Committee.[55] The latest public statistics show that Treasury Ministers responded on or before the parliamentary deadlines in relation to 74 per cent of the 3,534 ordinary written questions and 67 per cent of the 1,927 named day questions tabled to the Department in the course of the parliamentary session which ran from May 2010 to May 2012. While that is in line with the Whitehall average, the Department will continue to work towards improving its performance.

The Parliamentary Ombudsman

4.28 The Parliamentary and Health Service Ombudsman can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf. In 2011-12, the Treasury has not received any complaints from the Parliamentary Ombudsman's Office nor were any outstanding from the previous year[56].

Sustainable development

4.29 In 2011 the Government established four Greening Government Commitment (GGC) targets to reduce the Civil Service impact on the environment and use of finite resources. The Treasury's performance against these four commitments, the Department's policy on sustainable procurement and details of the Internal Sustainability Plan are outlined below.

4.30 Data is included for the Treasury Group which is defined for sustainability reporting purposes as including the Debt Management Office and The Asset Protection Agency in Eastcheap Court, London (EC) and Core Treasury in 1 Horse Guards Road, London (1HGR)[57].

4.31 At 1 Horse Guards Road, the Treasury works closely with its PFI contractor, Exchequer Partnership, who is responsible for managing building services. Exchequer Partnership operates and maintains an Environmental Management System and maintains ISO 14001[58] as part of the contractual agreement. The Cabinet Office lease space at 1 Horse Guards Road which is

[55] Written Parliamentary Questions: Government Response to the Committee's Third Report of Session 2008-09, HL 129, 7 December 2009

[56] The Ombudsman's 2009-10 report which showed one complaint against HM Treasury in error. This has now attributed to the Valuation Office Agency which is under the responsibility of HMRC. The 2010-11 report corrected this and restated attributing to HMRC

[57] Data for other Treasury Group locations i.e. UKFI and OBR is included in the major occupier's sustainability reporting by DCMS and the Attorney General's Office in their own departmental Annual Reports and Accounts. Data for the Treasury's occupation of Rosebery Court, Norwich is captured and reported by the Cabinet Office. In addition, the FSCS and MAS fall outside the sustainable reporting boundary for Treasury Group purposes

[58] The international standard that specifies a process for controlling and improving an organisation's environmental performance

excluded from the Treasury data for reporting purposes. For 2011-12, any shared costs for 1HGR are apportioned between both departments on the basis of 0.83 of the total for HM Treasury and 0.17 for the Cabinet Office respectively. This is based on average occupancy for the year and costs for 2009-10 and 2010-11 have been restated for comparative purposes.

Performance against GGC commitments

4.32 The Group has already exceeded the targets laid down by the GGC up to 2012. Particularly noteworthy is the Department's 57 per cent sustained reduction in paper consumption primarily achieved through the introduction of new IT with secure printing service facilities, the sustained reduction in business travel and the year on year reduction in energy consumption.

4.33 However, the Group has yet to meet the reduction in consumption of water target. Water consumption figures remain above target at 8.3m_3 p/FTE against the government benchmark of 6m_3 p/FTE. This will be tackled over the next three years through a series of initiatives and engagement programs. The department once again achieved its Carbon Trust Standard in 2011 and also works with Carbon Culture[59] who provide real-time webpage data.

Table 4.L: Summary of performance against Greening Government Commitments 2011-12

Key Target Area	Baseline	Target		Actual 2011-12
1. Reduce Greenhouse Gas Emissions	4,338.36 tCO_2e	25%	-32%	2,940.98 tCO_2e
- Energy from Estate	4,189.03tCO_2e		-31%	2,886.16 tCO_2e
- Travel	149.33 tCO_2e		-61%	58.83t CO_2e
2. Reduce waste	485t	25%	-52%	231t
3. Reduce water consumption	14,738m^3		-14%	12,729m^3
4. Reduce paper consumption	31,203 reams	10%	-57%	13,337 reams
Source: HM Treasury				

Target 1: Reduce Greenhouse Gas Emissions

Energy from Estate

4.34 The Group has made an overall reduction of 32 per cent in its greenhouse gas emissions from its 2009-10 baseline figure of 4,338.36 tCO_2e. Greenhouse gas emissions include emissions from energy and official business travel. Travel emissions exclude international travel in line with the Greening Government Commitments. Costs shown relate to the Treasury's 1 Horse Guards Road building other than travel which cover Core Treasury, DMO, APA, OBR and UKFI.

[59] http://www.carbonculture.net/orgs/hm-treasury/1-horse-guards-road/

Table 4.M: Group Energy and CO2 Emissions

	2009-10	2010-11	2011-12
Electricity (KWH)	6,392,364	5,446,519	4,869,643
Gas (KWH)	283,874	483,029	287,056
Whitehall Heating System (KWH)	2,715,132	1,743,524	1,133,414
Total CO2 Emissions (Tonnes)	4,189	3,379	2,887
Source: HM Treasury			

Table 4.N: 1 HGR Energy costs (£)

	2009-10	2010-11	2011-12
Electricity	476,976	444,265	469,451
Whitehall Heating System	207,116	267,907	201,021
Gas	2,954	2,529	2,457
Total	687,046	714,701	672,929
Source: HM Treasury			

*Costs for 2011-12 apportioned between HM Treasury and Cabinet Office occupancy of 1HGR. 2009-10 and 2010-11 restated on the same basis for comparative purposes

Travel

4.35 The Group has seen a significant drop in its travel since 2009 resulting in an overall reduction in its carbon emissions of 61per cent.

4.36 Amongst some of initiatives taken to reduce carbon emissions are the promotion and training of the use of video conferencing and Live Meeting instead of travel, the installation of new energy efficient lighting, and reducing lighting where activity is not constant. Going forward, the Group has in place plans for further initiatives at both of its sites, including staff engagement plans to improve our building DEC rating and further reduce our emissions.

4.37 In line with DEFRA guidelines the Group has not weather corrected its data. Conversion factors used to account for carbon are taken from the DEFRA website.

Table 4.O: Group Travel and CO2 Emissions

	2009/10	2010/11	2011/12
Fleet (Km)	13,904	12,144	13,988
Rail (Km)	864,107	707,960	508,765
Domestic Flights (Km)	214,216	159,796	122,547
Taxis (Km)	22,408	45,859	34,357
Total CO2 Emissions (Tonnes)	149	78	59
Source: HM Treasury			

Table 4.P: Group Travel costs

	2009-10 £000	2010-11 £000	2011-12 £000
Fleet (including Government Car Service)	608	296	168
Rail	509	378	329
Domestic flights	36	39	36
Taxis	221	104	83
Total	1,374	817	616

Source: HM Treasury

Target 2: Reduce waste

4.38 During 2011-12 the largest proportion of waste from the Group was paper and confidential waste. In addition the Treasury disposed of 3.272 tonnes of ICT waste and 3.3 tonnes of furniture. This included the replacement of IT equipment and office furniture through the Workspace Optimisation Programme. Redundant ICT equipment and furniture are removed by an approved supplier and recycled. Systems are currently being developed to analyse the costs of waste across the various categories.

Table 4.Q: Group Waste

	2009-10	2010-11	2011-12
Total Energy Recovered Waste (Tonnes)	225	152	100
Total Recycled Waste (Tonnes)	260	194	131
Total (Tonnes)	485	346	231

Source: HM Treasury

4.39 The Group reduced its waste by 52 per cent to 231 tonnes from its 2009-10 baseline figure of 485 tonnes of waste generated. The Group sends no waste to landfill and all waste is recycled where facilities exist, or is sent for energy recovered incineration.

4.40 Recent initiatives on waste include the provision of new recycling points and staff awareness campaigns.

Target 3: Reduce water consumption

4.41 The Group's water consumption, calculated by floor space per FTE equivalent (including contractors and visitors), reduced by a small margin in 2011-12. Total costs have increased in line with the numbers of FTEs over the period, however it should be noted that the workplace optimisation programme included construction work and an increase in contractors and visitors over a short period of time.

4.42 While initiatives to reduce water consumption during 2011-12 have included the installation of aeration taps in 1 Horse Guards Road, unit costs have increased by a small proportion over the period.

Table 4.R: Group Water Consumption

	2009-10	2010-11	2011-12
Total Water (m3)	14,738	13,462	12,729
FTE equivalent (including contractors and visitors)	1,862.7	1,581.67	1,532
Per FTE (m3)	8	9	8.31
Best Practice (m3)	6	6	6
Source: HM Treasury			

Table 4.S: Water (1HGR)

	2009-10	2010-11	2011-12
Expenditure (£)	26,510	30,066	40,760
Source: HM Treasury			

* Costs for 2011-12 apportioned between HM Treasury and Cabinet Office occupancy of 1HGR. 2009-10 and 2010-11 restated on the same basis for comparative purposes

Target 4: Reduce paper consumption

4.43 The Group has reduced its paper consumption by 57 per cent to 13,337 reams from its baseline figure of 31,203 reams of paper.

4.44 Initiatives over the past year to reduce paper consumption have included the implementation of secure printing where documents are only printed once a user has logged into the printer and the promotion of paperless meetings where staff use laptops instead of printing documents.

4.45 Going forward the Department will be moving to a closed loop paper contract in 2012 and will be running further staff engagement initiatives on recycling/reusing and reducing paper. As with waste, systems are currently being developed to analyse the costs of paper consumption.

Table 4.T: Group Paper Consumption

	2009-10	2010-11	2011-12
Paper consumption (Reams)	31,202.95	11,984.06	13,337.01
Source: HM Treasury			

Climate Adaptation

4.46 The Group's progress against its Climate Adaptation Plan is described in Chapter 2.

Sustainable Procurement

4.47 Sustainable Procurement involves the management of internal demand, improving product and service specifications, selecting suppliers with robust sustainability credentials and working with existing and prospective suppliers to improve their performance. Specific examples over the past 12 months include:

- Utilising Government Procurement Service (GPS) frameworks which include sustainability factors as a key criterion for award;
- Where relevant, inclusion of sustainability measures in the tender evaluation criteria. Evaluation must include social and economic factors in addition to environmental factors;

- Contributing to the growth agenda by developing SMEs work with HMT through the SME Action Plan and holding an SME product surgery; and
- Developing capability; Group Commercial staff engaged in commercial activities received Sustainable Procurement training during the year.

Internal Sustainability Plan

4.48 The Treasury Group is currently developing an Internal Sustainability Plan (the Plan) which will be driven by the Green Champions Network and the DMO/APA. The Plan will be aligned with the pan-government strategy and endorsed by the Treasury's Executive Management Board.

4.49 The key elements of the strategy are:

- To develop internal corporate knowledge and engagement on climate change and sustainability;
- To develop a robust action plan to meet GGC targets and become a more sustainable Group; and
- To realise Group financial savings by reducing the consumption of finite resources and energy.

Nick Macpherson
Permanent Secretary
10 July 2012

5 Overview of Treasury's finances

Introduction

5.1 This chapter provides an overview of the finances of the Treasury and its agencies based around a set of common core tables which all departments produce. In recognition of the impact the Department's financial stability work has on its performance data, this chapter covers both ongoing 'business as usual' expenditure and the effect on the Department's finances of financial stability interventions. The data presented is consistent with HM Treasury's 2011-12 Resource Accounts, which are included in Chapter 9 of this document.

5.2 Throughout this chapter, the tables and narrative distinguish between expenditure against the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DELs are firm, multi-year, plans set in spending reviews. AME is more unpredictable, demand-led expenditure that cannot be made subject to plans set at spending reviews and is subject to review twice a year.

5.3 Table 5.A compares 2011-12 outturn figures against the original and final budgetary control limits. Reasons for changes to the budgetary control limits and differences between budget and outturn are explained.

5.4 Table 5.B summarises total expenditure by the department and its agencies, including both resource and capital expenditure, for the years 2007-08 to 2011-12 and planned expenditure for the years 2012-13 to 2014-15. Table 5.C reconciles current and prior year expenditure per table 5.B to the resource accounts.

5.5 Table 5.D provides a more detailed analysis of administration costs included in table 5.B by type of expenditure and by body.

5.6 Table 5.E analyses the capital employed by the Treasury and its agencies and reconciles to the Statement of Financial Position in the Resource Accounts. It also shows as a separate line the capital employed by the Department's NDPBs and other bodies to give total capital employed by the Treasury Group. This is the first year that these NDBPs and other bodies have been included within the Group and reflect boundary changes under Clear Line of Sight reforms.

5.7 An overview of financial stability interventions follows the core tables.

Treasury Finances

Outturn against budgetary control limits

5.8 Table 5.A below shows the 2011-12 DEL outturn against the original and final budgetary control limits.

5.9 The budget and outturn figures include the costs of funding the Treasury's NDPBs and other bodies, but doesn't consolidate their expenditure directly. Their expenditure is consolidated in the resource accounts and further details of their financial performance can be found in their own annual reports and accounts.

Table 5.A: Budgetary control limits 2011-12

£ million	Para ref	Original DEL budget	Final DEL budget	Outturn
Resource DEL	5.11	197	184	160
of which administration costs	5.12	160	147	131
Capital DEL	5.13	52	61	36

5.10 The original DEL budget was reduced by £13 million. Of this, £9 million was transferred to the capital DEL budget to fund a workspace project being carried out by the Department. The remaining £4 million has been carried forward to 2012-13’s budget, making use of the Budget Exchange facility.

5.11 The Department under-spent by £24 million against the final resource DEL budget. Of this under-spend, £16 million related to administration costs and £8 million to programme costs. The Department planned a contingency amount of £15 million against the administration budget in order to allow it to respond as necessary to wider financial stability risks.

5.12 This contingency amount of £15 million wasn’t needed during the year and was retained as an under-spend. In addition, the APA created provisions in-year of £0.9 million. The provision expenditure is included in AME, although the corresponding income from the re-charge of the agency’s expenditure to RBS is included within administration income. This resulted in a further under-spend of £0.9 million against administration costs.

5.13 Against the programme budget, the most significant under-spend was £3.4 million on the manufacturing of coinage, primarily due to lower demand for coins. Further under-spends included £1.7 million on banking and gilts registration. The final charge from the Bank of England was £0.7 million lower than their initial request and expenditure on the gilts register was £1 million lower than anticipated.

5.14 Capital expenditure was £25 million less than initial plans. Of this, £20 million is due to a lower level of lending by Infrastructure Finance Unit Ltd and the remaining £5 million is due to capital projects within the Department relating to workspace improvements and the upgrade to COINS, an IT system used across Government to collect financial information. These projects have been re-profiled across 2011-12 and 2012-13.

Resource and capital expenditure

5.15 Table 5.B below provides detail on actual and planned DEL and AME expenditure, split between resource and capital spending. Due to the unpredictability of AME expenditure in relation to financial stability interventions, resource AME expenditure on financial stability and capital AME on assistance to financial institutions are not forecast for future years.

5.16 All tables provide figures in £ millions and expenditure less than a million does not appear in the table when rounded but is marked with a dash when the amount is not zero.

5.17 Prior year figures for 2010-11 have been restated for changes under the Clear Line of Sight reforms. The most significant change for the core tables is that departments are being allowed to retain a greater range of income receipts than previously and to use these to net off expenditure.

5.18 In line with the resource accounts, figures prior to 2010-11 have not been restated. Figures for 2010-11 have been restated for the retention of financial stability income and dividend income from the Royal Mint.

5.19 Further analysis of the information contained in this table follows in the rest of this chapter, cross-referenced and supported where appropriate by the Resource Accounts.

Table 5.B: Total resource and capital spending for the Treasury and its agencies

£ million	Para ref	Outturn 2007-08	Outturn 2008-09	Outturn 2009-10	Outturn 2010-11	Outturn 2011-12	Budget 2012-13	Budget 2013-14	Budget 2014-15
Resource DEL									
Core Treasury	5.20	124	125	142	126	117	146	124	104
Coinage	5.22	16	15	13	13	14	14	14	14
Banking & gilts registration services	5.24	11	11	12	11	11	12	12	12
DMO	5.25	10	13	16	15	12	15	15	15
APA[1]				-	-	(1)	-	-	-
OBR funding costs	5.26					2	2	2	2
UKFI funding costs	5.27			4	3	5	3	3	3
FSCS funding costs[1]						-	-	-	-
MAS funding costs[1]						-	-	-	-
Total Resource DEL		161	164	187	168	160	192	170	150
Resource AME									
Core Treasury building impairment		(15)	9	(3)	-	-	-	-	-
Financial stability[2]	5.28		43,714	(22,376)	(13,825)	(16,138)			
Equitable Life provision	5.30				1,493	(20)			
Equitable Life administration	5.32				7	20	20	10	4
Coinage	5.22	20	20	15	19	24	25	25	21
Investment in the Bank of England	5.32	(81)	(417)	(97)	(63)	(2,298)	(30)	(30)	(30)
Royal Mint dividend	5.23				(4)	(4)	(4)	(4)	(4)
APA[1]						1			
Other functions[3]	5.35	11	10	11	11	11	11	11	11
Total Resource AME		(65)	43,336	(22,450)	(12,362)	(18,404)	22	12	2
Total Resource AME and DEL (income)/expenditure		96	43,500	(22,263)	(12,194)	(18,244)	214	182	152
Of which: depreciation		6	8	8	8	7	7	6	6

[1] The costs of the APA, FSCS and MAS are not met by HM Treasury. Costs incurred by the APA in running and administering the Asset Protection Scheme are passed on to RBS and the FSCS and MAS are funded through a levy on the financial services industry.

[2] 'Financial stability' comprises fair value movements in derivatives, changes to financial stability provisions, fees and interest income, impairments of financial instruments and, for 2011-12, the loss on the disposal of Northern Rock.

[3] 'Other functions' comprises expenditure on the Civil List and Royal Household Pension Fund. From 2011-12, Civil List expenditure has been transferred from resource DEL to resource AME.

£ million	Para ref	Outturn 2007-08	2008-09	2009-10	2010-11	2011-12	Budget 2012-13	2013-14	2014-15
Capital DEL									
Core Treasury	5.36	1	2	52	40	36	26	14	5
DMO		1	1	1	1	-	-	-	-
APA				3	2	-	-	-	-
Total Capital DEL		2	3	56	43	36	26	14	5
Capital AME									
Core Treasury		-	-	-	-	-			
Assistance to financial institutions	5.37	-	85,525	40,653	(2,241)	(4,571)			
Total Capital AME		-	85,525	40,653	(2,241)	(4,571)			
Total Capital AME and DEL		2	85,528	40,709	(2,198)	(4,535)			
Total Departmental spending		98	129,028	18,446	(14,392)	(22,779)			

Table 5.C: Reconciliation to HM Treasury's 2011-12 Resource Accounts

	2011-12 £ million	2010-11 £ million
Total Resource Budget as per Table 5.B, above	(18,244)	(12,194)
Net income of NDPBs and other bodies	(351)	(65)
Net resource outturn per Statement of Parliamentary Supply	(18,595)	(12,259)

Table 5.D: Analysis of administration costs

£ million	Para ref	Outturn 2007-08	2008-09	2009-10	2010-11	2011-12	Budget 2012-13	2013-14	2014-15
Core Treasury	5.20	130	116	133	127	117	134	115	99
DMO	5.24	9	9	12	11	8	13	12	12
APA				-	-	(1)	-	-	-
OBR funding costs					-	2	2	2	2
UKFI funding costs				4	3	5	3	3	3
Total net administration costs		139	125	149	141	131	152	132	116
Of which:									
Staff costs		76	72	89	95	86			
Other expenditure		86	102	128	84	73			
Income		(23)	(49)	(68)	(38)	(28)			

Commentary on Tables 5.B and 5.D

Resource spending

Core Treasury and Group Shared Services

2011-12: £117m, 2010-11: £126m

5.20 The reduction in Core Treasury costs of £9 million between 2010-11 and 2011-12 is primarily due to lower staff costs. Average Core Treasury staff numbers reduced from 1,375 during 2010-11 to 1,202 during 2011-12, resulting in a decrease in staff costs of £7.6 million.

5.21 Core Treasury net programme costs were nil in 2011-12 compared to net programme income of £1 million in the prior year. This is due to non-recurring recoveries relating to the Barlow Clowes administration being received during 2010-11.

Coinage

2011-12: £34m, 2010-11: £28m

5.22 Coinage expenditure comprises £14 million manufacturing costs funded through DEL (2010-11: £13 million) and £24 million metal costs funded through AME (2010-11: £19 million), less dividend income of £4 million (2010-11: £4 million). The Royal Mint produces stocks of coins in line with the coinage contract with HM Treasury and also maintains a predetermined stock buffer. During 2011-12, HM Treasury purchased 1,350 million coins from Royal Mint (2010-11: 1,145 million), an increase of 18 per cent on the prior year. Over the same period, weighted average metal prices paid by the Royal Mint increased by 5.9 per cent, contributing to an overall increase in the cost of coinage of £6 million.

5.23 HM Treasury wholly owns the Public Dividend Capital of the Royal Mint. A dividend of £4 million is payable to the Treasury for the year 2011-12 (2010-11: £4 million).

Banking & Gilts registration services

2011-12: £11m, 2010-11: £11m

5.24 Banking and gilts registration costs comprise the fees paid to the Bank of England for management of the UK's foreign currency reserves, and fees for gilts registration services which are paid to Computershare. Fees have been broadly unchanged between 2010-11 and 2011-12.

UK Debt Management Office (DMO)

2011-12: £12m, 2010-11: £15m

5.25 Resource DEL expenditure on the DMO represents the agency's net administration costs of £8.4 million (2010-11: £11.3 million) and net programme costs of £3.4 million (2010-11: £3.4 million). Net administration costs reduced by £2.9 million between 2010-11 and 2011-12 as a result of increased income from administering loans made by the Public Works Loan Board (PWLB). This was as a result of a new initiative to reduce council housing subsidy through self-financing housing revenue accounts. This required the PWLB to process a large number of loan repayments and to advance new loans for settlement. Net programme costs were unchanged. Further details are available in the DMO's Annual Report and Accounts 2011-12 which incorporate the accounts of the Debt Management Account.[60]

[60] www.dmo.gov.uk

Office for Budget Responsibility (OBR) funding costs

2011-12: £2m, 2010-11: nil

5.26 2011-12 was the OBR's first year of operation as a separate entity to HM Treasury. The OBR is funded by HM Treasury and for 2011-12 has operated within its budget limit of £2 million. Further details on the OBR's expenditure are included in the resource accounts and in the OBR's Annual Report and Accounts 2011-12.[61]

UK Financial Investments (UKFI) funding costs

2011-12: £5m, 2010-11: £3m

5.27 HM Treasury pays UKFI a management fee to fund its operations. UKFI's costs increased by £2 million between 2010-11 and 2011-12 due to advisor fees incurred as part of the sales process for Northern Rock. UKFI have published details of the fees in their report on the sale of Northern Rock, available on their website.[62] Further details on UKFI's expenditure are included in the resource accounts and in UKFI's Annual Report and Accounts 2011-12.

Financial stability

2011-12: (£16,138m), 2010-11: (£13,825m)

5.28 Financial stability expenditure within resource AME relates to fair value movements in derivatives, changes to financial stability provisions, income from financial stability interventions, impairment of financial instruments, and, for 2011-12, the loss on the disposal of Northern Rock. During 2011-12, the fair value of HM Treasury's derivatives increased by £28,444 million and the Department recognised income of £2,110 million from fees and interest, resulting in a net income position in the resource accounts. This movement was only partially offset by impairments of £14,100 million, a loss on the Northern Rock disposal of £315 million, and an increase in provisions of £1 million. Further details are provided in paragraphs 5.40 onwards, following table 5.E.

Equitable Life Payment Scheme

2011-12: (£20m) provision, £20m administration, 2010-11: £1,493m provision, £7m administration

5.29 As part of the October 2010 Spending Review, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out over the first three years of the Spending Review period. The costs for the scheme comprise payments to policy holders and the cost of administering the scheme.

5.30 In 2010-11, a provision of £1,493 million was made for payments over the life of the scheme, discounted based on the estimated payment profile. Payments commenced in June 2011 and totalled £168 million in 2011-12. The provision has been reduced by £20 million during 2011-12 to better reflect the phasing of payments.

5.31 With 2011-12 being the first year of operation, administration costs have increased significantly from £7 million in 2010-11 to £20 million in 2011-12. Although higher than the prior year, administration costs are £4 million below budget.

[61] http://budgetresponsibility.independent.gov.uk

[62] www.ukfi.co.uk

Investment in the Bank of England

2011-12: £2,298m, 2010-11: £63m

5.32 HM Treasury is the sole shareholder in the Bank of England. The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay the Treasury, in lieu of dividend on the Bank's capital, a sum equal to 50 per cent of the Banking Department's post-tax profit, or such other sum as the Department and the Bank of England may agree.

5.33 For 2011-12, the Department and the Bank have agreed a payment of £2,298 million. Of this, £2,262 million is in relation to the profit accumulated by the Bank from the operation of the Special Liquidity Scheme (SLS). The SLS was operated by the Bank and any losses were fully indemnified by HM Treasury. The scheme closed at the end of January 2012 and, as agreed by the Treasury and the Bank, the full profits are payable to the Treasury.

5.34 Details on the Bank of England's financial performance can be found in their 2011-12 Annual Report and Accounts.[63]

Other functions

2011-12: £11m, 2010-11: £11m

5.35 Expenditure on the other function comprises £8 million (2010-11: £8 million) for the Civil List and £3 million (2010-11: £3 million) for Royal Household Pension Scheme. The Civil List and Royal Household Pension Scheme are standing services of the Consolidated Fund and the expenditure is set at a fixed annual amount.

Capital spending

Core Treasury

2011-12: £36m, 2010-11: £40m

5.36 Core Treasury capital spending comprises purchases of property, plant and equipment, and loans given by Infrastructure Finance Unit Ltd (IFUL). IFUL was established in March 2009 to lend to PFI projects. Since then, IFUL has lent to the Greater Manchester Waste Disposal Authority PFI scheme. Loans given by IFUL reduced from £29 million in 2010-11 to £19 million in 2011-12, in line with the financing requirements of the project.

Assistance to financial institutions

2011-12: (£4,571m), 2010-11: (£2,241m)

5.37 Assistance to financial institutions relates to the Treasury's capital investments in financial institutions and comprises new purchases of available-for-sale assets and additions to loans balances, less capital repayments. During 2011-12, the Department sold its shares in Northern Rock, which had a carrying value of £1,188 million and received £250 million of APS fees which are recognised through fair value movements on the APS derivative.

5.38 Additions to loans balances, excluding loans given by IFUL, totalled £1,254 million (2010-11: £116 million). Of this, £1,210 million relates to the bilateral loan to Ireland and the remaining £34 million relates to increases in FSCS and statutory debt required to fund the repayment of depositors in failed banks and building societies. Loan additions were offset by loan repayments totalling £4,387 million, the most significant of which were £1,754 million from Northern Rock (Asset Management), £575 million from Bradford & Bingley, and £2,058

[63] www.bankofengland.co.uk

million in recoveries received from administrators which have been used to reduce FSCS, Icelandic, and statutory debt balances. Further details on HM Treasury's loans to financial institutions are included following table 5.E.

Capital employed

5.39 Table 5.E sets out the capital employed by the Treasury and its agencies and by the Treasury Group. Capital employed has shown a significant increase since the first interventions to support financial institutions took place in 2008-09. The following section provides further background detail on financial stability interventions, cross referenced as appropriate to relevant notes in the 2011-12 resource accounts.

Table 5.E: Capital employed

£ millions					Outturn (Restated)[1]
	2007-08	2008-09	2009-10	2010-11	2011-12
Assets and liabilities in the Statement of Financial Position at end of year:					
Assets					
Intangible assets	3	3	5	7	10
Property, plant and equipment	114	101	104	109	117
of which					
Land and buildings	*110*	*97*	*100*	*97*	97
Furniture & IT Equipment	*2*	*2*	*2*	*7*	4
Antiques	*2*	*2*	*2*	*2*	2
Assets under construction	-	-	-	*3*	14
Investments	21,622	72,819	124,516	119,331	96,910
Current assets	122	3,069	2,426	12,176	41,971
Liabilities					
Current liabilities	(147)	(2,792)	(725)	(864)	(680)
Non-current liabilities	(19,445)	(28,380)	(4,364)	(2,812)	(1,745)
Capital employed by the Treasury and its agencies	2,269	44,820	121,962	127,947	136,583
Net assets of NDPBs and other bodies	687	438	(350)	(235)	(251)
Total capital employed by the Treasury group	2,956	45,258	121,612	127,712	136,332

[1] Figures for capital employed by the Treasury and its agencies have been restated for 2009-10 and 2010-11 to reflect changes arising from Clear Line of Sight reforms. For further details see note 3 of the resource accounts. Net assets of NDPBs and other bodies have been included in this analysis for the first time as a result of changes to the Treasury group boundary.

Financial stability interventions

5.40 In recent years, the financial stability agenda has been dominated by the consequences of the global financial crisis that began in summer 2007. This crisis required various interventions from governments and finance ministries across the world to help bolster the financial system, increase lending and stimulate the world economy. The impact of these interventions on the Resource Accounts can be split between equity investments, derivatives, loans and receivables, and contingent liabilities.

5.41 2011-12 has seen the scale of the financial stability interventions reduce. Northern Rock plc was sold to Virgin Money, returning it to the private sector. Loan recoveries have been above expectation at £4.4 billion. Northern Rock Asset Management (NRAM) and B&B were able to repay £2.3 billion. Recoveries from the administrators of failed banks have been significant at £2.1 billion and expected recovery levels have increased, allowing impairments of £0.3 billion to be reversed. As direct investments have reduced, so too have contingent liabilities. Quantifiable contingent liabilities for interventions have fallen from £326 billion last year to £123 billion, largely driven by the Special Liquidity Scheme closing at the end of January 2012 and by reductions in the size of guarantee schemes.

Equity investments

2011-12: £44,292m, 2010-11: £63,960m

5.42 Following the restructuring of the former Northern Rock into Northern Rock plc and NRAM, the Treasury provided Northern Rock plc with £1.4 billion of capital support in the form of share capital. As with the Government's other investments in financial institutions, the shares in both companies were managed by UK Financial Investments (UKFI).

5.43 On 17 November 2011, the Chancellor announced that Northern Rock plc was being sold to Virgin Money. The decision to proceed with a sale was based on advice from UKFI and their independent advisers, Deutsche Bank. The process concluded with the sale of Northern Rock plc to Virgin Money on 1 January 2012. UKFI have published a report setting out the background to the sale of Northern Rock plc and the rationale for selling to Virgin Money which is available on their website.[64]

5.44 The initial sale proceeds comprised £747 million cash and a Tier 1 capital note with a par value of £150 million. Further proceeds are receivable based on the net asset value of the company at completion. Within the resource accounts, the capital note has been valued at £82 million and the further proceeds have been estimated at a minimum of £60 million. The sale agreement also includes an additional cash consideration of £50 million to £80 million receivable upon a future profitable IPO or sale in the five years following the transaction.

5.45 HM Treasury holds ordinary and B-shares in RBS and ordinary shares in Lloyds Banking Group (LBG). In order to recapitalise the banks, HM Treasury purchased £66.3 billion of shares. The investments are valued at £34.3 billion based on their quoted share price at 31 March 2012 (2010-11: £53 billion), including the B-shares based on their conversion rights. Where it appears that there has been a permanent reduction in value, as indicated by a prolonged or significant reduction in the share price from the original acquisition cost of each tranche of shares, the reduction is treated as an impairment and charged to the Statement of Comprehensive Net Expenditure (SCNE). Other fluctuations in the share price are recognised as fair value adjustments and are adjusted through the Available for Sale reserve.

5.46 In addition to the publicly traded shares of RBS and LBG, HM Treasury holds a single Dividend Access Share (DAS) in RBS. The DAS provides the Treasury with rights to a preferential dividend that must be paid if an ordinary dividend is paid. The RBS Board decides on whether or not an ordinary dividend is paid. The DAS was estimated to have a value of £1.8 billion at the reporting date (2010-11: £2.3 billion). For further details on the DAS valuation, see note 23.2.

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[64] www.ukfi.co.uk

5.47 During 2011-12, the Department recognised fair value reductions to RBS and LBG shares of £4.3 billion (2010-11: fair value reductions £4 billion) and a further impairment of £11.4 billion to RBS B-shares and £3 billion to LBG shares (2010-11: £0.3 billion to LBG shares) as a result of the share price being significantly below the original acquisition cost. HM Treasury continues to be exposed to share price movements. For further details on the valuation of RBS and LBG investments, see note 13.1, and for a sensitivity analysis on the share prices, see note 23.5. For further details on the background to the RBS and LBG interventions, and developments in 2011-12, see notes 31 and 32.

5.48 HM Treasury's shares in the wholly-owned banks NRAM and Bradford & Bingley (B&B) were obtained at nil cost and were transferred to UK Asset Resolution (UKAR) during 2010-11. The share capital of UKAR is in turn wholly-owned by the Department and, in the absence of directly observable market data, valued based on the net asset value of the consolidated balance sheet of NRAM and B&B. The value of the UKAR shares at the reporting date was £4.7 billion (2010-11: £3 billion). For further details on NRAM and B&B, see notes 26 and 27.

Derivatives

2011-12: £38,595m, 2010-11: £10,437m

5.49 HM Treasury holds two significant derivative financial instruments. These are the Asset Protection Scheme (APS) derivative and the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative.

5.50 The APS provides the participating institution, RBS, with 90 per cent cover for credit losses above a £60 billion threshold on a defined portfolio of assets in return for a quarterly fee payment. The APS derivative represents the overall asset or liability of the scheme based on estimates of future fees compared to potential modelled credit losses.

5.51 During 2011-12, the value of the APS derivative increased from a liability of £0.1 billion to an asset of £0.1 billion. The fair value of the APS represents the statistical expectation, or weighted probability, of the difference between cash paid and cash received under different scenarios. At 31 March 2012, the derivative has taken an asset value for the first time. The value of the derivative is consistent with the APA's expectation that there will no payout by HM Treasury. For a sensitivity analysis of the APS derivative, see note 23.5.1 and for further details on the background to the intervention, see note 36.6.

5.52 The BEAPFF derivative represents the amount due to or from the Treasury in respect of gains or losses on the Asset Purchase Facility (APF). The purpose of the APF scheme is to buy high-quality assets financed by the issuance of central bank reserves, Treasury bills and the DMO's cash management operations. APF transactions are undertaken by the BEAPFF, a subsidiary of the Bank of England. For further details on the background to the intervention, see note 36.2.

5.53 The value of the BEAPFF derivative at the reporting date is an asset of £38.5 billion (2010-11: £10.5 billion), corresponding to a fair value increase of £28 billion from the prior year. The value of the BEAPFF derivative is volatile and changes significantly as a result of movements in gilts' prices. Neither the interim mark-to-market position, nor its final value, would be a meaningful indicator for assessing the overall impact of the BEAPFF activities on public finances as a whole. For a sensitivity analysis of the BEAPFF derivative, see note 23.5.2.

5.54 Changes in the fair value of both the APS and BEAPFF derivatives are recognised in the SCNE and, for 2011-12, these fair value changes have had a significant effect on the Treasury's outturn position. The overall effect on the SCNE from the BEAPFF and APS derivatives is a gain of £28.4 billion. For further details on fair value movements, see note 14.

Loans and receivables

2011-12: £52,332m, 2010-11: £54,937m

5.55 Action was taken during the global financial crisis to protect UK depositors in UK and Icelandic banks and building societies. Working alongside the Financial Services Compensation Scheme (FSCS), HM Treasury guaranteed deposits in failed institutions and intervened to ensure that deposit holders were compensated quickly.

5.56 HM Treasury provided the FSCS with loans to make payments to depositors up to the FSCS compensation limit valid at the time. Top-up payments for deposits above this limit have been met by the Department.

5.57 During 2011-12, repayments of £1.4 billion have been received from the administrators of the failed institutions. Of this, £0.9 billion relates to the FSCS share of payments to depositors and £0.5 billion relates to HM Treasury's share.

5.58 Following additions, repayments and transfers, the outstanding FSCS share of the loans at the reporting date is £18 billion (2010-11: £18.8 billion). The FSCS loans are fully recoverable through a combination of administrator payments from the failed banks and industry levies. For further details on the FSCS, see note 36.3.

5.59 The top-up payments are recorded as statutory debts and the level of recoverability that can be achieved is dependent on the administration process. Therefore in 2011-12, as in prior years, the Department has assessed the level of impairments due to the irrecoverability of loan principal and due to the irrecoverability of interest. This has led to impairments being reduced by £0.3 billion as forecast levels of recovery have improved. Statutory debt loans at the reporting date total £3.8 billion (2010-11: £4 billion). For further details on impairment charges, see notes 15 and 23.7.

5.60 In relation to the failed Icelandic bank Landsbanki (Icesave), HM Treasury intervened to ensure that depositors were compensated for the share of their deposits which should have been guaranteed by the Icelandic Depositors and Investors Guarantee Fund (DIGF), in addition to FSCS and statutory debt payments. Following repayments of £0.7 billion from the Icesave administrator in relation to the DIGF's share of deposit liability, the outstanding loan to the DIGF is £1.6 billion (2010-11: £2.3 billion). The Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the DIGF's share of payments to depositors, including interest.

5.61 In addition to loans to compensate depositors, HM Treasury also provided a loan to Northern Rock (Asset Management) plc (NRAM), a working capital facility to Bradford & Bingley plc (B&B) and a bilateral loan to Ireland.

5.62 NRAM and B&B have exceeded loan repayments set out in their business plans. During 2011-12, NRAM made loan repayments of £1.8 billion, resulting in an outstanding loan balance of £19.8 billion (2010-11: £21.6 billion). B&B made repayments of £0.6 billion, with £8 billion outstanding at 31 March 2012 (2010-11: £8.6 billion). Both NRAM and B&B are on track to fully repay the loans from HM Treasury over the course of wind down of their businesses. For further details on NRAM and B&B, see notes 26 and 27.

5.63 During 2011-12, Ireland drew down £1.2 billion against its £3.2 billion facility. The remaining facility is due to be drawn down in five tranches following the completion of IMF and European Commission quarterly reviews during 2012-13 and 2013-14.

5.64 For further details on all loans and receivables balances, including movements during 2011-12, see note 15.

Contingent liabilities

5.65 During 2011-12, the Department's exposure to contingent liabilities across financial stability interventions continued to decrease.

5.66 The Special Liquidity Scheme (SLS) ended as planned in January 2012, thereby reducing the contingent liability from £71 billion as reported last year to nil. The scheme made an overall profit of £2.3 billion and this amount was paid by the Bank of England to HM Treasury in April 2012.

5.67 The size of the asset pool insured under the Asset Protection Scheme (APS) has reduced from £181 billion to £121 billion, resulting in a reduction in the contingent liability from £110 billion to £55 billion. The likelihood of payout under the APS has also reduced and it is very unlikely that the first loss piece will be exceeded. This is reflected in the derivative taking a positive asset value at the reporting date for the first time since the scheme's inception.

5.68 Debt guaranteed under the Credit Guarantee Scheme (CGS) has reduced from £115 billion to £24 billion. This is primarily as a result of guaranteed debt maturing and has also been affected by a change in the scheme rules allowing institutions to buy back guaranteed debt ahead of maturity.

5.69 Contingent liabilities for deposit guarantees have reduced as fixed term deposits mature. At the reporting date, the contingent liability is £14 billion compared with £21 billion in the prior year.

5.70 For further details on the background to the CGS, SLS and APS interventions, see notes 36.1, 36.4 and 36.6 of the Resource Accounts, and for further details on deposit guarantees see notes 26 and 27. For details on all contingent liabilities at the reporting date, see note 24.

Nick Macpherson
Permanent Secretary
10 July 2012

6 Statement of Accounting Officer responsibilities

6.1 Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

6.2 The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, changes in taxpayer's equity, programme costs by Request for Resources and cashflows for the financial year.

6.3 In preparing the Resource Accounts, the Principal Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

6.4 HM Treasury has appointed me as Principal Accounting Officer of the Department with overall responsibility for preparing the Department's Resource Accounts and for transmitting them to the Comptroller and Auditor General.

6.5 Additional Accounting Officers have been appointed to be accountable for those parts of the Resource Accounts relevant to the Executive Agencies and Related Bodies. They are responsible for use of resources and associated assets, liabilities and cash flows under their control:

- Asset Protection Agency – Chief Executive, Bill Dickinson;
- Financial Services Compensation Scheme – Chief Executive, Mark Neale (Accounting Officer Designate);
- Money Advice Service – Tony Hobman, (Accounting Officer Designate);
- Office for Budget Responsibility – Chairman, Robert Chote;
- Office of Tax Simplification – HM Treasury Director General, Tax and Welfare, Edward Troup;
- Royal Mint Advisory Committee – The Royal Mint's Chief Executive, Adam Lawrence;
- UK Debt Management Office – Chief Executive Officer, Robert Stheeman;
- UKFI – Chairman, Robin Budenberg is also the Accounting Officer.

6.6 These appointments do not detract from my overall responsibility for HM Treasury's Resource Accounts.

6.7 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Chapter 3 of *Managing Public Money*, published by the Treasury.

Nick Macpherson
Permanent Secretary
10 July 2012

7 Ministers and senior managers' remuneration report

Remuneration policy

7.1 For the Permanent Secretary and Second Permanent Secretary, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining members of HM Treasury Board and the Chief Executive of DMO, remuneration is determined by HM Treasury's Pay Committee in accordance with the rules set out in the *Civil Service Management Code (Chapter 7.1, Annex A).*

7.2 The Review Body on Senior Salaries advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. In reaching its recommendations, the Review Body has regard to the following considerations:

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

7.3 The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com

Service contracts

7.4 Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit and on the basis of fair and open competition, but also includes details of the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at *www.civilservicecommissioners.gov.uk.* The Permanent Secretary and Second Permanent Secretary are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. Other senior managers, including the Chief Executive of the DMO and Non Executive Members of HM Treasury Board, are appointed by the Permanent Secretary.

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

7.6 Independent Non Executive members of HM Treasury Board are recruited through fair and open competition and are appointed for an initial period of three years with an option to extend for a further agreed period. These appointments can be terminated with one month's notice period. There is no provision for compensation for early termination.

Salaries and pension entitlements of HM Treasury Ministers and senior management

7.7 The following sections provide details of the salaries and pension entitlements of the most senior civil servants as a result of their employment by HM Treasury, and those of ministers who have a direct influence on managing or controlling the activities of HM Treasury. These disclosures have been subject to external audit.

Table 7.A: Salaries and pensions of Ministers

Name	2011-12		2010-11						
	Salary and full year equivalent (FYE[65]) (£)	Benefits in kind (nearest £100	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/12	Real increase in pension at age 65 (£000)	CETV at 31/03/12 or end date (nearest £000)	CETV at 31/03/11 or start date (nearest £000	Real increase in CETV (nearest £000)
George Osborne Chancellor of the Exchequer (from 12/05/10)	68,827	5,000	61,056 FYE (68,827)	-[66]	0 - 5	0 - 2.5	23	10	7
Danny Alexander Chief Secretary to the Treasury (from 30/05/10)	68,827	-	57,356 (FYE 68,827)	-	0 - 5	0 - 2.5	28	12	7
Mark Hoban Financial Secretary to HM Treasury (from 13//05//10)	33,002	-	29,187 (FYE 33,002)		0 - 5	0 - 2.5	18	8	5
David Gauke Exchequer Secretary to HM Treasury (from 14//05/10)	23,697	-	20,894 (FYE 23,697)		0 - 5	0 - 2.5	13	7	3
Justine Greening Economic Secretary to the Treasury (to 14//10/11)	13,823 (FYE 23,697)	-	20,894 (FYE 23,697)		0 - 5	0 - 2.5	11	7	2
Chloe Smith Economic Secretary to HM Treasury (from 15./10/11)	10,077 (FYE 23,697)	-	-	-	0 - 5	0 - 2.5	8	6	1

65 FYE – Full Year Equivalent

66 George Osborne did not occupy the official Chancellor's residence until 9 July 2011. There is therefore no taxable benefit payable in relation to his official accommodation during 2010-11

Table 7.A: Salaries and pensions of Ministers (continued)

Name	2011-12		2010-11						
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/12	Real increase in pension at age 65 (£000)	CETV at 31/03/12 or end date (nearest £000)	CETV at 31/03/11 or start date (nearest £000	Real increase in CETV (nearest £000)
Lord Sassoon Commercial Secretary to HM Treasury	N/A	-	N/A		-	-	-	-	-

Table 7.B: Salaries and pensions of senior management[67]

Name	2011-12		2010-11						
	Salary and full year equivalent (FYE[68]) (£)	Benefits in kind (nearest £100	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/12	Real increase (decrease) in pension at age 60 (£000)	CETV at 31/03/12 or end date (nearest £000)	CETV at 31/03/11 or start date (nearest £000	Real increase in CETV (nearest £000)
Nick Macpherson Permanent Secretary	175 - 180	-	175 - 180		60 - 65 plus lump sum 180 - 185	(0) - (2.5) plus lump sum (0) - (2.5)	1,103	1,033	-17
Tom Scholar Second Permanent Secretary	150 - 155	-	150 - 155		35 - 40 plus lump sum 105 - 110	0 - 2.5 plus lump sum 2.5 - 5.0	500	442	19

67 Salaries and pensions relate to Treasury Executive Management Board and CEO's of DMO/APA only. They do not include arms length bodies (UKFI, OBR, MAS and FSCS)

68 FYE – Full Year Equivalent

Name	2011-12		2010-11						
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/12	Real increase in pension at age 60 (£000)	CETV at 31/03/12 or end date (nearest £000)	CETV at 31/03/11 or start date (nearest £000	Real increase in CETV (nearest £000)
Robert Stheeman Chief Executive DMO	150 - 155	-	150 - 155	-	15 - 20	0 - 2.5	312	258	28
Stephen Wilcke[69] Chief Executive APA (to 6/10/11)	75 - 80 (FYE 145 - 150)	-	145 - 150	-	NA	NA	NA	NA	NA
Bill Dickinson Chief Executive APA (from 7/10/11)	65 - 70 (FYE 135 - 140)	-	-	-	10 - 15	0 - 2.5	99	93	0
Andrew Hudson Director General Public Services (to 31/12/11)	100 - 105 (FYE 130 - 135)	-	130 - 135	-	60 - 65	0 - 2.5	1,045	971	34
Michael Ellam Director General International Finance	100 - 105	-	100 - 105		20 - 25 plus lump sum 70 - 75	0 - 2.5 plus lump sum 0 - 2.5	342	306	9
Jonathan Taylor Director General Financial Services and Stability	155 - 160	-	155 - 160	-	70 - 75	2.5 - 5.0	967	859	32

[69] Stephan Wilcke was employed on a permanent contract from 28 September 2009 and was the APA's Chief Executive from the APA's launch on 7 December 2009 until 6 October 2011. He had opted to have employer pension contributions at 20 percent of pensionable pay paid into a private pension outside the civil service pension scheme. Total employer contributions for 2011-12 were £15,282 (£30,000 for 2010-11)

Name	2011-12		2010-11						
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/12	Real increase in pension at age 60 (£000)	CETV at 31/03/12 or end date (nearest £000)	CETV at 31/03/11 or start date (nearest £000	Real increase in CETV (nearest £000)
Julian Kelly Group Director, Finance and Commercial (from 10/01/11)	85 - 90	-	15 - 20 (FYE 80 - 85)	-	20 - 25	0 - 2.5	255	232	1
James Bowler Director, Strategy, Planning and Budget (from 01/01/12)	20 - 25 (FYE 90 - 95)	-	-	-	20 - 25 plus lump sum 60 - 65	0 - 2.5 plus lump sum 0 - 2.5	251	247	0
Mark Bowman Director, Strategy, Planning and Budget (from 01/04/11 to 31/12/11)	65 - 70 (FYE 85 - 90)	-	-	-	15 - 20 plus lump sum 55 - 60	0 - 2.5 plus lump sum 0 - 2.5	256	236	3
Alison Cottrell Director, Financial Services and Corporate Services (from 01/04/11)	80 - 85	-	-	-	10 - 15	0 - 2.5	195	171	7
Sharon White Director General Public Spending (from 01/01/12)	30 - 35 (FYE 125 - 130)	-	-	-	15 - 20	0 - 2.5	252	171	3

Name	2011-12		2010-11						
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/12	Real increase in pension at age 60 (£000)	CETV at 31/03/12 or end date (nearest £000)	CETV at 31/03/11 or start date (nearest £000	Real increase in CETV (nearest £000)
Dave Ramsden									
Chief Economic Adviser & Head of the Government Economic Service	115 - 120	-	125 - 130	-	35 - 40 plus lump sum 105 - 110	0 - 2.5 plus lump sum 2.5 - 5.0	588	530	13
Edward Troup									
Director General, Tax and Welfare	140 - 145	-	130 - 135	-	15 - 20	0 - 2.5	299	240	34

	2011-12	2010-11
Band of Highest Paid Director's Total Remuneration (£'000)	175 - 180	175 - 180
Median Total	36,736	36,875
Remuneration ratio	4.8	4.8

CETV stands for Cash Equivalent Transfer Value, explained in paragraph 20 below. The factors used in the CETV calculation have been revised during this year. This means that the opening CETV value shown in this year's report will differ to the amount shown as the closing CETV value in last year's report.

The salary and pension details disclosed relate to a full financial year, unless the minister/senior manager concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column.

For senior managers, further details of performance related pay actually paid during these financial years can be found on the table overleaf. However, as performance pay is awarded in arrears, the amounts payable, for performances during the 2011-12 financial year are not yet known and will, therefore, be disclosed in the 2012-13 accounts.

The remuneration ratio represents the difference between the median Full Time Equivalent (FTE) remuneration of all staff (excluding the highest paid director) and the highest paid director, expressed as a multiple. The median calculation does not include staff employed by arms length bodies, as this may distort the disclosure where pay arrangements are made independently of departmental control; and the boundary has thus been limited to the department and its agencies. There has been no appreciable change in the ratio between the years 2010-11 and 2011-12.

Salary

7.8 'Salary' includes gross salary; performance pay or bonuses (as detailed below) paid during the year; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. Therefore, bonuses paid in 2011-12 related to performance in 2010-11. Sir Nicholas Macpherson and Tom Scholar waived any right to bonuses with respect to performance in 2010-11.Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are also shown.

7.9 The pay committees, covering those senior managers listed in the tables above and below, comprise either the Permanent Secretary and senior outside member (usually a non-executive director) or managing directors and a senior outside member (either a non-executive director or a suitable senior person from another department), dependent on the grade of the manager whose pay is being reviewed.

Table 7.C: Performance related pay of senior management (these disclosures have been subject to audit).

Name	2011-12 Range (£000)	2010-11 Range (£000)
Nick Macpherson	0 - 5	0 - 5
Tom Scholar	0 - 5	0 - 5
Robert Stheeman	10 - 15	10 - 15
Andrew Hudson	0 - 5	0 - 5
Dave Ramsden	0 - 5	10 – 15
Edward Troup	5 - 10	0 - 5
Jonathan Taylor	0 - 5	0 - 5
Michael Ellam	0 - 5	0 - 5
Julian Kelly	0 - 5	0 - 5
Alison Cottrell	n/a	n/a
Sharon White	n/a	n/a
James Bowler	n/a	n/a
Mark Bowman	n/a	n/a
Stephan Wilcke	n/a	0 - 5
Bill Dickinson	n/a	n/a

Source: HM Treasury

7.10 This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£65,738 from 1 April 2010) and various allowances to which they are entitled are borne centrally. Ministers in the House of Lords do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in note 6.5 to the accounts.

Benefits in kind

7.11 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. The benefits in kind disclosed above for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street. These are capped at 10 per cent of his salary. Those (if any) for the Permanent Secretary relate to the private use of an allocated car in the circumstances permitted by the Civil Service Management Code. In addition, ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. HM Treasury has an agreement with HM Revenue & Customs to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

Ministerial pensions

7.12 Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutorily based (made under Statutory Instrument SI 1993 No 3253, as amended).

7.13 Those ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF (details of which are not included in this report). The arrangements for ministers provide benefits on an 'average salary' basis, taking account of all service as a minister. MPs have the option of an accrual rate (pension build up rate) of 1/40th, 1/50th or 1/60th and ministers, in common with all other members of the PCPF, can opt for the lower the 1/50th or 1/60th accrual rate and the lower rate of employee contribution.

7.14 Benefits for ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Contribution rates were increased with effect from 1 April 2009. MPs now have the option of:

- an accrual rate (pension build-up rate) of 1/40th and a contribution rate of 11.9 per cent of salary;
- an accrual rate of 1/50th and a contribution rate of 7.9 per cent; or
- an accrual rate of 1/60th and a contribution rate of 5.9 per cent.

There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 31.6 per cent of the ministerial salary. On entering Office, ministers in the present administration waived their legislatively entitled salary for their role and have been claiming a reduced salary as per the above table.

7.15 The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service pensions

7.16 Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, and classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Consumer Prices Index (CPI). Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

7.17 Prior to 1 April 2012, employee contributions were set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with CPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

7.18 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

7.19 The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

7.20 Further details about the Civil Service pension arrangements can be found at http://www.civilservice.gov.uk/pensions/scheme-guides.

Cash Equivalent Transfer Values

7.21 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. For the senior management's pension entitlements from the Civil Service pension scheme, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. Similarly, for ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer or Exchequer, in the case of Ministers. It does not include the increase in accrued pension due to inflation, contributions paid by the employee or Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Civil Service and other compensation schemes – exit packages

7.22 From 2010-11, Government Departments are required to report the use of exit packages for all staff in their resource accounts.

Table 7.D: Exit packages

	Core Treasury			Core Treasury and Agencies		
Exit package cost band	Number of compulsory redundancies 2011-12 (2010-11)	Number of other departures agreed 2011-12 (2010-11)	Total number of exit packages by cost band 2011-12 (2010-11)	Number of compulsory redundancies 2011-12 (2010-11)	Number of other departures agreed 2011-12 (2010-11)	Total number of exit packages by cost band 2011-12 (2010-11)
<£10,000	0 (14)	1 (0)	1 (14)	0 (14)	1 (0)	1 (14)
£10,000 - £25,000	0 (8)	5 (5)	5 (13)	0 (8)	5 (5)	5 (13)
£25,001 - £50,000	0 (5)	2 (10)	2 (15)	0 (5)	2 (10)	2 (15)
£50,001 - £100,000	0 (0)	5 (4)	5 (4)	0 (0)	5 (4)	5 (4)
£100,001 -£150,000	0 (0)	2 (3)	2 (3)	0 (0)	2 (3)	2 (3)
£150,001 - £200,000	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
£200,001>	0 (0)	1 (0)	1 (0)	0 (0)	1 (1)	1 (1)
Total number of exit packages	0 (27)	16 (22)	16 (49)	0 (27)	16 (23)	16 (50)
Total Resource Cost (£'000)	0 (384)	949 (1,180)	949 (1,564)	0 (384)	949 (1,455)	949 (1,839)

7.23 For 2010-11, the compulsory redundancies shown in the table include former ministers and special advisors whose compensation payments were reported in Note 7.1 to the 2010-11 resource accounts.

Figures shown relate to Core Treasury, DMO and APA only. UKFI and OBR did not incur any costs for exit packages and FSCS/MAS do not fall under the remit of the Civil Service Compensation Scheme.

Fees of Non Executive Board Members and Independent Members of the Audit Committee

Table 7.E: Fees

Name	2011-12		2010-11	
	Fee range (£000)	Benefits in kind (rounded to nearest £100)	Fee range (£000)	Benefits in kind (rounded to nearest £100)
Non Executive Board Members:				
Michael O'Higgins	5 - 10	-	5 - 10	-
Sir Callum McCarthy (to 31/8/11)	0 - 5	-	5 - 10	-
Dame Deirdre Hutton	5 - 10	-	5 - 10	-
Baroness Hogg	10 - 15	-	0 - 5	-
Independent Members of Audit Committee:				
Michael O'Higgins (Chair)	0 - 5	-	0 - 5	-
Mike Ashley	5 - 10	-	5 - 10	-
Zenna Atkins (to 31/7/2011)	0 - 5	-	5 - 10	-
Janet Baker	5 - 10	-	5 - 10	-
Bradley Fried	-	-	-	-
Avinash Persaud **(to 31/7/2011)**	0 - 5	-	5 - 10	-

Source: HM Treasury

7.24 In 2011-12 Baroness Hogg donated the fee for her role as Lead Non Executive Director to charity. Mike Ashley's fee of £5 – 10k was paid to his employer (KPMG). Brad Fried claimed no fee for his membership of the Committee during 2010-11 or 2011-12.

Nick Macpherson
Permanent Secretary
10 July 2012

8 Certificate and Report of the Comptroller and Auditor General

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

I certify that I have audited the financial statements of HM Treasury and of its Departmental Group for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2011. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Principal Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2012 and of the Department's net operating income and Departmental Group's net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report in Chapter 7 to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Sustainable Development section of Chapter 3, and Chapters 4 and 5, Managing the Treasury and Overview of the Treasury's Finances, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Please also see my report on pages 88 to 109.

Amyas C E Morse
Comptroller and Auditor General
13 July 2012

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

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

Part One: Key features of HM Treasury's Resource Accounts

8.1 HM Treasury is the UK's economics and finance ministry with overall responsibility for public spending. The largest items in the Treasury's accounts are the support provided in the financial crisis and the accounting treatment of Quantitative Easing (Figure 1). The accounts also contain the majority of the Government's contingent liabilities.

Figure 1
Key figures from the 2011-12 accounts

	Financial stability support schemes (£bn)	Quantitative Easing (£bn)	New support schemes[1] (£bn)	Other[2] (£bn)	Total (£bn)
Assets[3]	94.90	38.47	1.21	4.28	138.86
Liabilities[3]	(0.85)	-	-	(1.68)	(2.53)
Net assets	94.05	38.47	1.21	2.60	136.33
Contingent liabilities and commitments[4]	(109.17)	(335.00)	(23.22)	(0.05)	(467.44)
Income[5]	5.54	27.97	0.01	0.16	33.68
Expenditure[5]	(14.42)	-	-	(0.63)	(15.05)
Net income	(8.88)	27.97	0.01	(0.47)	18.63
Cash generated by the Treasury[6]	7.68	-	(1.21)	(0.63)	5.84
Net amount paid to the consolidated fund					(5.90)
Net change in cash					(0.06)

NOTES

1. 'New support schemes' is the bilateral loan to Ireland and the contingent liabilities for the National Loan Guarantee Scheme and Business Finance Partnership.
2. 'Other' includes the shares in the Bank of England and the provision for Equitable Life as well as the day to day operations of the Treasury Group.
3. Assets and liabilities under 'Financial stability support schemes' include the outstanding shares and loans from Figure 4 as well as accrual of interest.
4. 'Contingent liabilities and commitments' includes those which also give rise to financial assets or liabilities.
5. Income under financial stability includes the amounts shown in Figure 6 and Figure 7 plus a residual amount relating to accounting adjustments such as the amortisation of loans. Expenditure shown under financial stability is mainly the impairment on the Lloyds and Royal Bank of Scotland shares and the loss on the sale of Northern Rock plc.
6. Cash figures for financial stability are the fees and interest from the support, the repayment of the loans and the cash received from the sale of Northern Rock plc. This does not include finance costs of some £5 billion, which are recognised in the Debt Management Account. The Quantitative Easing figures do not include any increase in the money supply resulting from the policy.

Source: National Audit Office analysis of HM Treasury Resource Accounts

8.2 While the Treasury and National Audit Office have worked to ensure transparency over the various government interventions, including within the Treasury's financial statements, it is not easy for a casual inquirer to gain an overview of how much support has been provided, how much is still outstanding and how much it is costing. Part Two of this Report provides this overview.

8.3 The financial crisis has continued over 2011-12 and the Treasury, working with the Bank of England, is establishing new schemes to promote lending to UK businesses and protect the UK economy. These are described in Part Three of this Report.

The main impact of the financial interventions on the accounts

8.4 Since 2007, the Treasury has made a series of large financial interventions to support the financial stability of UK banking. Details of these interventions and the current financial position of the individual schemes are set out in Part Two.

8.5 The Statement of Cash Flows[1] shows that in 2011-12 the Treasury paid a total of £5.90 billion cash over to the Consolidated Fund as well as funding all its operations and paying £1.21 billion cash to Ireland. (paragraph 8.69). This cash was mainly generated from the repayment of loans (£4.32 billion), the sale of Northern Rock (£747 million received by 31 March 2012) and the fees generated by the support schemes. However, the cash paid back to the Exchequer is mostly offset by the annual cost, some £5 billion, of the cash borrowed to buy the shares and provide the loans, which falls outside the scope of the Treasury's accounts.

8.6 Meanwhile, the accounts contain a significant amount of non-cash fair value movements and impairments. Changes in the valuation of the Asset Protection Scheme and the Bank of England Asset Purchase Facility (Quantitative Easing, see paragraphs 8.50 to 8.52) have created gains in 2011-12 of £28.44 billion. These have been offset by £14.43 billion of impairments on the shares in Royal Bank of Scotland (RBS) and Lloyds Banking Group, reflecting the decline in bank share prices over the year. Together these are the main causes of the Treasury's £18.63 billion of net income for the year (the equivalent of net profit in a company account).

8.7 The non-cash profit on the Quantitative Easing derivative is unlikely to be fully realised as a cash gain for the Exchequer (paragraph 8.52). On the other hand, some of the reduction in the market value of the shares may be crystallised when the shares are sold (paragraph 8.23).

Other notable items in the accounts

8.8 The largest element of the accounts that does not relate to the financial crisis is the provision for compensating former policy holders of Equitable Life for the failure of regulation. Out of the total £1.49 billion total expected to be paid out and provided for last year, £168 million was paid out in 2011-12.[2]

8.9 As is the case for all government departments, the 2011-12 accounts have been expanded under the 'Clear Line of Sight' initiative to include more of the Treasury's arm’s-length bodies. The initiative has resulted in the inclusion of the Financial Services Compensation Scheme, the Money Advice Service and UK Financial Investments Ltd. The newly created Office for Budget Responsibility has also been included. The comparative figures have been restated.[3]

8.10 The Annual Report also includes a new 'Governance Statement'.[4] This replaces the Statement on Internal Control included in previous years and provides more detail as to how the Treasury governs itself, the risks it manages, and its own assessment of these governance arrangements. The Governance Statement also highlights the key risks faced by the Treasury:

- continuing uncertainty in the global economy and its potential impact on the domestic economy;

[1] Cash paid to the Consolidated Fund; Statement of Cash Flows in the Treasury’s Accounts
[2] Notes 19.1 and 19.3.1 of the Treasury’s Accounts
[3] Note 3 of the Treasury’s Accounts
[4] Chapter 3 of the Treasury’s Annual Report and Lead Non Executive Board Member's Report

- stimulating growth across the economy by introducing additional measures such as the National Loans Guarantee Scheme;
- fiscal consolidation and the reduction of the structural deficit;
- the longer-term health of the public finances; and
- achieving its own Spending Review settlement.

8.11 The Remuneration Report discloses the remuneration of Treasury ministers and its senior management and includes, for the first time, the relationship between the remuneration of the highest paid official and the median pay of the workforce of the Treasury and the bodies included within its accounts.[5]

[5] Chapter 7 of the Treasury's Annual Report

Part Two: The Financial Stability Support

8.12 This Part of the Report updates a similar report I produced within the Treasury's 2010-11 Resource Accounts (HC 984 2010-12) and follows my December 2009 and 2010 reports on *Maintaining financial stability* (HC 91 2009-10 and HC 676 2010-11).

8.13 Since 2007, the Treasury has made a series of large financial interventions to support the financial stability of UK banking. These interventions supported three broad aims: to protect depositors; maintain liquidity and capital for UK banks through the period of market closures; and to encourage banks to lend to creditworthy borrowers.

8.14 To remove the support, the guarantees will be withdrawn, the loans repaid and, eventually, the shares returned to private ownership. As at 31 March 2012, the total outstanding support stood at £228.03 billion (Figure 2) of which £109.17 is outstanding guarantees (Figure 3) and the majority, £118.86 billion, was provided as cash (Figure 4).

Figure 2
Total support and fees

	Guarantee commitments (Figure 3) (£bn)	**Cash outlay (Figure 4) (£bn)**	**Total support (£bn)**
Total support - peak[1]	1,029.30	132.89	**1,162.19**
Total outstanding support - 31 March 2011	332.40	123.93	**456.33**
Total outstanding support - 31 March 2012	**109.17**	**118.86**	**228.03**
	Total cash received as at 31 March 2011 (£bn)	**Cash received in 2011-12 (£bn)**	**Total cash received as at 31 March 2012 (£bn)**
Fees and income from guarantees (Figure 6)	9.10	1.73	**10.83**
Fees and income from cash support (Figure 7)	2.64	0.89	**3.53**
Total fees	**11.74**	**2.62**	**14.36**
Estimated finance cost[2]	(11)	(5)	**(16)**

NOTES

1. See footnote 1 in Figure 3 and Figure 4.
2. Finance cost stated to nearest £1 billion.

Source: National Audit Office analysis of HM Treasury Resource Accounts

Figure 3
Support provided as guarantees, indemnities and commitments

	Peak support including amounts pledged but not drawn down[1] (£bn)	Outstanding guarantee commitments as at 31 March 2011 (£bn)	Outstanding guarantee commitments as at 31 March 2012 (£bn)	Notes to Treasury Resource Accounts
Sector-wide schemes				
Credit Guarantee Scheme[2]	250.00	115.00	24.20	Note 24.2
Special Liquidity Scheme[2]	200.00	71.00	-	Note 36.4
Asset Backed Securities Scheme	50.00	-	-	
Unused commitment to recapitalisation fund	13.00	-	-	
Unused facilities for loans to support deposits[3,4]	0.27	0.56	0.03	Note 36.3
Royal Bank of Scotland and Lloyds Banking Group				
Asset Protection Scheme[5]	456.57	110.00	54.70	Note 24.2
Contingent capital in RBS	8.00	8.00	8.00	Note 24.1
Northern Rock and Northern Rock (Asset Management)				
Guaranteed liabilities	24.00	15.40	11.10	Note 24.2
Contingent capital	3.40	1.60	1.60	Note 24.1
Unused working capital facility[6]	3.80	2.50	2.50	Note 20
Indemnities to Virgin Money following the sale of Northern Rock plc[7]	0.31	-	0.31	Note 24.1
Bradford & Bingley				
Guaranteed liabilities (including pension scheme)	17.00	5.39	3.21	Notes 24.1 and 24.2
Unused working capital facility[3]	2.95	2.95	3.52	Note 20
Total guarantees[8]	**1,029.30**	**332.40**	**109.17**	

Source: National Audit Office analysis of HM Treasury Resource Accounts

Figure 3
Support provided as guarantees, indemnities and commitments (continued)

NOTES

1. The table shows the maximum support pledged, including amounts which were not used. Each scheme and support facility was available from different times so the total peak guarantee of £1,029.30 billion was not all available at a single point in time. The total peak support excludes any emergency support pledged by the Bank of England or other authorities as part of their normal market operations. The emergency £60 billion support to HBOS and RBS is excluded to avoid double counting with the use of the additional funding, including the Credit Guarantee Scheme, which replaced it.
2. The amounts shown for the guarantee schemes are the maximum contingent liability disclosed in the Treasury's Accounts. Use of the Special Liquidity Scheme was not capped and actual usage peaked at £185 billion. The Credit Guarantee Scheme peaked at some £140 billion.
3. The figure for unused facilities for loans to support deposits includes undrawn facilities for loans to support deposits in insolvent firms (Bradford & Bingley, KSF, Heritable, London Scottish Bank, Icesave and Dunfermline) and the Icelandic Depositors' and Investors' Guarantee Fund, and the peak figure includes indemnities to the Bank of England for direct loans and the working capital facility provided to Dunfermline.
4. Where support is provided in the form of a loan facility which is only partially used, in order to avoid double counting with the corresponding lines in Figure 4, the peak figure is calculated as the maximum support pledged (including cash paid out and unused facilities) less the total cash actually provided between 2008 and 2012.
5. The peak figure for the Asset Protection Scheme includes expected usage of the scheme by Lloyds. In the event, RBS was the only user of the Asset Protection Scheme.
6. The peak contingent liability of £3.40 billion related to a potential further recapitalisation of Northern Rock. The commitment was reduced when the bank was split and no cash has been paid to date.
7. In line with standard private sector practice, indemnities were provided to Virgin Money when Northern Rock plc was sold in 2011.
8. The total peak guarantee reported this year is £0.27 billion greater than the peak figure reported last year. This is because the additional £0.31 billion of indemnities to Virgin Money is partially offset by £0.04 billion reduction due to cash being added to the 'loans to support deposits' line (effectively a transfer of support from this figure to the cash support set out in Figure 4).
9. In addition to the amounts in the table, Note 24.1 to the Treasury's Accounts also includes the following, unquantified, contingent and potential liabilities:
   - Indemnities to the directors of Northern Rock (Asset Management), Bradford & Bingley, UK Asset Resolution and UK Financial Investments.
   - Maintaining the capital in Bradford & Bingley.
   - Potential compensation for former shareholders in Northern Rock, Bradford & Bingley and Dunfermline and indemnities for the members of the Appointment Panel for Dunfermline.
   - Indemnities to Virgin Money relating to the Treasury's legal ability to sell Northern Rock plc (considered highly unlikely to be called).
10. This table also excludes loans and commitments to other countries, other interventions to support the economy and any costs and benefits created by the expectation of future taxpayer support.

Source: National Audit Office analysis of HM Treasury Resource Accounts

Figure 4
Support provided in cash
Support as at 31 March 2012

	Gross capital injections and loans advanced (cash)[1] as at 31 March 2012 (£bn)	Net capital injections and loans advanced (cash)[2] as at 31 March 2012 (£bn)	Impairment (cumulative to 31 March 2012) (£bn)	Fair value movements (cumulative to 31 March 2012) (£bn)	Value in Treasury Resource Accounts as at 31 March 2012 (£bn)	Note to Treasury Resource Accounts
RBS ordinary and B-shares	45.80	45.80	(20.77)	0.02	25.05	Note 13.1
RBS dividend access share	0.00	0.00	-	1.80	1.80	Note 13.1
Lloyds shares	20.54	20.54	(11.76)	0.50	9.28	Note 13.1
Northern Rock plc shares[3]	1.40	0.65	(0.65)	-	-	Note 13.1
Northern Rock (Asset Management) and Bradford & Bingley shares[4]	-	-	-	4.68	4.68	Note 13.1
Northern Rock (Asset Management) loan[5]	27.44	19.84	-	-	19.84	Note 15.1
Bradford & Bingley working capital facility	8.55	7.98	-	-	7.98	Note 15.1
Other loans to support deposits	29.16	24.05	(0.84)	-	23.21	Note 15.1
Total	**132.89**	**118.86**	**(34.02)**	**7.00**	**91.84**	

Source: National Audit Office analysis of HM Treasury Resource Accounts

Figure 4 (continued)
Support provided in cash
Support as at 31 March 2011

	Gross capital injections and loans advanced (cash)[1] as at 31 March 2011 (£bn)	Net capital injections and loans advanced (cash)[2] as at 31 March 2011 (£bn)	Impairment (cumulative to 31 March 2011) (£bn)	Fair value movements (cumulative to 31 March 2011) (£bn)	Value in Treasury Resource Accounts at 31 March 2011 (£bn)
RBS ordinary and B-shares	45.80	45.80	(9.37)	0.54	36.97
RBS dividend access share	0.00	0.00	-	2.29	2.29
Lloyds shares	20.54	20.54	(8.73)	4.23	16.04
Northern Rock plc shares	1.40	1.40	(0.21)	-	1.19
UKAR Ltd shares[4]	-	-	-	3.04	3.04
Northern Rock (Asset Management) loan[5]	27.44	21.59	-	-	21.59
Bradford & Bingley working capital facility	8.55	8.55	-	-	8.55
Other loans to support deposits[6]	29.12	26.05	(1.35)	-	24.70
Total	**132.85**	**123.93**	**(19.66)**	**10.10**	**114.37**

NOTES

1. The first column represents the loans gross of repayments, and the total cost of shares purchased. To avoid double counting, the preference shares in RBS and Lloyds are not included in the peak total as the proceeds on their redemption were immediately reinvested into share capital. Dividends and the premium on redemption are included in Figure 7.
2. The second column shows the loans net of repayments but before amortisation and impairments.
3. The £0.65 billion impairment in 2011-12 is the loss, on the basis of cash received to date, resulting from the sale of Northern Rock plc.
4. UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) and Bradford & Bingley plc. UKAR was recognised in the accounts at its historical cost (£1,000 of share capital) but in 2011-12 this was restated at net asset value.
5. Loan shown is the total cash provided by the Treasury but does not include amounts lent by and repaid to the Bank of England before the bank was nationalised.
6. Other loans to support deposits as at 31 March 2011 have been restated because the loans are recovered through the Financial Services Compensation Scheme, which is now consolidated into the Treasury's accounts.

Source: National Audit Office analysis of HM Treasury Resource Accounts

8.15 The Treasury announced in June 2012[6] that it will implement some of the structural reforms proposed by the Independent Commission on Banking. The Treasury aims to improve

6 http://www.hm-treasury.gov.uk/fin_stability_regreform_icb.htm

the resilience of UK banks and to ensure that future bank failures can be resolved without passing the costs to the taxpayer.

The reduction in support in 2011-12

8.16 The total level of outstanding support has reduced by £228.30 billion to £228.03 billion as the schemes near the expected end of their lives. Of this, just £5.07 billion represented the return of cash support (Figure 5).

Figure 5
The support reduced by £228.30 billion over 2011-12

	Cash (£bn)	Non-cash (£bn)	Total (£bn)	
Credit Guarantee Scheme	-	(90.80)	**(90.80)**	Maturity of debt issued by scheme users
Special Liquidity Scheme	-	(71.00)	**(71.00)**	Ending of scheme
Asset Protection Scheme	-	(55.30)	**(55.30)**	Maturity and disposal of assets by RBS
Other guaranteed liabilities	-	(6.48)	**(6.48)**	Maturity of liabilities
Bradford & Bingley working capital facility	(0.57)	0.57	**-**	Although £0.57 billion cash was repaid, it remains available for future drawdown
NRAM loan	(1.75)	-	**(1.75)**	Repayment
Other loans	(2.00)	(0.53)	**(2.53)**	Repayment and reduction in unused facility
Northern Rock plc	(0.75)	0.31	**(0.44)**	Cash received on sale of shares and granting of quantified contingent liabilities as part of the sale
Total reduction	(5.07)	(223.23)	**(228.30)**	
Support as at 31 March 2011	123.93	332.40	**456.33**	
Support as at 31 March 2012	**118.86**	**109.17**	**228.03**	

Source: National Audit Office analysis of HM Treasury Resource Accounts

The fees and interest received from the banks

8.17 In return for providing the support, the Treasury has charged fees and interest of £14.36 billion to 31 March 2012. This comprises £10.83 billion for providing the guarantees (Figure 6) and £3.53 billion from the shares and loans (Figure 7 overleaf). The majority of the income has been from fees charged on the financial guarantee schemes, and has included large one-off payments such as the fee paid by Lloyds for the Asset Protection Scheme.

8.18 Unless the shares in RBS and Lloyds Banking Group start paying substantial dividends, the government as a whole will make annual cash losses on the support once the cost of borrowing the money used to purchase the shares and provide the loans is taken into account. This loss will not be reflected in the Treasury Resource Accounts as the government's borrowing costs are recorded in the separate Debt Management Accounts.

Figure 6
Fees and income from the non-cash support

	Total cash received as at 31 March 2011 (£bn)	Income recognised in 2011-12 Accounts (£bn)	Accruals adjustments (£bn)	Total cash received as at 31 March 2012 (£bn)	Notes to Treasury Resource Accounts
Sector-wide schemes					
Credit Guarantee Scheme fees	3.10	0.93	0.13	4.16	Note 36.1
Special Liquidity Scheme fees[1]	0.27	2.27	(2.26)	0.28	Note 13.2.1
Royal Bank of Scotland					
Asset Protection Scheme fees	2.10	0.48	(0.23)	2.35	Note 23.3, Note 14.1
Commitment fee for contingent capital	0.64	0.32	-	0.96	Note 28.2
Lloyds Banking Group					
Asset Protection Scheme fees	2.50	-	-	2.50	
Northern Rock plc and Northern Rock (Asset Management)					
Fees for guaranteed liabilities	0.12	0.02	-	0.14	Note 26.3
Bradford & Bingley					
Fees for guaranteed liabilities	0.37	0.07	-	0.44	Note 27.3
Total	**9.10**	**4.09**	**(2.36)**	**10.83**	

NOTE

1. The majority of the year's income for the Special Liquidity Scheme was not received as cash by the Treasury before 31 March 2012. The income also includes amounts paid to the Debt Management Office, which pays half to the National Loans Fund.

Source: National Audit Office analysis of HM Treasury Resource Accounts

Figure 7
Fees and income from support provided as shares and loans

	Total cash received as at 31 March 2011 (£bn)	Income recognised in 2011-12 Accounts (£bn)	Accruals adjustments (£bn)	Total cash received as at 31 March 2012 (£bn)	Notes to Treasury Resource Accounts
Royal Bank of Scotland					
Underwriting fees for 2009 rights issue	0.30	-	-	0.30	
Redemption of preference shares	0.27	-	-	0.27	
Lloyds Banking Group					
Underwriting and commitment fees for 2009 rights issue	0.38	-	-	0.38	
Redemption of preference shares	0.23	-	-	0.23	
Northern Rock (Asset Management)					
Interest on loan	0.58	0.15	-	0.73	Note 26.4
Bradford & Bingley					
Fees for working capital facility	0.36	0.37	(0.04)	0.69	Note 27.4
Other loans to support deposits					
Interest on loans	0.52	0.45	(0.04)	0.93	Notes 27.4, 31-34
Total	**2.64**	**0.97**	**(0.08)**	**3.53**	

Source: National Audit Office analysis of HM Treasury Resource Accounts

The subsidy in the support provided

8.19 The income generated by fees and interest is less than would be expected from a normal market investment and has not compensated the taxpayer for the degree of risk accepted by taxpayers in providing the support. Once the opportunity cost and risks are factored in, the schemes have represented a transfer of at least £5 billion from taxpayers to the financial sector (Figure 8). This does not include the cost of holding the shares which have not paid a dividend or seen a capital gain.

8.20 The fees and interest were generally set with a view of what the recipient banks could afford at the time, in keeping with the schemes' aims for financial stability. The £5 billion can be regarded as part of the cost of preserving financial stability in the crisis, and as I reported in 2009, had the support not been provided, the potential costs would have been difficult to envision.[7]

[7] Comptroller and Auditor General, *Maintaining financial stability across the United Kingdom's banking system*, Session 2009-10, HC 91, National Audit Office, December 2009.

Figure 8
Identified subsidies in the support total at least £5 billion

Scheme	Identified subsidy (£bn)	Explanation
Credit Guarantee Scheme	At least 1	Value of benefit provided to the banks and not recovered through fees.
Asset Protection Scheme	1	Amount which could have been added to minimum fee for RBS to reflect the risks taken on.
Loans to UKAR	3	Shortfall between the expected return (including interest charged and value realised at liquidation) and an amount which would reflect the risk taken on (including finance cost).
	At least 5	
Identified subsidies not quantified		
RBS shares Lloyds shares		No return (dividends or capital gain) has been made on the equity provided to the banks. The exact value will not be known until the shares are sold but at a required annual return of, say, 10 per cent over the four years of public ownership, the taxpayer would have required a return of £26 billion (including recovery of the cost of the cash provided), but the shares have lost £32 billion.
Other loans to support deposits		Shortfall between return and the interest charged and amount to be repaid and an amount which would reflect the risk taken on (including finance cost). Estimating the cost would require a commercial comparator.

Source: National Audit Office reports on the Asset Protection Scheme, Maintaining financial stability of UK banks and The creation and sale of Northern Rock plc.

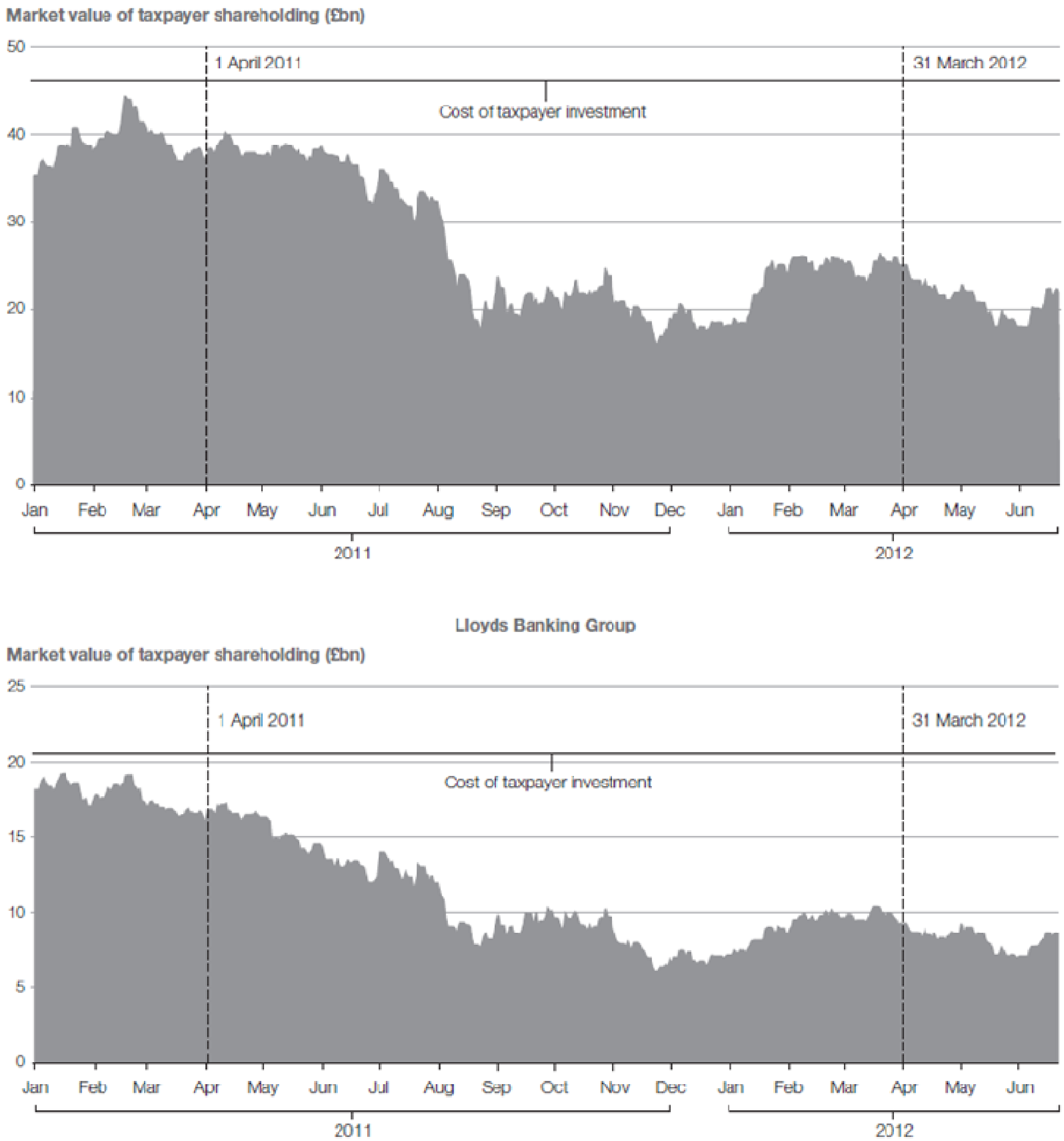
The shares in RBS and Lloyds

8.21 The Treasury has invested £66.34 billion in shares in RBS and Lloyds to provide the banks with sufficient capital. The shares are held in the accounts at their market value, which has fallen by £18.68 billion over the year and £32.01 billion since the government's original investment (Figure 9 overleaf). In line with accounting standards, the £32.01 billion fall in value is split between a temporary increase in value (£0.52 billion) offset by a more permanent impairment of £32.53 billion. Only the impairment is recognised as a loss in the *Statement of Comprehensive Net Expenditure* with £14.43 billion occurring in 2011-12.[8]

8.22 The government remains committed to returning the banks to private ownership. However, UK Financial Investments, which manages the government shareholding, has warned that until economic and regulatory uncertainties subside it will be difficult to deliver value for money from a sale of the shares, and that at least some of this fall in value may represent a permanent cost.[9]

[8] Note 13.1 of the Treasury's Accounts.
[9] UK Financial Investments, Annual Report and Accounts, 2011-12.

Figure 9
The shares in RBS and Lloyds lost £18.68 billion over 2011-12



NOTE

1. These graphs do not include the dividend access share in RBS, finance costs or account for inflation. They assume RBS B-shares are valued as if they had been converted to RBS ordinary shares.

Source: National Audit Office analysis of Bloomberg data

8.23 While economic conditions have been challenging for all banks, shares in RBS and Lloyds Banking Group have continued to underperform those of their UK competitors. In its June 2012 White Paper on banking, the Government estimated that implementing ring-fencing as recommended by the Independent Commission on Banking (ICB) will lead to a permanent reduction in value totalling £6 billion to £9 billion, against a counterfactual where the ICB's proposals were not implemented.[10] The market is likely to have reflected at least some expectation of this cost in the current share price.

Changes to the capital structures at RBS and Lloyds Banking Group

8.24 Meanwhile, taxpayer ownership of the banks is slowly reducing. Lloyds Banking Group and RBS continue to issue ordinary shares, for example as part of employee remuneration schemes and to fund the payment of dividends on preference shares. The effect of this has been to reduce the taxpayer ownership of Lloyds from 40.6 per cent to 39.8 per cent and of RBS from 82.4 per cent to 81.7 per cent[11] over 2011-12 with further reductions since 31 March 2012.

8.25 In May 2012, RBS shareholders voted to swap every ten ordinary shares for one share. RBS believe that this will reduce the share price volatility. The transaction has no impact on the 2011-12 accounts or the percentage of taxpayer ownership.

The Dividend Access Share

8.26 The dividend access share is a single share in RBS which entitles the holder to a greater share of any dividend than other holders of ordinary shares. The share cost 50 pence but is currently valued at £1.80 billion in the accounts. The share can only be held by the government, so there is no market price for the share. The accounts value the share using a valuation model that includes various assumptions about RBS's future dividend policy, for example that no dividend would be declared before 2015, two years later than assumed last year.[12]

8.27 In practice, the dividend access share makes paying a dividend on the ordinary shares expensive for RBS because its terms mean a minimum of £1.8 billion must be paid to the dividend access share holder before any further dividend on the ordinary shares can be paid.

8.28 Some commentators regard removing the dividend access share as a prerequisite to returning the bank to private ownership. The theoretical valuation calculated by the model does not necessarily reflect the price RBS would pay to remove the dividend access share.

8.29 Under the state aid agreement made after the taxpayer purchased its shares, RBS was prevented from declaring a dividend on its shares until 30 April 2012. RBS resumed payments of dividends on its preference shares (but not on its ordinary or B-shares) in May 2012, which was partly funded by issuing new ordinary shares to private sector investors.

The loss on the sale of Northern Rock plc

8.30 The Treasury and UKFI sold Northern Rock plc to Virgin Money at the end of 2011. I reported on the decision to split Northern Rock plc from the rest of the Northern Rock assets, the financial performance of Northern Rock plc while in public ownership, whether the sale was the best available option, and whether the sale process was handled well in *The creation and sale of Northern Rock plc (*18 May 2012, HC 20, 2012-13).

8.31 Virgin Money paid for the taxpayers' shares using a mixture of upfront cash, deferred cash, a capital instrument and a clawback agreement which will yield additional proceeds if Virgin Money sells or lists Northern Rock plc.[13] There are therefore various reasonable ways to value the loss on the sale. The accounts include a loss of £527 million, of which £212 million was recognised as an impairment last year, and £315 million is recognised as a loss on sale. This is

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[10] HM Treasury, White Paper, available at http://www.hm-treasury.gov.uk/fin_stability_regreform_icb.htm

[11] The figures for RBS include voting rights on a hypothetical conversion of B-shares into ordinary shares. Excluding B-shares, the taxpayer's share of RBS has decreased from 67.2 per cent to 66.1 per cent over 2011-12.

[12] Notes 13.1, 2.4 and 23.5.3 of the Treasury's Accounts

[13] Note 23.3 to the Treasury's Accounts

within the £423 million to £537 million range included in my value-for-money report[14] and is above the £480 million mid-point because some of the non-cash elements are excluded by accounting standards.

8.32 In addition to the loss on the sale, the Treasury paid some £3.2 million of transaction costs relating to the sale.[15] Further information is available in UK Financial Investments' *Publication on Sale* (February 2012).

The capital instrument received as part of the sale

8.33 The proceeds from selling Northern Rock plc included a capital instrument which provides taxpayers with a continued economic interest in Virgin Money. The instrument is perpetual subordinated debt with a principal value of £150 million. It will pay a discretionary coupon at 10.5 per cent from 2013. The instrument forms part of Virgin Money's Tier 1 capital. Should Virgin Money list its shares on the stock exchange, the instrument will convert into shares which will be sold as part of the listing.

8.34 The accounts originally valued the capital instrument at £66 million, due to the low certainty over whether it could be sold, the delay in paying the coupon and its highly subordinated nature. By 31 March it had gained £16 million in value as market conditions for bank debt improved and because there is less time before coupons could be paid.[16]

The UK Asset Resolution shares

8.35 The majority of the Northern Rock assets and liabilities, along with those of Bradford & Bingley, remain in public ownership under the holding company UK Asset Resolution Ltd (UKAR). The proceeds from winding down these companies will be used to repay the outstanding loans, over the next 10 to 15 years.

8.36 This year, UKAR has been recognised on the Treasury's balance sheet at its net asset value of £4.68 billion.[17] Previously, the shares were held at their cost, reflecting that the Treasury made no payment when the banks were nationalised. The Treasury have a special Accounts Direction to allow this departure from the usual government accounting policy. The new accounting treatment is the same as the way the Treasury accounts for its ownership of the Bank of England. Bringing the net asset value of these institutions into the Treasury’s accounts gives taxpayers more information about their investment than if they remained at historical cost.

8.37 The valuation of UKAR at net asset value represents a substantial premium compared to other banks. The proceeds from the Northern Rock plc sale were valued at 80 per cent to 90 per cent of its book value and at 31 March 2012, RBS shares traded at around 50 per cent of book value and Lloyds were trading at 42 per cent. Because the UKAR shares are not traded there is no market price with which they can be valued and the Treasury expects to receive more than £4.68 billion from the net assets when UKAR is eventually liquidated.

The loans to the UKAR companies

8.38 The return from the equity in UKAR is offset by the cost of the loans provided to UKAR. The Treasury expects to recover the cash lent to Northern Rock and Bradford & Bingley, including the cost of the gilts issued to fund the loans, but the taxpayer may not be compensated for the risk

[14] Comptroller and Auditor General, *The creation and sale of Northern Rock plc,* Session 2012-13, HC 20, National Audit Office, May 2012.

[15] Notes 38.6 to the Treasury’s Accounts

[16] Note 13.1 to the Treasury’s Accounts

[17] Note 13.1 to the Treasury’s Accounts

taken on or the opportunity cost of the money lent. This could produce a net present cost of some £3 billion[18].

8.39 In line with recommendations from the National Audit Office, the Treasury has increased the interest rate on its loans to UKAR.[19] The rate increase is likely to be cash-neutral for the taxpayer until the banks are liquidated but will improve the taxpayers' claims in the residual net assets at liquidation.

Other loans to support deposits

8.40 The other loans to support deposits were issued to ensure depositors in various insolvent firms did not lose their money.[20] Recovery depends on the administration of those entities, the international tribunal requiring the Icelandic authorities to pay interest, and the Financial Services Compensation Scheme levy on the banking industry. Further details of the nature and disclosure of these loans were set out in paragraphs 27 and 28 of my report on Treasury's 2010-11 Accounts.[21]

The Special Liquidity Scheme

8.41 The Special Liquidity Scheme ended during 2011-12, the first of the major schemes to be withdrawn. It was a Bank of England scheme in which participating banks and building societies swapped illiquid assets for Treasury bills. The taxpayer indemnified the Bank of England against losses and was exposed to a maximum of £185 billion of risk at the scheme's peak, against which a significant amount of collateral was held. In the event, no payout was made under the scheme.[22]

8.42 Because the scheme ended without any defaults, the Bank of England made a £2.26 billion surplus from the scheme. The final treatment of this surplus was not agreed at the outset and it has not been previously recognised in the Treasury's Accounts. It was paid in full by the Bank to the Treasury in April 2012 and is shown as a receivable in the Treasury's accounts. This amount includes corporation tax of £0.6 billion which the Bank paid to HM Revenue & Customs but has now been refunded.[23]

The Credit Guarantee Scheme

8.43 The Credit Guarantee Scheme is a scheme in which the taxpayer guarantees debt issued by UK banks and building societies. The scheme is being wound down as banks repay the private sector holders of this debt. The guaranteed debt has reduced to £24.20 billion as at 31 March 2012.[24]

8.44 Before April 2012, participants could roll over (extend) their use of the scheme by replacing maturing debt with new issued debt or they could reduce their use of the scheme by repurchasing debt for a one-off fee. No bank made significant use of the rollover facility and only one bank repurchased any debt in the scheme. The scheme has now passed the period, between October and December 2011, when the bulk of debt in the scheme matured (Figure 10) and will now wind down to zero by the end of October 2012.

[18] Discounted using a 6 per cent (nominal) discount rate. The discount rate reflects a commercial cost of capital as well as the Social Time Preference Rate set out in *The Green Book*.

[19] Comptroller and Auditor General, *Stewardship of the wholly-owned banks: buy-back of subordinated debt*, HC 706, 2010-11, National Audit Office, March 2011.

[20] Note 15.1 to the Treasury's Accounts

[21] Part of the Comptroller and Auditor General's Certificate and Report on *HM Treasury Annual Report and Accounts 2010-11*, HC 984 2011-2012, July 2011.

[22] The Bank of England summarised the operation and wind-down of the scheme and commented on lessons it could learn for its usual market operations in its March 2011 *Quarterly Bulletin*, http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/a11.aspx

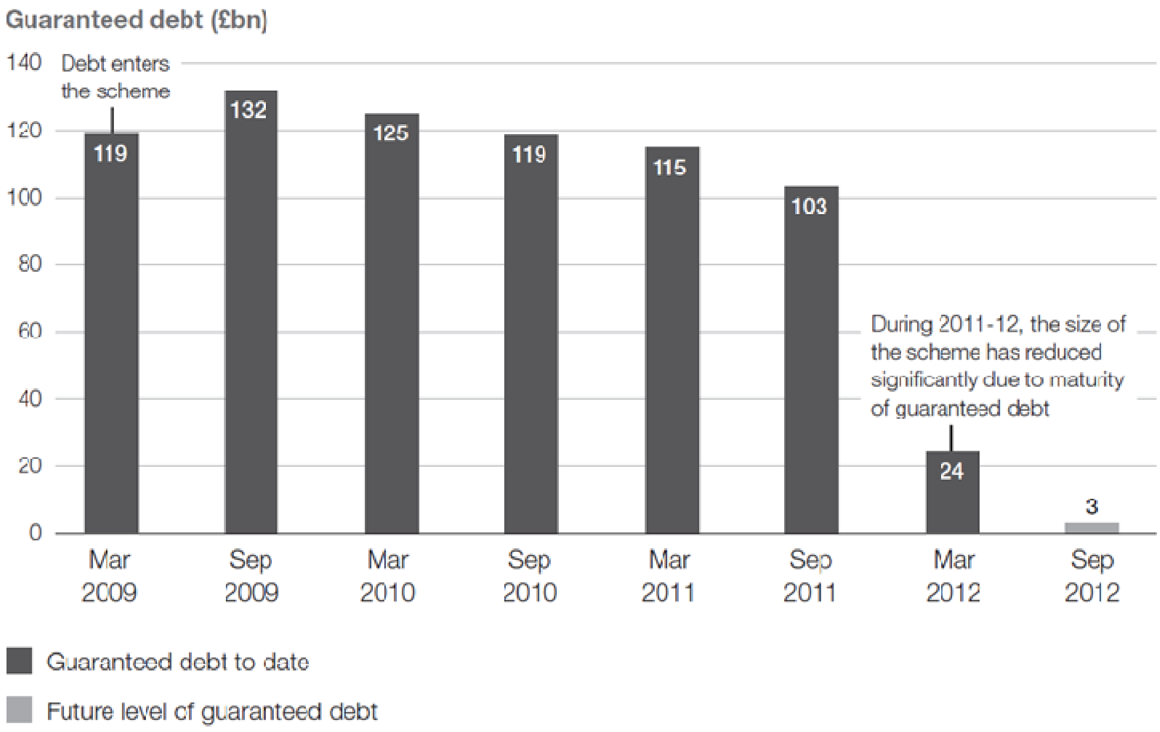
[23] Notes 36.4, 13.2.1 and 9.1 to the Treasury's Accounts

[24] Note 24.2 to the Treasury's Accounts

8.45 I reported in December 2010 that the scheme was providing a benefit to the participating banks of substantially more than £1 billion (over the life of the scheme) in the form of a reduced funding cost which was not captured by the fees charged.[25] The Treasury accepted this analysis but did not revise the fees for the remaining period of the scheme.

Figure 10

The size of the Credit Guarantee Scheme has reduced significantly over 2011-12 and the scheme will be wound up by the end of October 2012



Source: National Audit Office analysis of HM Treasury data

The Asset Protection Scheme

8.46 Under the Asset Protection Scheme, the taxpayer indemnified participants against losses on certain of its assets. RBS was the only bank to place assets into the scheme. The taxpayer exposure to the insured assets has reduced to £54.70 billion as at 31 March 2012 (Figure 11 overleaf).[26]

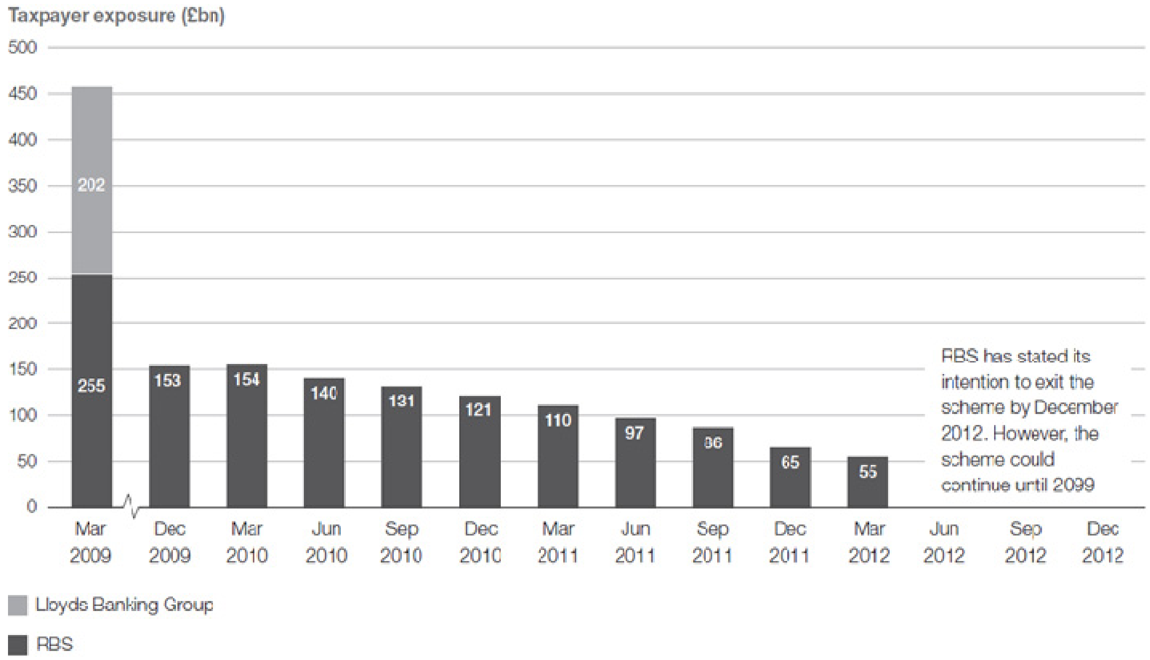
8.47 The terms of the scheme were set so that RBS bears the first £60 billion of losses, and 10 per cent of any remaining losses. The actual losses to RBS on the covered assets totalled £33 billion as at 31 March 2012, and the Asset Protection Agency, which administers the scheme, reported that the taxpayer is not likely to bear any loss under the level of economic downturn as envisioned by the Financial Services Authority (FSA) stress tests. The Asset Protection Agency modelling further suggests that the level of economic stress that would necessitate a payout would be so great that the economic climate would have to deteriorate rapidly and dramatically to levels where banks around the world, not just RBS, would be facing significant difficulties.[27]

[25] Comptroller and Auditor General, *Maintaining the financial stability of UK banks: update on the support schemes*, Session 2010-11, HC 676, National Audit Office, December 2010.

[26] Note 24.2 to the Treasury's Accounts

[27] Asset Protection Agency, Annual Report and Accounts 2011-12,

Figure 11
The Asset Protection Scheme continues to reduce



NOTES

1 The maximum taxpayer exposure reflects original expectations that both Lloyds and Royal Bank of Scotland would use the scheme. The final agreed maximum value of the assets placed into the scheme by Royal Bank of Scotland in December 2009 was £282 billion (subsequently revised upwards to £286 billion). The value of the covered assets has since been reduced through run-off of the portfolio, disposals, early repayments and maturing loans.

2 The scheme terms are such that Royal Bank of Scotland bears the first £60 billion of any losses, and 10 per cent of any losses above that. Any remaining loss falls to the taxpayer.

Source: National Audit Office analysis of RBS published financial results and HM Treasury Resource Accounts

8.48 The minimum fee for RBS's use of the scheme was set at £2.5 billion, which will have been paid by December 2012. RBS has announced that it intends to exit the scheme in late 2012, subject to FSA approval of its capital position after leaving the scheme. The potential exit of RBS makes it uncertain that the Asset Protection Agency will continue to be needed and the Agency has begun to prepare for closure.

8.49 The insurance provided by the scheme improves the capital position of RBS. As at 31 March 2012, participating in the scheme increased RBS's Core Tier 1 capital ratio by 85 basis points to 10.8 per cent.[28] The European Banking Authority required EU banks to achieve a minimum Core Tier 1 capital ratio of 9 per cent by 30 June 2012.[29]

Quantitative Easing

8.50 The Bank of England operates Quantitative Easing as a monetary policy tool to boost the money supply through the purchase of assets, mainly gilts.[30] The measure is run through the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), a subsidiary of the Bank of England which is not consolidated into the accounts of the Treasury or the Bank of England. The Treasury indemnifies the BEAPFF against any loss and will receive any profits generated by selling the

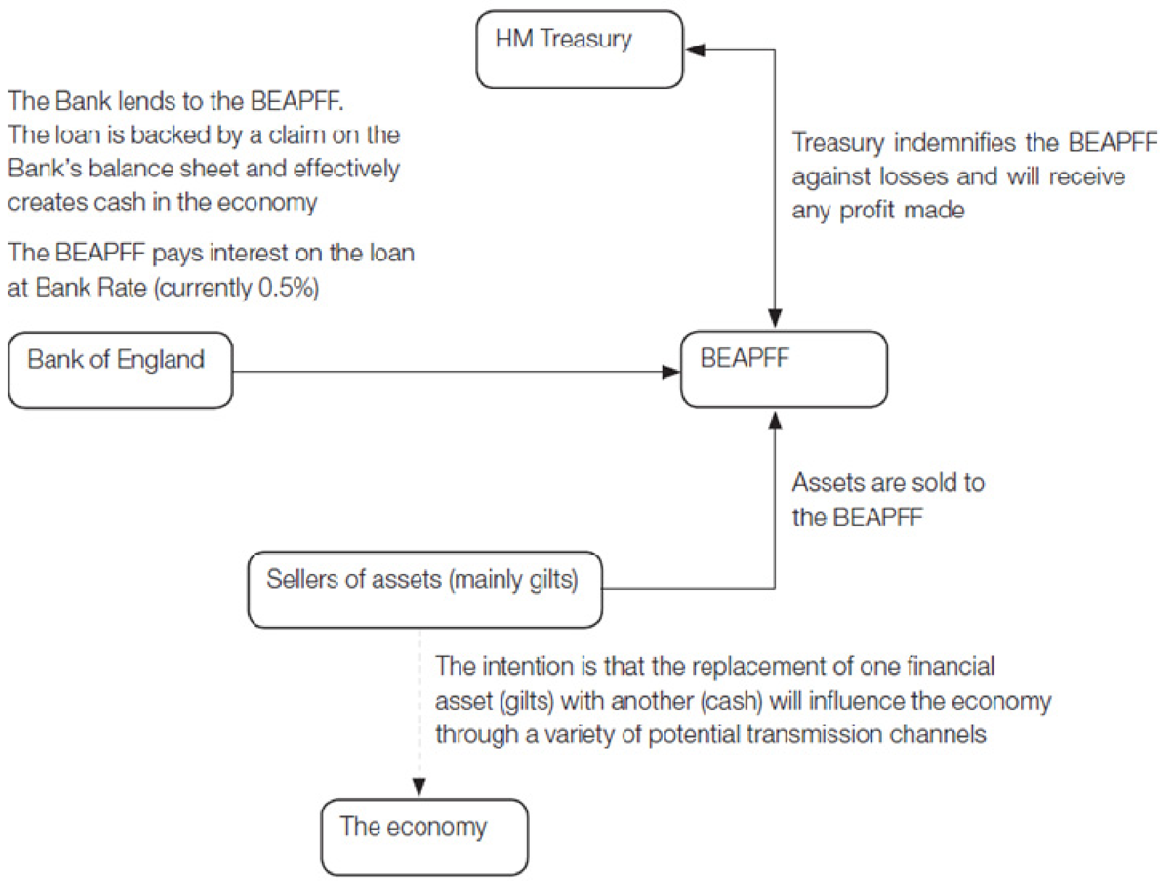
[28] RBS Interim Management Statement, Q1 2012

[29] http://www.eba.europa.eu/News--Communications/Year/2011/The-EBA-details-the-EU-measures-to-restore-confide.aspx

[30] http://www.bankofengland.co.uk/markets/Documents/money/publications/redbookqe.pdf

assets back to the market or holding them to maturity (Figure 12). As at 31 March 2012 the size of the programme was £325 billion, this was increased to £375 billion in July 2012.[31]

Figure 12
How Quantitative Easing is implemented



Source: National Audit Office

8.51 The Treasury's indemnity gives rise to a derivative in Treasury's Accounts which is currently an asset valued at £38.47 billion. This represents the cumulative net gain generated by the assets purchased by the BEAPFF, and mainly reflects the coupons received and the increased market value of the gilts held. The value of the derivative is volatile but has generally increased over the past two years, in line with rising gilt prices and the expansion of the programme. Accounting standards require the increase in 2011-12 (£27.97 billion) to be recognised as income in the Treasury's Accounts.[32]

8.52 It is not certain that this £27.97 billion non-cash income recognised in the Treasury's Accounts will crystallise into a net cash gain for the Exchequer. This is because:

- The gain from holding the assets is mainly cash-neutral for the Exchequer because cash received as gilt coupons and principal is effectively a transfer from one part of government to another.

[31] Note 36.2 to the Treasury's Accounts
[32] Notes 14.1 and 23.2 to the Treasury's Accounts

- The Exchequer may make a cash gain if the assets are sold at a profit. The gilts are held in such a large volume that selling them could reduce their value. The gilts are not held for trading, and would only be sold if the Monetary Policy Committee voted to relax monetary policy.

Part Three: New Support for the Economy

8.53 The wider impact of the financial crisis continues to be felt throughout the economy including through a reduction in lending and continued financial instability in the Eurozone. These impacts are linked because banks are exposed to losses from sovereign default, and countries retain the risk that they must recapitalise their banks.

8.54 The original guarantees have not lead to any payout to date, and the ongoing crisis does not directly impact the Treasury's 2011-12 Accounts. Nevertheless, the taxpayer remains exposed to risk. The Treasury has worked to prepare contingency plans to respond to financial instability in the Eurozone and, in conjunction with the Bank of England, has started to introduce new measures to stimulate lending.

Actions by central banks

8.55 Central banks routinely intervene to ensure markets continue to function. In addition:

- During 2011-12, the European Central Bank provided some €1 trillion of liquidity support to European banks through its Long Term Repo Operations. Recipients of this support included subsidiaries of UK banking groups, including groups that were reducing their reliance on the UK support schemes.
- On 14 June 2012, the Bank of England announced[33] a new 'Funding for Lending' scheme which will see the Bank provide funding to UK banks, at a subsidised interest rate, to encourage an increase in lending.

8.56 Even where no taxpayer indemnity is explicitly given, the UK taxpayer retains exposure to central bank interventions through the Treasury's share capital in the Bank of England (100 per cent owned by the Treasury[34]) and, less directly, through the Bank of England's share capital in the European Central Bank.

The Treasury's actions to support lending

8.57 To reduce their reliance on taxpayer support, banks need to either replace it with alternative funding or to reduce their overall funding requirements which is likely to lead to a reduction in lending. The continuing financial crisis has decreased the availability of funding that is cheap and low-risk.

8.58 Because lending to individuals and businesses has not recovered to its pre-crisis levels, the Treasury and the Bank of England have responded by introducing new schemes to support the UK economy. These actions and any response to financial instability in the Eurozone may lead to new contingent liabilities for the Exchequer.

8.59 The Treasury's previous attempts to generate lending have included:

- lending targets for RBS and Lloyds agreed as part of the Asset Protection Scheme;
- a series of agreements ('Project Merlin') with major UK banks; and
- residential mortgage lending targets for Northern Rock plc.

[33] http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech587.pdf

[34] Note 13.1 to the Treasury's Accounts

8.60 These schemes did not fully meet their objectives and Treasury's 2011-12 Accounts include two new schemes, the National Loan Guarantee Scheme and the Business Finance Partnership, to encourage lending to businesses.

National Loan Guarantee Scheme

8.61 The National Loan Guarantee Scheme, launched in March 2012, is intended to provide subsidised lending of up to £20 billion to small businesses. As was the case with the Credit Guarantee Scheme, the government will guarantee debt issued by banks to the market to reduce the funding cost of the banks.

8.62 The participating banks are required to use this cost saving to fund loans which are cheaper by 1 percentage point to small businesses[35]. The Treasury charges the participating banks a fee that is intended to capture all the benefit provided by the guarantee, less the amount passed on to the small business recipients.

8.63 As at 31 March 2012, four banks have announced that they will participate in the scheme and a fifth agreed in principle to participate. The first guaranteed debt instrument was issued in April 2012 and banks have begun issuing loans to small businesses. Treasury's Accounts show a contingent liability for the maximum £20 billion of bank debt that could be guaranteed. This amount will be released in stages and, as at 30 June 2012, some £5 billion had been committed to four banks, with the remainder available on demand.[36]

8.64 The increased contingent liability is offset by a reduced indemnity for the part of quantitative easing available for purchasing corporate bonds, a facility which had not been used significantly.

Business Finance Partnership

8.65 The Treasury intends to invest £1.2 billion to support lending through non-bank channels by investing alongside private sector investors, similar to a venture capital fund. No investment had been made as at 31 March 2012.[37]

Support to other countries

8.66 Because of the link between governments and their banks, the continuing financial situation has made it difficult for some countries, particularly some members of the Eurozone, to finance their ongoing activities. This has led to some countries seeking financial assistance from other states, including from the UK.

UK exposure to the Eurozone

8.67 The Treasury increased their budget to allow for £15 million of expenditure to allow it to respond to wider financial stability risks in the Eurozone. This contingency remained unused as at 31 March 2012.[38] The UK's potential commitments to the Eurozone are included in the Consolidated Fund and the National Loans Fund. These include:

- Contributions to the International Monetary Fund (IMF). The IMF has provided loans to various countries including Ireland, Portugal and Greece.
- Contributions to the European Financial Stability Mechanism. The Mechanism has lent to Portugal and Ireland and is secured on contributions to the EU budget. The

[35] Banks may choose to provide this saving in the form of a reduced interest rate, or they may keep the interest rate unchanged and give the recipient an upfront cash payment equal to the net present value of such a reduction.

[36] Notes 24.2 and 37.2 to the Treasury's Accounts

[37] Note 37.1 to the Treasury's Accounts

[38] Note 4.3.1 to the Treasury's Accounts

Mechanism is expected to be replaced by a new European Stability Mechanism, to which the UK will not contribute, in 2013.

- Contributions to multinational lending institutions such as the European Investment Bank.

8.68 In June 2012 the European Commission proposed new legislation to provide a common framework for resolution of EU banks which encounter financial difficulties. The current draft would require the UK to establish a dedicated fund for bank resolution which might be required to contribute to the resolution of banks established in EU Member States if they had operations in the UK.

Loan to Ireland

8.69 The UK made available a bilateral loan of £3.23 billion to Ireland as part of a package of financial assistance. In 2011-12, £1.21 billion was drawn down by Ireland.

8.70 The interest rate on the loan was renegotiated to make the loan more affordable. This is in line with the new interest rate charged by other providers of the financial assistance to Ireland and is expected to cover the funding cost of the loan. However, it is below the rate that would be charged by the market. In 2011-12, Ireland was due to pay £8.76 million in interest but this will be reduced by £2.83 million to reflect the new rate.[39]

Amyas C E Morse
Comptroller and Auditor General
13 July 2012

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

[39] Notes 15.1, 19.3.2 and 35 to the Treasury's Accounts

9 Resource Accounts

Statement of Parliamentary Supply

for the year ended 31 March 2012

								2011-12	2010-11 (Restated)
		Estimate			Outturn			Voted outturn compared with Estimate saving/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
Resource	4.1	170,689	13,020	183,709	148,962	11,332	160,294	**21,727**	**168,198**
Capital	4.2	60,740	-	60,740	36,497	-	36,497	**24,243**	**43,118**
Annually Managed Expenditure									
Resource	4.1	(3,096,150)	11,159	(3,084,991)	(18,766,453)	10,927	(18,755,526)	**15,670,303**	**(12,426,880)**
Capital	4.2	(3,105,890)	-	(3,105,890)	(4,569,671)	-	(4,569,671)	**1,463,781**	**(2,240,467)**
Total		**(5,970,611)**	**24,179**	**(5,946,432)**	**(23,150,665)**	**22,259**	**(23,128,406)**	**17,180,054**	**(14,456,031)**
Total Resource		(2,925,461)	24,179	(2,901,282)	(18,617,491)	22,259	(18,595,232)	**15,692,030**	**(12,258,682)**
Total Capital		(3,045,150)	-	(3,045,150)	(4,533,174)	-	(4,533,174)	**1,488,024**	**(2,197,349)**
Total		**(5,970,611)**	**24,179**	**(5,946,432)**	**(23,150,665)**	**22,259**	**(23,128,406)**	**17,180,054**	**(14,456,031)**
Net Cash Requirement	17.2			**(4,460,762)**			**(5,865,012)**	**1,404,250**	**(5,433,539)**
Administration Costs	4.1			**146,831**			**131,076**	**15,755**	**141,410**

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. There was no non-budget provision within the Estimate and the outturn was also nil.

Explanations of variances between Estimate and outturn are given in note 4.3 and in the management commentary in chapter 5 of the annual report.

The notes on pages 119 to 205 form part of these accounts.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2012

	Note	2011-12			2010-11 (Restated)		
		Core Treasury	Core Treasury and Agencies[1]	Group[2]	Core Treasury	Core Treasury and Agencies	Group
		£000	£000	£000	£000	£000	£000
Administration costs							
Staff costs	6.1	69,304	83,224	86,113	76,862	91,836	93,657
Other administration costs	7.1	63,745	73,585	72,165	70,861	85,416	83,812
Less: administration income	9.1	(11,565)	(28,400)	(28,021)	(19,710)	(37,924)	(38,043)
Net administration costs		**121,484**	**128,409**	**130,257**	**128,013**	**139,328**	**139,426**
Programme costs							
Staff costs	6.1	420	420	25,448	144	144	22,065
APS and BEAPFF derivative fair value movements	8	(28,443,612)	(28,443,612)	(28,443,612)	(12,387,350)	(12,387,350)	(12,387,350)
Impairment of financial assets	8	14,099,548	14,099,548	14,099,548	942,156	942,156	942,156
Other programme costs	8	398,415	404,132	763,559	1,530,696	1,535,228	2,018,617
Less: programme income	9.1	(4,839,182)	(4,840,555)	(5,206,276)	(2,534,796)	(2,535,906)	(3,105,982)
Net programme income		**(18,784,411)**	**(18,780,067)**	**(18,761,333)**	**(12,449,150)**	**(12,445,728)**	**(12,510,494)**
Net operating income		**(18,662,927)**	**(18,651,658)**	**(18,631,076)**	**(12,321,137)**	**(12,306,400)**	**(12,371,068)**
Total expenditure		(13,812,180)	(13,782,702)	(13,396,779)	(9,766,632)	(9,732,570)	(9,227,043)
Total income		(4,850,747)	(4,868,955)	(5,234,297)	(2,554,505)	(2,573,830)	(3,144,025)
Net operating income		**(18,662,927)**	**(18,651,657)**	**(18,631,076)**	**(12,321,137)**	**(12,306,400)**	**(12,371,068)**
Other comprehensive net expenditure							
Net (gain)/loss on revaluation of property, plant and equipment	11.1	-	-	-	(47)	(47)	(47)
Net (gain)/loss on revaluation of investments	13.1	4,117,010	4,117,010	4,117,010	813,997	813,997	813,997
Net (gain)/loss on hedging reserve		18,446	18,446	18,446	(17,604)	(17,604)	(17,604)
Actuarial (gain)/loss on pension scheme liabilities		-	-	1,925	-	-	506
Net comprehensive income for the year		**(14,527,471)**	**(14,516,201)**	**(14,493,695)**	**(11,524,791)**	**(11,510,054)**	**(11,574,216)**

The notes on pages 119 to 205 form part of these accounts.

[1] Core Treasury and Agencies comprises HM Treasury department, the UK Debt Management Office and the Asset Protection Agency

[2] Treasury Group comprises of the same bodies as Core Treasury and Agencies, plus additionally: the Office for Budget Responsibility; UK Financial Investments; the Financial Services Compensation Scheme and the Money Advice Service. For further details see note 1.2.

Statement of Financial Position

as at 31 March 2012

	Note	2011-12 Core Treasury £000	2010-11 (Restated) Core Treasury £000	2009-10 (Restated) Core Treasury £000
Non-current assets				
Property, plant and equipment	11.1	116,582	108,718	103,032
Intangible assets	12	7,680	2,830	1,776
Available-for-sale financial assets	13.1	44,292,263	63,960,434	65,326,304
Derivative financial assets expiring after more than one year	14.2	-	4,613	167,806
Loans and advances to financial institutions	15.1	52,332,079	54,937,278	57,498,732
Trade and other receivables due after more than one year	15.2.1	285,480	427,889	1,523,460
Total non-current assets		**97,034,084**	**119,441,762**	**124,621,110**
Current assets				
Inventories	16	17,418	9,864	6,778
Trade and other receivables due within one year	15.2.1	3,334,711	1,577,778	2,051,414
Derivative financial assets expiring within one year	14.1, 14.2	38,603,767	10,565,392	363,809
Cash and cash equivalents	17.1	10,713	18,265	1,941
Total current assets		**41,966,609**	**12,171,299**	**2,423,942**
Total assets		**139,000,693**	**131,613,061**	**127,045,052**
Current liabilities				
Trade and other payables falling due within one year	18.1	(354,241)	(324,682)	(283,068)
Provisions due within one year	19.2	(311,475)	(504,473)	(40,271)
Derivative financial liabilities expiring within one year	14.2	(8,471)	(28,733)	(393,063)
Total current liabilities		**(674,187)**	**(857,888)**	**(716,402)**
Non-current assets plus/less net current assets/(liabilities)		**138,326,506**	**130,755,173**	**126,328,650**
Non-current liabilities				
Financial guarantees	18.3	(600,665)	(1,540,092)	(2,799,366)
Derivative financial liabilities expiring after more than one year	14.2	-	(104,151)	(1,426,001)
Other payables due after more than one year	18.1	(172,005)	(172,200)	(134,137)
Provisions due after more than one year	19.2	(972,001)	(993,466)	(946)
Total non-current liabilities		**(1,744,671)**	**(2,809,909)**	**(4,360,450)**
Assets less liabilities		**136,581,835**	**127,945,264**	**121,968,200**
Taxpayers' equity				
General fund		128,065,144	115,293,117	108,519,707
Available-for-sale reserve		8,514,014	12,631,024	13,445,021
Hedging reserve		599	19,045	1,441
Revaluation reserve		2,078	2,078	2,031
Total taxpayers' equity		**136,581,835**	**127,945,264**	**121,968,200**

The notes on pages 119 to 205 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2012

	Note	2011-12 Core Treasury and Agencies £000	2010-11 (Restated) Core Treasury and Agencies £000	2009-10 (Restated) Core Treasury and Agencies £000	2011-12 Group £000	2010-11 (Restated) Group £000	2009-10 (Restated) Group £000
Non-current assets							
Property, plant and equipment	11.1	116,778	109,068	103,623	118,374	110,613	105,664
Intangible assets	12	10,295	6,932	5,333	10,920	6,949	5,358
Available-for-sale financial assets	13.1	44,292,263	63,960,434	65,326,306	44,292,263	63,960,434	65,326,306
Derivative financial assets expiring after more than one year	14.2	-	4,613	167,806	-	4,613	167,806
Loans and advances to financial institutions	15.1	52,332,079	54,937,278	57,498,736	52,326,151	54,921,665	57,380,856
Trade and other receivables due after more than one year	15.2.1	285,523	428,022	1,523,466	285,523	428,017	1,525,551
Total non-current assets		**97,036,938**	**119,446,347**	**124,625,270**	**97,033,231**	**119,432,291**	**124,511,541**
Current assets							
Inventories	16	17,418	9,864	6,778	17,418	9,864	6,778
Trade and other receivables due within one year	15.2.1	3,338,804	1,582,531	2,053,288	3,032,984	1,279,908	1,753,690
Derivative financial assets expiring within one year	14.1, 14.2	38,603,767	10,565,392	363,809	38,603,767	10,565,392	363,809
Cash and cash equivalents	17.1	10,714	18,280	1,956	172,240	261,488	95,223
Total current assets		**41,970,703**	**12,176,067**	**2,425,831**	**41,826,409**	**12,116,652**	**2,219,500**
Total assets		**139,007,641**	**131,622,414**	**127,051,101**	**138,859,640**	**131,548,943**	**126,731,041**
Current liabilities							
Trade and other payables falling due within one year	18.1	(358,803)	(330,439)	(291,731)	(446,816)	(426,810)	(304,273)
Bank overdraft	17.1	-	-	-	(5,418)	(37,173)	(14,663)
Provisions due within one year	19.2	(312,444)	(504,530)	(40,342)	(316,326)	(526,393)	(40,342)
Derivative financial liabilities expiring within one year	14.2	(8,471)	(28,733)	(393,063)	(8,471)	(28,733)	(393,063)
Total current liabilities		**(679,718)**	**(863,702)**	**(725,136)**	**(777,031)**	**(1,019,109)**	**(752,341)**
Non-current assets plus/less net current assets/(liabilities)		**138,327,923**	**130,758,712**	**126,325,965**	**138,082,609**	**130,529,834**	**125,978,700**
Non-current liabilities							
Financial guarantees	18.3	(600,665)	(1,540,092)	(2,799,366)	(600,665)	(1,540,092)	(2,799,366)
Derivative financial liabilities expiring after more than one year	14.2	-	(104,151)	(1,426,005)	-	(104,151)	(1,426,005)
Other payables due after more than one year	18.1	(172,005)	(173,911)	(137,296)	(175,692)	(176,831)	(140,110)
Provisions due after more than one year	19.2	(972,015)	(993,522)	(1,060)	(974,088)	(997,207)	(1,317)
Total non-current liabilities		**(1,744,685)**	**(2,811,676)**	**(4,363,727)**	**(1,750,445)**	**(2,818,281)**	**(4,366,798)**
Assets less liabilities		**136,583,238**	**127,947,036**	**121,962,238**	**136,332,164**	**127,711,553**	**121,611,902**
Taxpayers' equity							
General fund		128,066,547	115,294,889	108,513,700	128,066,686	115,294,890	108,513,699
Available-for-sale reserve		8,514,014	12,631,024	13,445,021	8,514,014	12,631,024	13,445,021
Hedging reserve		599	19,045	1,441	599	19,045	1,441
Revaluation reserve		2,078	2,078	2,076	2,078	2,078	2,076
Pension reserve		-	-	-	(3,622)	(2,851)	(2,700)
Retained earnings reserve		-	-	-	(247,591)	(232,633)	(347,635)
Total taxpayers' equity		**136,583,238**	**127,947,036**	**121,962,238**	**136,332,164**	**127,711,553**	**121,611,902**

The notes on pages 119 to 205 form part of these accounts.

Nick Macpherson
Permanent Secretary
10 July 2012

Statement of Cash Flows

for the year ended 31 March 2012

	Note	Core Treasury £000	Core Treasury and Agencies £000	2011-12 Group £000	Core Treasury £000	Core Treasury and Agencies £000	2010-11 (Restated) Group £000
Cash flows from operating activities							
Net operating income		(18,662,927)	(18,651,657)	(18,631,076)	(12,321,137)	(12,306,400)	(12,371,068)
Adjustment for non-cash transactions	7.1, 8	14,030,607	14,027,462	14,025,301	9,964,798	9,962,507	9,936,531
Changes in working capital other than cash		2,464,795	2,466,440	2,471,608	(298,799)	(292,126)	(381,029)
Intra group transfer		12,708	1,836	(5,079)	22,790	(1)	(50,689)
Movements in financial instruments passing through SCNE		172,641	172,641	172,641	168,701	168,701	168,701
Use of provisions	19.1	196,606	196,665	218,532	7,495	7,569	7,569
Of which non-cash		(558)	(558)	(558)	(6,246)	(6,246)	(6,246)
Net cash inflow from operating activities		**(1,786,128)**	**(1,787,171)**	**(1,748,631)**	**(2,462,398)**	**(2,465,996)**	**(2,696,231)**
Cash flows from investing activities							
Purchase of property, plant and equipment		10,870	10,941	12,018	8,794	8,924	9,470
Purchase of intangible assets		6,141	6,748	7,373	600	3,868	3,868
Additions to financial assets	15.1	1,265,133	1,265,133	1,273,004	147,801	147,801	168,239
Proceeds from disposal of assets		(747,000)	(747,000)	(747,000)	-	-	(6)
Cash received from derivative financial instruments	14.1	(250,000)	(250,000)	(250,000)	(700,000)	(700,000)	(700,000)
Loan repayments from financial institutions and other bodies	15.1	(4,389,020)	(4,389,020)	(4,387,206)	(2,459,353)	(2,459,353)	(2,377,527)
Adjustment for Machinery of Government change		-	-	-	148	148	148
Net cash inflow from investing		**(4,103,876)**	**(4,103,198)**	**(4,091,811)**	**(3,002,010)**	**(2,998,612)**	**(2,895,808)**
Cash flows from financing activities							
From the Consolidated Fund (Supply): current year		-	-	-	(387,413)	(387,413)	(387,413)
From the Consolidated Fund (Supply): prior year		-	-	-	(106)	(106)	(106)
From the Consolidated Fund (non-Supply)		(10,927)	(10,927)	(10,927)	(11,076)	(11,076)	(11,076)
Surrender of unused supply	17.2	16,191	16,191	16,191	-	-	-
Excess cash paid to the Consolidated Fund	17.2	5,853,971	5,853,971	5,853,971	5,804,761	5,804,761	5,804,761
Capital element of payments in respect of on balance sheet (SoFP) PFI contracts		1,676	1,676	1,676	1,557	1,557	1,557
Net financing		**5,860,911**	**5,860,911**	**5,860,911**	**5,407,723**	**5,407,723**	**5,407,723**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**29,093**	**29,458**	**(20,469)**	**56,685**	**56,885**	**184,316**
Payments of amounts due to the Consolidated Fund		(36,645)	(37,024)	(37,024)	(40,360)	(40,560)	(40,560)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(7,552)**	**(7,566)**	**(57,493)**	**16,325**	**16,325**	**143,756**
Cash and cash equivalents at the beginning of the period	17.1	18,265	18,280	224,315	1,940	1,955	80,559
Cash and cash equivalents at the end of the period	17.1	**10,713**	**10,714**	**166,822**	**18,265**	**18,280**	**224,315**

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2012

Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011	114,301,141	9,595,927	19,045	2,078	-	-	**123,918,191**
Changes in accounting policy	991,976	3,035,097	-	-	-	-	**4,027,073**
Balance at 1 April 2011	**115,293,117**	**12,631,024**	**19,045**	**2,078**	**-**	**-**	**127,945,264**
Net Parliamentary Funding	-	-	-	-	-	-	-
Consolidated Fund Standing Services	10,927	-	-	-	-	-	**10,927**
CFERs payable to the Consolidated Fund	(35,810)	-	-	-	-	-	**(35,810)**
Excess cash payable to the Consolidated Fund	(11,041)	-	-	-	-	-	**(11,041)**
Excess cash paid to the Consolidated Fund	(5,853,971)	-	-	-	-	-	**(5,853,971)**
Comprehensive (expenditure)/income for the year	18,662,927	(4,117,010)	(18,446)	-	-	-	**14,527,471**
Non-cash charges – auditor's remuneration	371	-	-	-	-	-	**371**
Non-supply – banking and gilts registration	11,332	-	-	-	-	-	**11,332**
Consolidation adjustments	(12,708)	-	-	-	-	-	**(12,708)**
Balance at 31 March 2012	**128,065,144**	**8,514,014**	**599**	**2,078**	**-**	**-**	**136,581,835**

Core Treasury and Agencies

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011	114,302,911	9,595,927	19,045	2,078	-	-	**123,919,961**
Changes in accounting policy	991,978	3,035,097	-	-	-	-	**4,027,075**
Balance at 1 April 2011	**115,294,889**	**12,631,024**	**19,045**	**2,078**	**-**	**-**	**127,947,036**
Net Parliamentary Funding	-	-	-	-	-	-	-
Consolidated Fund Standing Services	10,927	-	-	-	-	-	**10,927**
CFERs payable to the Consolidated Fund	(35,845)	-	-	-	-	-	**(35,845)**
Excess cash payable to the Consolidated Fund	(11,041)	-	-	-	-	-	**(11,041)**
Excess cash paid to the Consolidated Fund	(5,853,971)	-	-	-	-	-	**(5,853,971)**
Comprehensive (expenditure)/income for the year	18,651,657	(4,117,010)	(18,446)	-	-	-	**14,516,201**
Non-cash charges – auditor's remuneration	435	-	-	-	-	-	**435**
Non-supply – banking and gilts registration	11,332	-	-	-	-	-	**11,332**
Consolidation adjustments	(1,836)	-	-	-	-	-	**(1,836)**
Balance at 31 March 2012	**128,066,547**	**8,514,014**	**599**	**2,078**	**-**	**-**	**136,583,238**

Group

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 30 March 2011	114,302,911	9,595,927	19,045	2,078	-	-	**123,919,961**
Changes in accounting policy	991,979	3,035,097	-	-	(2,851)	(232,633)	**3,791,592**
Balance at 1 April 2011	**115,294,890**	**12,631,024**	**19,045**	**2,078**	**(2,851)**	**(232,633)**	**127,711,553**
Net Parliamentary Funding	-	-	-	-	-	-	-
Consolidated Fund Standing Services	10,927	-	-	-	-	-	**10,927**
CFERs payable to the Consolidated Fund	(35,845)	-	-	-	-	-	**(35,845)**
Excess cash payable to the Consolidated Fund	(11,041)	-	-	-	-	-	**(11,041)**
Excess cash paid to the Consolidated Fund	(5,853,971)	-	-	-	-	-	**(5,853,971)**
Comprehensive (expenditure)/income for the year	18,649,953	(4,117,010)	(18,446)	-	(771)	(20,031)	**14,493,695**
Non-cash charges – auditor's remuneration	435	-	-	-	-	-	**435**
Non-supply – banking and gilts registration	11,332	-	-	-	-	-	**11,332**
Consolidation adjustments	6	-	-	-	-	5,073	**5,079**
Balance at 31 March 2012	**128,066,686**	**8,514,014**	**599**	**2,078**	**(3,622)**	**(247,591)**	**136,332,164**

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011
Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 30 March 2010	107,401,875	13,445,021	1,441	2,031	-	-	**120,850,368**
Changes in accounting policy	1,117,832	-	-	-	-	-	**1,117,832**
Balance at 1 April 2010	**108,519,707**	**13,445,021**	**1,441**	**2,031**	**-**	**-**	**121,968,200**
Net Parliamentary Funding	387,518	-	-	-	-	-	**387,518**
Consolidated Fund payable for unspent Supply	(16,191)	-	-	-	-	-	**(16,191)**
Consolidated Fund adjustment for undrawn Supply	(106)	-	-	-	-	-	**(106)**
Consolidated Fund Standing Services	11,076	-	-	-	-	-	**11,076**
CFERs payable to the Consolidated Fund	(112,297)	-	-	-	-	-	**(112,297)**
Excess cash payable to the Consolidated Fund	(1,710)	-	-	-	-	-	**(1,710)**
Excess cash paid to the Consolidated Fund	(5,804,761)	-	-	-	-	-	**(5,804,761)**
Comprehensive (expenditure)/income for the year	12,321,137	(813,997)	17,604	47	-	-	**11,524,791**
Receipt of donated assets	3	-	-	-	-	-	**3**
Non-cash charges – auditor's remuneration	371	-	-	-	-	-	**371**
Non-supply – banking and gilts registration	11,309	-	-	-	-	-	**11,309**
Consolidation adjustments	(22,790)	-	-	-	-	-	**(22,790)**
Other General Fund	(149)	-	-	-	-	-	**(149)**
Balance at 31 March 2011	**115,293,117**	**12,631,024**	**19,045**	**2,078**	**-**	**-**	**127,945,264**

Core Treasury and Agencies

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 30 March 2010	107,395,868	13,445,021	1,441	2,076	-	-	**120,844,406**
Changes in accounting policy	1,117,832	-	-	-	-	-	**1,117,832**
Balance at 1 April 2010	**108,513,700**	**13,445,021**	**1,441**	**2,076**	**-**	**-**	**121,962,238**
Net Parliamentary Funding	387,518	-	-	-	-	-	**387,518**
Consolidated Fund payable for unspent Supply	(16,191)	-	-	-	-	-	**(16,191)**
Consolidated Fund adjustment for undrawn Supply	(106)	-	-	-	-	-	**(106)**
Consolidated Fund Standing Services	11,076	-	-	-	-	-	**11,076**
CFERs payable to the Consolidated Fund	(112,388)	-	-	-	-	-	**(112,388)**
Excess cash payable to the Consolidated Fund	(1,999)	-	-	-	-	-	**(1,999)**
Excess cash paid to the Consolidated Fund	(5,804,761)	-	-	-	-	-	**(5,804,761)**
Comprehensive (expenditure)/income for the year	12,306,400	(813,997)	17,604	47	-	-	**11,510,054**
Receipt of donated assets	3	-	-	-	-	-	**3**
Non-cash charges – auditor's remuneration	434	-	-	-	-	-	**434**
Non-supply – banking and gilts registration	11,309	-	-	-	-	-	**11,309**
Consolidation adjustments	44	-	-	(45)	-	-	**(1)**
Other General Fund	(150)	-	-	-	-	-	**(150)**
Balance at 31 March 2011	**115,294,889**	**12,631,024**	**19,045**	**2,078**	**-**	**-**	**127,947,036**

Group

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 30 March 2010	107,395,868	13,445,021	1,441	2,076	-	-	**120,844,406**
Changes in accounting policy	1,117,831	-	-	-	(2,700)	(347,635)	**767,496**
Balance at 1 April 2010	**108,513,699**	**13,445,021**	**1,441**	**2,076**	**(2,700)**	**(347,635)**	**121,611,902**
Net Parliamentary Funding	387,518	-	-	-	-	-	**387,518**
Consolidated Fund payable for unspent Supply	(16,191)	-	-	-	-	-	**(16,191)**
Consolidated Fund adjustment for undrawn Supply	(106)	-	-	-	-	-	**(106)**
Consolidated Fund Standing Services	11,076	-	-	-	-	-	**11,076**
CFERs payable to the Consolidated Fund	(112,388)	-	-	-	-	-	**(112,388)**
Excess cash payable to the Consolidated Fund	(1,999)	-	-	-	-	-	**(1,999)**
Excess cash paid to the Consolidated Fund	(5,804,761)	-	-	-	-	-	**(5,804,761)**
Comprehensive (expenditure)/income for the year	12,306,400	(813,997)	17,604	47	(151)	64,313	**11,574,216**
Receipt of donated assets	3	-	-	-	-	-	**3**
Non-cash charges – auditor's remuneration	434	-	-	-	-	-	**434**
Non-supply – banking and gilts registration	11,309	-	-	-	-	-	**11,309**
Transfers between reserves	45	-	-	(45)	-	-	-
Consolidation adjustments	-	-	-	-	-	50,689	**50,689**
Other General Fund	(149)	-	-	-	-	-	**(149)**
Balance at 31 March 2011	**115,294,890**	**12,631,024**	**19,045**	**2,078**	**(2,851)**	**(232,633)**	**127,711,553**

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM)[3]. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HM Treasury for the purpose of giving a true and fair view has been selected. The particular policies adopted by HM Treasury are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

HM Treasury has been issued a special accounts direction allowing it to account on a fair value basis for interests, other than Public Dividend Capital and loans, in public bodies outside the departmental boundary. In the event of observable market data not being available, the direction allows for net asset value to be used as a measure for determining fair value. This overrides the requirement in the FReM to report interest in public bodies outside the departmental boundary at historical cost.

IFRSs in issue but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2011, that have an effective date of application of 1 April 2011, or earlier. The disclosures below detail the effect that new accounting standards are expected to have on HM Treasury's resource accounts.

IPSAS 32 Service Concession Arrangement (effective from 1 January 2014) has been adopted by the EU but would have no effect on HM Treasury's existing accounting for service concession arrangements.

IFRS 9 Financial Instruments (effective from 1 January 2015) and IFRS 13 Fair Value Measurement (effective from 1 January 2013) have not been adopted by the EU but will be applicable if they are adopted at a later date. IFRS 9 is being introduced to replace IAS 39 Financial Instruments: Recognition and Measurement. The available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9. All equity investments within the scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income. IFRS 13 defines fair value and provides guidance on fair value measurement techniques and disclosure requirements. In the event that IFRS 9 and IFRS 13 are adopted by the EU, HM Treasury may obtain an accounts direction to continue to measure interests in public bodies at net asset value where observable market data is not available and to measure Public Dividend Capital at historical cost. In these situations, IFRS 9 would not be applied in full.

IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities (both effective from 1 January 2013) have not been adopted by the EU but may be applicable if they are adopted at a later date. IFRS 10 introduces a new definition of control which may result in new consolidations and IFRS 12 requires more disclosures of the financial effects on, and risks to, the consolidating entity. The FReM adapts IFRS requirements for determining accounting boundaries. If the current adaptations continue, the only impact on HM Treasury will be increased disclosures under IFRS 12.

[3] www.hm-treasury.gov.uk/frem_index.htm

1.1 Accounting convention

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

1.2 Basis of consolidation

The departmental bodies are consolidated based on the boundary as defined by the FReM. The departmental boundary is different from the concept of a group under IFRS, it is based on control criteria used by the Office for National Statistics (ONS) to determine sector classification.

In accordance with the FReM and the ONS classification, HM Treasury has designated the following bodies as being inside the departmental boundary for this financial year, these have been consolidated in accordance with IAS 27 Consolidated and Separate Financial Statements:

- Core department (core Treasury) which comprises the non-agency parts of HM Treasury. This includes Infrastructure UK (IUK), Infrastructure Finance Unit Limited (IFUL) and the Office of Tax Simplification (OTS)
- Agencies of HM Treasury which comprise the UK Debt Management Office (DMO) and the Asset Protection Agency (APA)
- Non-departmental public bodies and other bodies sponsored by HM Treasury which comprise the Office for Budget Responsibility (OBR), UK Financial Investments (UKFI), the Financial Services Compensation Scheme (FSCS) and the Money Advice Service (MAS)

In addition, HM Treasury is the sponsoring body for the Royal Mint Advisory Committee on the design of coins, medals, seals and decorations. The Committee does not incur expenditure.

The presentation of financial information at three levels (Core Treasury, Treasury and Agencies, and Group) is determined by Parliamentary reporting requirements. Transactions between entities included in the reporting boundary are eliminated on consolidation.

IFUL, DMO, APA, OBR, UKFI, FSCS and MAS also produce and publish their own accounts. Appropriate consolidation adjustments have been made where differences in accounting policies would have a significant effect on these resource accounts.

The following entities are not consolidated as they fall outside of the departmental boundary. Extracts from their accounts providing a summary of their financial performance and financial position are included in note 13.2 where available.

- Bank of England
- Partnership UK plc
- Local Partnerships LLP
- Royal Mint Trading Fund (and its subsidiary company)
- United Kingdom Asset Resolution Ltd
- Bradford & Bingley plc
- Lloyds Banking Group plc
- Northern Rock (Asset Management) plc
- Royal Bank of Scotland Group plc

HM Treasury has a number of stewardship functions in relation to management of the Government's debt and foreign currency reserves. As HM Treasury has no ownership responsibility for the assets and liabilities that it is managing in carrying out this duty, these assets and liabilities do not appear in these accounts. They are, however, fully disclosed in the following accounts:

- The National Loans Fund
- The Consolidated Fund
- The Debt Management Account
- The Exchange Equalisation Account
- The Contingencies Fund

1.3 Property, plant and equipment and intangible non-current assets

Property, plant and equipment and intangible non-current assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000 except for antiques where no threshold is set.

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. A full valuation is carried out every five years and an interim desk valuation at year three. The last full valuation was carried out by Andrew Holdsworth BSc (Hons) MRICS MAPM at the Valuation Office Agency (VOA) in March 2010 and an interim desk valuation will be carried out in March 2013 by the VOA.

Antiques are subsequently recognised at fair value. A full valuation is carried out every 5 years. Mike Neill, Director at Bonhams (UK), performed the last valuation on 9 April 2010.

Gains arising on revaluation are taken to the Revaluation Reserve. Losses on revaluation are debited to the Revaluation Reserve to the extent that gains have been recorded previously, and otherwise to the SCNE.

Assets under construction are carried at accumulated cost. Depreciation does not commence until the asset is completed and brought into service.

Other non-current assets are carried at historical cost less accumulated depreciation. This is a suitable proxy for fair value and is allowable per the FReM for those assets with short useful lives or low values. This includes assets held as fixtures and fittings, IT equipment and intangible non-current assets.

Components of an asset are separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset. Assets with a gross book value over £0.5 million are reviewed to identify whether they comprise of significant components with different useful lives.

Where a component is replaced or restored, the carrying amount of the old component is derecognised and the new component added.

1.4 Depreciation

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

Freehold and long leasehold buildings	40 to 50 years
Furniture, fixtures and fittings	Lesser of 5 to 10 years or outstanding lease term
Office and other non-IT equipment	3 to 5 years
Leasehold improvements	Over the lease term
Computer and telecom hardware, software and licences	3 to 10 years
Other plant and machinery	5 to 15 years

An exception to the above estimated useful lives is the Asset Protection Agency's assets. These are depreciated over 2.75 years which is in line with the estimated useful life of the assets to the Agency.

1.5 Impairment of non-current assets

Impairments are permanent diminutions in the service potential of non-current assets. All assets are assessed annually for indications of impairment. An impairment loss is recognised in the SCNE to the extent that it cannot be offset against the Revaluation Reserve. Any reversal of an impairment charge is recognised in the SCNE to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised in the SCNE. The remaining amount is recognised in the Revaluation Reserve.

1.6 Development expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the FReM, which has been adapted from IAS 38 Intangible Assets to take account of the considerations relevant for not-for-profit entities. Externally generated software is recorded under assets under construction whilst in development and then reclassified to intangible assets when brought into use.

1.7 Inventory

Inventory is held at the lower of cost and net realisable value (NRV). The method of valuation is based on a first in, first out rule. Inventory cost is considered to be production cost, based on direct materials, labour and production overheads.

1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions. These are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Bank overdraft amounts are identified separately in the Statement of Financial Position.

1.9 Revenue recognition and operating income

Operating income relates directly to the operating activities of HM Treasury. It includes recharges at full cost for services provided and costs recoverable from other bodies. It includes budgeted and non-budgeted income arising from the activities of HM Treasury, some of which is used to offset operational costs and some of which is payable to the Consolidated Fund as a Consolidated Fund Extra Receipt (CFER) all paid over as excess cash.

Interest is calculated using the effective interest rate method on monetary assets classified as loans and receivables and is recognised in the SCNE. In addition, dividends on available-for-sale equity instruments are recognised in the SCNE when HM Treasury's right to receive payment is established. All income is accounted for in line with IAS 18 Revenue Recognition.

1.10 Administration and programme expenditure

The SCNE is analysed between administration and programme costs. The classification of expenditure and income as administration or as programme follows the definition of costs covered by administration budgets set out in Consolidated Budgeting Guidance 2011-12. Net administration costs reflect the costs of running HM Treasury, and exclude costs associated with service delivery. Programme costs reflect non-administration costs, including disbursements by HM Treasury in support of financial stability interventions.

1.11 Foreign exchange

Transactions denominated in foreign currencies are translated into sterling using rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the reporting date or on the settlement of such assets and liabilities. Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange are recognised in the SCNE, except when deferred in equity through the use of qualifying cash flow hedges.

1.12 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in note 6.2, cover the majority of past and present employees. The defined benefit scheme within the PCSPS is unfunded and is contributory. HM Treasury recognises the expected cost of future pension liabilities in a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

HM Treasury also operates a defined contribution scheme for staff who transferred from Partnerships UK to Infrastructure UK. Contributions payable by HM Treasury are recognised as an expense in the year in which they are incurred.

The FSCS, MAS and UKFI operate defined contribution pension schemes. The costs for the defined contribution schemes are recognised as an expense in the SCNE as incurred.

The FSCS also operates a defined benefit scheme. The costs for the defined benefit scheme are recognised in the SCNE to the extent that they relate to current or past service costs, settlements or curtailments, and net expected return on the pension assets. Actuarial gains and losses are recognised in other comprehensive expenditure.

1.13 Early departure costs

HM Treasury is required to meet any additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. HM Treasury provides for the costs when the early retirement is agreed and binding, effectively charging the full cost at the time of the decision and holding this in a provision. The provision is discounted using the pension's discount rate (as per the Public Expenditure System (PES) guidance (2011) 08) of 2.8 per cent (2010-11: 2.9 per cent).

1.14 Private Finance Initiative (PFI) transactions

In accounting for PPP arrangements, including PFI contracts under IFRS, HM Treasury follows the guidance provided in the FReM, which is based on the principles used in International Financial Reporting Interpretations Committee (IFRIC 12) – "Service Concession Arrangements". For contractual arrangements to receive goods or services from another party, HM Treasury assesses the contract to see whether it is in substance a service concession arrangement in accordance with IFRIC 12 as adapted and interpreted in the FReM, and if not, whether it is an arrangement containing a lease under IFRIC 4 – "Determining Whether an Arrangement Contains a Lease".

The principles of IFRIC 12 are followed when the private sector operator is obliged to provide the service related to the infrastructure, but significant residual interest in the infrastructure is controlled by HM Treasury at the end of the term of the arrangement.

Assets acquired through PFI are valued at market value, consistent with the requirements of FReM. The associated payable for the asset is paid off during the life of the PFI contract through attribution of part of the unitary payments. The balances of the unitary payments are recorded as other administrative costs, analysed between interest and service charges. Where the service charge includes an annual indexation adjustment, this is charged to the SCNE as it is incurred.

1.15 Leases

Leases are classified as either finance or operating leases in accordance with IAS 17 Leases. The distinction depends on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee. Leases in which a significant proportion of the risks and rewards of ownership are transferred to the lessor are classified as finance leases, other leases are classified as operating leases. HM Treasury has not entered into any finance lease arrangements. Operating leases are charged to the SCNE on a straight-line basis over the term of the lease.

1.16 Value Added Tax

Many activities of HM Treasury are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.17 Provisions, contingent liabilities and contingent assets

A provision is recognised when the following three criteria are met, in line with the requirements in IAS 37 Provisions, Contingent Liabilities and Contingent Assets:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

The discount rate applied to general provisions is 2.2 per cent (with the exception of early retirement provision which is discounted at 2.8 per cent). The year on year changes to the value of the provision as a result of unwinding the discount rate are charged to the SCNE.

In accordance with IAS 1 Presentation of Financial Statements, provisions are separately disclosed as current and non-current.

Contingent liabilities and contingent assets are not recognised as liabilities or assets in the Statement of Financial Position (SoFP) of HM Treasury, but are disclosed in the notes to the accounts. A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by uncertain future events, or it is a present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably estimated. A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of HM Treasury. Where the time value of money is material, the contingent liabilities and assets are stated at discounted amounts.

1.18 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

1.18.1 Categories of financial instruments

HM Treasury's financial instruments have been classified into the following three categories, which are determined at initial recognition:

- derivatives at fair value through SCNE;
- loans and receivables held at amortised cost; and
- available-for-sale financial assets.

(a) Derivatives at fair value through SCNE

Financial intervention contracts that have the following characteristics are accounted for as derivative financial instruments in accordance with IAS 39 Financial Instruments Recognition and Measurement:

- its value changes in response to the change in an underlying variable (e.g. interest rates, equity share prices, exchange rates etc.);
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Amortised cost is calculated as the present value of the expected cash flows over the remaining life of the loan or receivable, discounted at the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

For loans on which interest is received and full recovery is anticipated, the calculation of amortised cost equals the outstanding principal.

For loans which are interest free, future cash flows are discounted at the Treasury discount rate of 3.5 per cent, in accordance with the FReM. The result is that on initial recognition an impairment is recognised for the irrecoverability of future interest.

(c) Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are either designated in this category or cannot be classified in any other category. These assets are intended to be held for an indefinite period of time and may be sold in response to policy decisions or equity prices.

The investments in available-for-sale assets have been disclosed on a tranche by tranche basis where different lots of the same security have been purchased at different price levels. The gain or loss on these securities will be accounted for on a first in, first out basis when they are eventually disposed of.

1.18.2 Initial measurement of financial instruments

Derivatives and available-for-sale financial assets are recognised initially at fair value. At initial recognition, the best evidence of fair value in an arm's length transaction is cash received or paid, unless there is evidence to the contrary.

Derivatives are measured at fair value on the date a derivative contract is entered into. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. All transaction costs are expensed in the SCNE.

The fair value of available-for-sale financial assets also includes any directly attributable transaction costs.

Loans provided by HM Treasury predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. Therefore comparison with market terms and market prices was not possible in determining fair value and, consequently, these loans were recognised initially at amortised cost as determined by the FReM.

1.18.3 Subsequent measurement and fair valuation of financial instruments

Derivatives are subsequently measured at fair value. Fair values are obtained from quoted market prices, or using valuation techniques including discounted cash flow models and option pricing models.

The gain or loss on subsequent measurement is taken to the SCNE except where the derivative is a designated hedging instrument.

Loans and receivables are carried at amortised cost less any impairment recognised. Statutory debts, which are interest free loans, are amortised using the Treasury discount rate of 3.5 per cent and the cash flows are assessed using administrators' estimates as to both the amount and timing of recoveries.

Available-for-sale financial assets (other than Public Dividend Capital) are subsequently carried at fair value. In the absence of observable market data for investments in public bodies outside the departmental boundary, net asset value per recent audited accounts is used as a measure for determining fair value, taking into consideration HM Treasury's assessment of impairment or material changes to fair value for bodies with non-coterminous reporting dates. This is in line with the special accounts direction issued to HM Treasury and applies to HM Treasury's investments in the Bank of England, Partnerships UK, UK Asset Resolution and Local Partnerships. Further description of the valuation models and techniques are provided in note 23.2.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the available-for-sale reserve is recognised in the SCNE.

In accordance with the FReM, Public Dividend Capital is carried at historical cost less any impairment recognised. This applies to HM Treasury's investment in the Royal Mint.

1.18.4 Impairment of financial assets

(a) Assets carried at amortised cost

HM Treasury assesses at each reporting date whether there is objective evidence that a financial asset is impaired. An asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') where that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that HM Treasury uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions; and
- deterioration in the value of collateral.

The amount of loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. The carrying amount of the asset is reduced in the SoFP and the loss is recognised in the SCNE. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the counterparty's credit rating), the previously recognised impairment loss is reversed.

(b) Assets classified as available-for-sale

HM Treasury assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether an asset is impaired. This assessment is performed on a tranche by tranche basis where multiple lots of the same security have been purchased at different price levels. For investments in public bodies, an impairment review is carried out for those bodies which HM Treasury intends to dispose of at future point. Indicators of impairment for these bodies include net cash outflows or operating losses, a reduction in net assets, and other factors influencing recoverable amount.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the SCNE – is removed from equity and recognised in the SCNE. Impairment losses recognised in the SCNE are not subsequently reversed until the related financial asset is de-recognised.

1.18.5 Trade date

Regular way purchase and sales of financial assets are recognised on trade date – the date that HM Treasury commits itself to purchase or sell an asset. As defined in IAS 39 Financial Instruments: Recognition and Measurement, a regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

1.18.6 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where HM Treasury has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognised when they are extinguished. That is, when the obligation is discharged, cancelled or expires.

1.19 Derivative financial instruments and hedging activities

The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to.

In order to qualify for hedge accounting, HM Treasury is required to document in advance the relationship between the item being hedged and the hedging instrument. HM Treasury is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis (80-125 per cent effective). The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

HM Treasury only has cash flow hedges, where the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the SCNE.

Amounts accumulated in equity are recycled to the SCNE in the periods when the hedged item affects the SCNE.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled to the SCNE.

1.20 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified receivable fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee liabilities and associated receivables are initially recognised in the financial statements at fair value on the date the guarantee was given. The maximum period over which the receivables and the associated liabilities have been recognised is over the length of these guarantees or in case a policy decision has been made to withdraw the guarantee earlier, up to the published end date of the guarantee. All guarantee arrangements are re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantee are adjusted if necessary.

The fair value of financial guarantee liabilities are estimated as the fair value of the guarantee fee income where appropriate, assuming the fee has been set at a commercial market rate. In cases where the fee has not been set at a commercial rate, the fair value of financial guarantee liabilities is equal to the probability weighted expected loss over the duration of the guarantee.

Subsequent to initial recognition, HM Treasury's liabilities under such guarantees are measured at the higher of:

- the initial measurement, less amortised fee income recognised in the SCNE as the service is provided; and
- the best estimate of the probable expenditure required to settle any financial obligation arising at the reporting date, in line with the definitions of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Any increase in the liability relating to guarantees is taken to the SCNE.

1.21 Employee benefits

HM Treasury has provided for the cost of accumulating compensated absences. This is accounted for when an employee renders services that increase their entitlement to future compensated absences. It is calculated based on pay and Employers' National Insurance Contributions.

2. Critical accounting estimates and judgements

2.1 Impairment losses on loans and advances

HM Treasury's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.18.4. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date.

All loans are individually assessed for impairment. HM Treasury considers whether objective evidence indicates that one or more events, occurring after the loan or advance was made, have an effect on the estimated future cash flows. This objective evidence includes estimates from administrators on the level and timings of repayments, (for example, reports from the administrators of KSF, Heritable, Icesave, LSB and Dunfermline), negotiations with other governments (DIGF) and business plans provided by banks under public ownership (Northern Rock (Asset Management), Bradford & Bingley).

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 42 to 100 per cent. As an indicator of the sensitivity within this estimate, the current impairment charge of £0.9 million on these debts would increase to approximately £100 million, if the recoverability of the loans were 10 percentage points lower than those estimated by the administrators as at 31 March 2012.

For the DIGF loan, HM Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the DIGF's share of payments to depositors plus interest on the full loan balance compounded from January 2009, when the loan was novated from the Bank of England. Following payments from the Icesave administrators during 2011-12, the DIGF's share of deposit liability is £1.6 billion, the majority of which is expected to be recovered through the administration process. HM Treasury considers that the loan and interest continue to be fully recoverable.

Impairments are recognised to reflect the cost of interest free loans. HM Treasury has provided Bradford & Bingley, Icesave, Heritable, KSF, London Scottish and Dunfermline with interest free loans to fund repayment of retail deposits above £50,000 (above £35,000 for Bradford & Bingley). In addition, the uncertainty over the timing and final terms of the DIGF loan repayment means that interest cannot be measured with sufficient reliability to allow recognition. The impairment loss for interest free loans is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the Treasury discount rate. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

Details on loan amounts are included in note 15.1 and a summary of current year impairment charges is included in note 23.7.

2.2 Impairment of available-for-sale financial assets

HM Treasury's accounting policy for losses arising on available-for-sale financial assets is described in note 1.18.4. In determining whether an impairment loss has been incurred in respect of available-for-sale equity assets, HM Treasury assesses whether there has been a significant or sustained decline in its fair value below its original cost price. The result of performing the assessment on individual tranches of shares is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

As at 31 March 2012, available-for-sale assets totalled £44.3 billion (2010-11: £64 billion). This is net of 2011-12 impairment losses charged to the SCNE of £14.4 billion (2010-11: £0.6 billion). A summary of current year impairment charges is included in note 23.7 and the fair values of available-for-sale assets are detailed in note 13.1. A sensitivity analysis for changes in equity prices is included in note 23.5.

2.3 Asset Protection Scheme (APS) valuation

The APS is accounted for as a derivative. For further information on this classification, see HM Treasury's 2010-11 Annual Report and Accounts.

While the best assessment of both RBS and HM Treasury is that the APS was agreed at fair value, this conclusion involved management judgement, and it is possible that the fair value was not zero. If this was the case, the fair value at 31 March 2012 would also differ from the figure reported in note 14.1. The valuation of the APS is sensitive to assumptions in relation to inputs that are not observable in the market. The impact of the following reasonably possible alternative assumptions has been tested:

- asset correlation: +/- 10 per cent (absolute);
- recovery uncertainty factor for non-triggered assets: +/- 10 per cent (absolute);
- recovery uncertainty factor for triggered assets: +/- 2 per cent (absolute);
- mapped credit spreads: +/- 10 bps (absolute); and
- expected loss given default: +/- 4.5 per cent (absolute).

Using these reasonably possible alternative assumptions, the fair value of the APS at 31 March 2012 could be a liability of up to £50 million or an asset of up to £150 million. However, this would have only a limited effect on income in the SCNE, as circumstances affecting these assumptions are not believed to have changed since inception, and it would therefore be appropriate to apply them to the initial valuation as well.

An additional source of uncertainty is the quality of the portfolio data underlying the valuation. The potential impact of known or suspected data issues is in the order of +/- £10 million, though the current best estimate is that there will be no net effect. There is a potential for additional impact from data issues that are unknown.

Valuation results are subject to numerical uncertainty arising from the simulation-based approach to valuation. The uncertainty is in the order of +/-£1 million.

The model incorporates several simplifications, the most significant of which is over the exit option. The model assumes RBS will have perfect foresight as to the level of ultimate losses and stay in only if the value of protection payments exceeds the value of the fees; otherwise, RBS will seek to exit on 30 September 2012 having paid the minimum fee of £2.5bn.

The timing of RBS's exit from the scheme has not yet been determined and is subject to regulatory and other factors. While the possibility of RBS continuing in the APS beyond September 2012 increases the value of the derivative to HMT, this has not been reflected in the valuation, as it would be a purely subjective adjustment.

2.4 RBS Dividend Access Share

For RBS's Dividend Access Share (DAS), there is no market price. However, its value has been estimated using an option based valuation model using market observable and non-observable data and assumptions. The value of the DAS is estimated by assessing the cash flows receivable from dividends, and then adjusting these cash flows based on (a) the likelihood and size of ordinary share dividends, (b) the probability that the dividends are lost because the cancellation trigger is reached, and (c) the credit risk inherent in the cash flows as a result of their future payment. See note 23.2 for further details on key assumptions used. These assumptions are revisited at each reporting date. The fair value of the DAS is included in note 13.1.

Details of the sensitivity analysis undertaken are included in note 23.5.3.

3. Prior Period Adjustments

3.1 Clear Line of Sight

The Clear Line of Sight project aims to simplify financial reporting to Parliament by aligning the different sources of financial information which present planned, Parliamentary approved, and outturn Government expenditure. The key changes impacting HM Treasury are:

- Accounting boundaries have been extended to include NDPBs and other bodies classified to the central government sector. As a result, the HM Treasury Group reporting boundary was extended with effect from 1 April 2011 to include the Financial Services Compensation Scheme (FSCS) and Money Advice Service (MAS). Prior year figures for the group have been restated as if the wider definition of HM Treasury group had always been in place.
- All non-voted expenditure and income within budgets is brought within the coverage of Estimates. Previously expenditure for the Civil List and Royal Household Pension Scheme were included in HM Treasury's resource budget, but not included in the Resource Accounts. The other item of expenditure that was not included within the supply process but was included in the Resource Accounts, was that relating to the management of the gilts register and the Exchange Equalisation Account. From 1 April 2011, these expenditure items are included in HM Treasury's budget, Estimate and Resource Accounts. Prior year expenditure figures have been restated.
- From 2011-12, parliamentary controls relating to Estimates are on a net (rather than both gross and net) basis, to line up with budgetary controls. This permits departments to retain income that might previously have been surrendered to the Consolidated Fund as a Consolidated Fund Extra Receipt (CFER). The Resource Accounts have been restated for prior years as if the receipts receivable as at year end, that were approved in HM Treasury's Estimate, had been retainable. Receipts that had already been surrendered to the Consolidated Fund in-year have not been restated. CFERs previously included in operating income but excluded from HM Treasury's resource outturn have now been included in the Statement of Parliamentary Supply.

In addition to the changes resulting from Clear Line of Sight, HM Treasury has been issued with a special accounts direction to account on a fair value basis for shares in public bodies outside the departmental boundary. In the absence of observable market data, the direction allows for net asset value to be used as a measure in determining fair value. The key change resulting from this direction is to HM Treasury's shares in UK Asset Resolution (UKAR). These shares were acquired during 2010-11 and previously valued at historical cost. In the absence of an active market, the share value has been restated using the audited net asset value as a proxy for fair value.

3.2 Effects on Resource Outturn and Primary Statements

Effect on Resource Outturn in 2010-11

	2010-11 Group Total £000
Net Resource Outturn per Statement of Parliamentary Supply	(9,794,193)
Banking and gilts registration	11,309
Consolidated Fund Extra Receipts (CFERs)	(2,422,206)
Civil List and Royal Household Pensions	11,076
NDPBs and other bodies	(64,668)
Adjusted Net Resource Outturn	**(12,258,682)**

Statement of Comprehensive Net Expenditure 2010-11

	Core Treasury	Add: Civil List and Royal Household Pension Scheme	Add: UKAR valuation	2010-11 As restated Core Treasury
	£000	£000	£000	£000
Net administration costs	128,013	-	-	128,013
Net programme costs	(12,460,226)	11,076	-	(12,449,150)
Net operating income	**(12,332,213)**	**11,076**	**-**	**(12,321,137)**
Other comprehensive expenditure	3,831,445	-	(3,035,099)	796,346
Total comprehensive income for the year ended 31 March 2011	**(8,500,768)**	**11,076**	**(3,035,099)**	**(11,524,791)**

Consolidated Statement of Comprehensive Net Expenditure 2010-11

	Group	Add: Civil List and Royal Household Pension Scheme	Add: NDPBs and other bodies	Add: UKAR valuation	2010-11 As restated Group
	£000	£000	£000	£000	£000
Net administration costs	139,328	-	98	-	139,426
Net programme costs	(12,456,804)	11,076	(64,766)	-	(12,510,494)
Net operating income	**(12,317,476)**	**11,076**	**(64,668)**	**-**	**(12,371,068)**
Other comprehensive expenditure	3,831,445	-	506	(3,035,099)	796,852
Total comprehensive income for the year ended 31 March 2011	**(8,486,031)**	**11,076**	**(64,162)**	**(3,035,099)**	**(11,574,216)**

Cash Flow Statement 2010-11

	Core Treasury	Add: CFER & non- cash adjustment	As restated Core Treasury	Group	Add: CFER & non- cash adjustment	Add: NDPBs and other bodies	2010-11 As restated Group
	£000	£000	£000	£000	£000	£000	£000
Net cash outflow/(inflow) from operating activities	(2,473,455)	11,057	(2,462,398)	(2,477,056)	11,057	(230,232)	(2,696,231)
Net cash outflow / (inflow) from investing	(3,002,029)	19	(3,002,010)	(2,998,628)	19	102,801	(2,895,808)
Net financing	(385,962)	5,793,685	5,407,723	(385,962)	5,793,685	-	5,407,723
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	**5,861,446**	**(5,804,761)**	**56,685**	**5,861,646**	**(5,804,761)**	**127,431**	**184,316**
Payments of amounts due to the Consolidated Fund	(5,845,121)	5,804,761	(40,360)	(5,845,321)	5,804,761	-	(40,560)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	**16,325**	**-**	**16,325**	**16,325**	**-**	**127,431**	**143,756**
Cash and cash equivalents at the beginning of the period	1,940	-	1,940	1,955	-	78,604	80,559
Cash and cash equivalents at the end of the period	**18,265**	**-**	**18,265**	**18,280**	**-**	**206,035**	**224,315**

Statement of Financial Position 2010-11

	Core Treasury	Add: CFERs	Add: UKAR valuation	As restated Core Treasury	Group	Add: CFERs	Add: NDPBs and other bodies	Add: UKAR valuation	As restated Group
									2010-11
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Non-current assets	116,406,663	-	3,035,099	119,441,762	116,411,248	-	(14,054)	3,035,099	119,432,293
Current assets (less cash and cash equivalents)	12,153,034	-	-	12,153,034	12,157,787	-	(302,622)	-	11,855,165
Cash and cash equivalents	18,265	-	-	18,265	18,280	-	243,208	-	261,488
Current liabilities	(1,889,758)	1,031,870	-	(857,888)	(1,895,571)	1,031,870	(155,411)	-	(1,019,112)
Non-current liabilities	(2,770,018)	(39,891)	-	(2,809,909)	(2,771,785)	(39,891)	(6,606)	-	(2,818,282)
Assets less liabilities	**123,918,186**	**991,979**	**3,035,099**	**127,945,264**	**123,919,959**	**991,979**	**(235,485)**	**3,035,099**	**127,711,552**
Taxpayers' equity	**123,918,186**	**991,979**	**3,035,099**	**127,945,264**	**123,919,959**	**991,979**	**(235,485)**	**3,035,099**	**127,711,552**

Statement of Financial Position 2009-10

	Core Treasury	Add: CFERs	As restated Core Treasury	Group	Add: CFERs	Add: NDPBs and other bodies	As restated Group
							2009-10
	£000	£000	£000	£000	£000	£000	£000
Non-current assets	124,621,110	-	124,621,110	124,625,264	-	(113,723)	124,511,541
Current assets (less cash and cash equivalents)	2,422,001	-	2,422,001	2,423,877	-	(299,600)	2,124,277
Cash and cash equivalents	1,941	-	1,941	1,955	-	93,268	95,223
Current liabilities	(1,834,234)	1,117,832	(716,402)	(1,842,968)	1,117,832	(27,205)	(752,341)
Non-current liabilities	(4,360,450)	-	(4,360,450)	(4,363,722)	-	(3,076)	(4,366,798)
Assets less liabilities	**120,850,368**	**1,117,832**	**121,968,200**	**120,844,406**	**1,117,832**	**(350,336)**	**121,611,902**
Taxpayers' equity	**120,850,368**	**1,117,832**	**121,968,200**	**120,844,406**	**1,117,832**	**(350,336)**	**121,611,902**

4. Analysis of net outturn

4.1 Analysis of net resource outturn against Estimate

	Administration			Programme			Outturn		2011-12 Estimate	2010-11 Outturn
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	Net total outturn	Net total per Estimate	Net total outturn compared to Estimate	(Restated) Net total outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit										
Voted										
Core Treasury (including IUK and OTS)	128,131	(11,184)	116,947	16,737	(16,408)	329	**117,276**	137,037	**19,761**	126,291
UK coinage manufacturing costs	-	-	-	15,732	(1,596)	14,136	**14,136**	17,500	**3,364**	13,070
UK Debt Management Office	14,905	(6,468)	8,437	4,794	(1,373)	3,421	**11,858**	11,400	**(458)**	14,826
Asset Protection Agency	8,856	(10,332)	(1,476)	-	-	-	**(1,476)**	1	**1,477**	-
UK Financial Investments	5,476	-	5,476	-	-	-	**5,476**	3,000	**(2,476)**	2,702
Office for Budget Responsibility	1,693	(1)	1,692	-	-	-	**1,692**	1,750	**58**	-
Royal Mint Advisory Committee	-	-	-	-	-	-	**-**	1	**1**	
Non-voted										
Banking and gilts registration services	-	-	-	11,332	-	11,332	**11,332**	13,020	**1,688**	11,309
Total spending in Department Expenditure Limit	**159,061**	**(27,985)**	**131,076**	**48,595**	**(19,377)**	**29,218**	**160,294**	**183,709**	**23,415**	**168,198**
Annually Managed Expenditure										
Voted										
Financial Services Compensation Scheme	-	-	-	343,513	(690,248)	(346,735)	**(346,735)**	(372,000)	**(25,265)**	(64,301)
Money Advice Service	-	-	-	40,943	(45,673)	(4,730)	**(4,730)**	950	**5,680**	(834)
Investment in Bank of England	-	-	-	-	(2,297,900)	(2,297,900)	**(2,297,900)**	(30,000)	**2,267,900**	(62,764)
Equitable Life payment scheme	-	-	-	20,273	-	20,273	**20,273**	24,000	**3,727**	1,499,705
UK coinage metal costs	-	-	-	24,468	(892)	23,576	**23,576**	24,000	**424**	19,092
Provisions	-	-	-	(18,389)	-	(18,389)	**(18,389)**	(24,000)	**(5,611)**	(267)
Impairments	-	-	-	14,099,548	-	14,099,548	**14,099,548**	23,256,000	**9,156,452**	942,155
Assistance to financial institutions	-	-	-	(28,127,941)	(2,110,155)	(30,238,096)	**(30,238,096)**	(25,971,100)	**4,266,996**	(14,766,742)
Royal Mint Dividend	-	-	-	-	(4,000)	(4,000)	**(4,000)**	(4,000)	**-**	(4,000)
Non-voted										
Royal Household Pensions	-	-	-	3,635	(967)	2,668	**2,668**	2,900	**232**	2,817
Civil List	-	-	-	9,513	(1,254)	8,259	**8,259**	8,259	**-**	8,259
Total spending in Annually Managed Expenditure	**-**	**-**	**-**	**(13,604,437)**	**(5,151,089)**	**(18,755,526)**	**(18,755,526)**	**(3,084,991)**	**15,670,535**	**(12,426,880)**
Total resource outturn	**159,061**	**(27,985)**	**131,076**	**(13,555,842)**	**(5,170,466)**	**(18,726,308)**	**(18,595,232)**	**(2,901,282)**	**15,693,950**	**(12,258,682)**

4.2 Analysis of net capital outturn against Estimate

					2011-12	2010-11
			Outturn		Estimate	Outturn
	Gross expenditure	Capital receipts	Net total outturn	Net total per Estimate	Net total outturn compared to Estimate	Net total outturn
	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit						
Voted						
Core Treasury (including IUK and OTS)	17,318	(1)	17,317	21,220	**3,903**	11,322
Loans given by IFUL	19,167	-	19,167	38,820	**19,653**	29,268
UK Debt Management Office	516	(509)	7	700	**693**	943
Asset Protection Agency	-	-	-	-	-	1,585
UK Financial Investments	6	-	6	-	**(6)**	-
Office for Budget Responsibility	-	-	-	-	-	-
Capital spending in Department Expenditure Limit	**37,007**	**(510)**	**36,497**	**60,740**	**24,243**	**43,118**
Annually Managed Expenditure						
Voted						
Financial Services Compensation Scheme	91	-	91	-	**(91)**	546
Money Advice Service	1,605	-	1,605	-	**(1,605)**	-
Loan to Ireland	1,210,110	-	1,210,110	1,210,110	-	-
Assistance to financial institutions	43,727	(5,825,204)	(5,781,477)	(4,316,000)	**1,465,477**	(2,241,013)
Capital spending in Annually Managed Expenditure	**1,255,533**	**(5,825,204)**	**(4,569,671)**	**(3,105,890)**	**1,463,781**	**(2,240,467)**
Total capital outturn	**1,292,540**	**(5,825,714)**	**(4,533,174)**	**(3,045,150)**	**1,488,024**	**(2,197,349)**

4.3 Explanation of Variances between Estimate and Outturn as at 31 March 2012

Explanation for significant variances between Estimates and Outturn for 2011-12 are summarised below. Further details are included in the management commentary in Chapter 5.

4.3.1 Net resource outturn against Estimate

Spending in Department Expenditure Limit

Net total outturn was an under-spend of £23.4 million. Core Treasury under-spent by £19.8 million within DEL. After the payment of the UKFI management fee (shown separately in note 4.1) the underlying variance was an under-spend of £17.3 million. For 2011-12, the Department planned a contingency amount of £15 million against Core Treasury DEL in order to allow it to respond as necessary to wider financial stability risks in the Eurozone. This contingency amount remained unused at the reporting date.

Expenditure on manufacturing coinage was £3.4 million lower than the Estimate. This is due to levels of coinage demand, and therefore coinage production, being lower than anticipated in the Estimate, although still higher than the prior year.

Banking and gilts expenditure relates to payments to Computershare Investor Services plc for management of the gilts register and to the Bank of England for managing the Exchange Equalisation Account (EEA). The final charge from the Bank of England was £0.7 million lower than their initial request and expenditure on the gilts register was £1 million lower than anticipated.

Annually Managed Expenditure

Net total outturn was an under-spend of £15.7 billion. The most significant factors were:

1. The share prices for RBS and Lloyds Banking Group improved significantly from the time when the supplementary Estimate was being prepared in December to the reporting date. This impacted on HM Treasury's impairment assessment and consequently share impairments were £8.9 billion lower than anticipated at £14.4 billion. See note 13 for details of available-for-sale assets.

2. Fair value gains on derivatives increased by £4.2 billion from £24.2 billion in the Estimate to £28.4 billion. This was primarily due to a favourable movement of the Bank of England Asset Purchase Facility Fund (BEAPFF) of £28 billion during 2011-12. It is not possible to accurately predict movements in the BEAPFF derivative as its value changes significantly with respect to market interest rates, as detailed in notes 23.5.2.

3. The Special Liquidity Scheme (SLS) finished at the end of January 2012. The SLS was operated by the Bank of England and HM Treasury indemnified the Bank for any losses it made. Following the scheme's closure, the Bank of England and HM Treasury agreed that the full profits would be paid to HM Treasury as a special payment in April 2012. The full £2.3 billion has been recognised in 2011-12.

4. During 2011-12 there was an improvement in the overall level of statutory debt loan recoveries, based on administrator reports. This has led to impairments of £0.3 billion being reversed. For further details see note 15.1.

4.3.2 Net capital outturn against Estimate

Capital spending in Department Expenditure Limit

Capital spending was £24.2 million lower than in the Estimate.

Of this, £19.7 million is due to a lower level of lending by Infrastructure Finance Unit Ltd and a further £3.9 million is due to capital projects within the Department relating to workspace improvements and the upgrade to COINS, an IT system used across Government to collect financial information. These projects have been re-profiled across 2011-12 and 2012-13.

Capital spending Annually Managed Expenditure

Net capital receipts were £1.5 billion higher than in the Estimate. Of this, £0.9 billion is due to Bradford & Bingley not needing to draw down £0.3 billion against their working capital facility, and instead making loan repayments of £0.6 billion.

A further £0.5 billion relates to higher than expected loan repayments from administrators relating to both statutory and FSCS debt. Details of all loan repayments are included in note 15.1.

5. Reconciliation of outturn to net operating costs and administration budget

5.1 Reconciliation of net resource outturn to net operating income

	2011-12 Outturn £000	2010-11 (Restated) Outturn £000
Total resource outturn in Statement of Parliamentary Supply	(18,595,232)	(12,258,682)
Non-budget income	(35,844)	(112,386)
Net operating income	**(18,631,076)**	**(12,371,068)**

5.2 Outturn against final administration budget

	Note	2011-12 Outturn £000	2010-11 (Restated) Outturn £000
Estimate – Administration costs limit		146,831	150,318
Outturn – Gross administration costs	6.1, 7.1	159,061	178,173
Outturn – Gross income relating to administration	9.1	(27,985)	(36,762)
Outturn – Net administration costs		**131,076**	**141,411**
Reconciliation to operating costs:			
Less: provisions utilised (transfer from programme)		(784)	(704)
Less: income payable to the Consolidated Fund		(35)	(1,281)
SCNE net administration costs		**130,257**	**139,426**

6. Staff numbers and costs

6.1 Analysis of total staff costs

	Ministers[1]	Special Advisers	Permanent staff	Others[2]	2011-12 Total	2010-11 (Restated) Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,373	382	81,609	5,859	**89,223**	94,409
Social Security costs	141	40	8,414	64	**8,659**	7,618
Other pension costs	-	78	13,479	122	**13,679**	13,695
Total costs	**1,514**	**500**	**103,502**	**6,045**	**111,561**	**115,722**
Less recoveries in respect of outward secondments	-	-	(2,760)	-	**(2,760)**	(2,345)
Total net costs	**1,514**	**500**	**100,742**	**6,045**	**108,801**	**113,377**
Of which:						
Core Treasury	1,514	500	63,086	1,677	**66,777**	74,594
Agencies	-	-	10,221	3,697	**13,918**	14,897
NDPBs and other bodies	-	-	27,435	671	**28,106**	23,886
Total net costs	**1,514**	**500**	**100,742**	**6,045**	**108,801**	**113,377**

[1] Ministers include: Chancellor of the Exchequer – the Rt Hon George Osborne MP; Chief Secretary to the Treasury – the Rt Hon Danny Alexander MP; Financial Secretary to the Treasury – Mark Hoban MP; Exchequer Secretary to the Treasury – David Gauke MP; Economic Secretary to the Treasury – Chloe Smith MP from October 2011, Justine Greening MP to October 2011; and Commercial Secretary to the Treasury – Lord Sassoon

[2] Includes agency staff, contractor staff, temporary staff and staff seconded in.

Staff costs comprise £86.1 million of administration costs (2010-11: £93.7 million), £25.4 million of programme costs (2010-11: £22.1 million) and recoveries of £2.8 million (2010-11: £2.3 million).

Further staff costs of £2.1 million have been charged to FSCS projects (2010-11: £0.8 million).

6.2 Pension schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which HM Treasury is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Associates) valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation.[4]

For 2011-12, employers' contributions of £10.16 million were payable to the PCSPS (2010-11: £10.97 million) at one of four rates in the range 16.7 to 24.3 per cent (2010-11: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.39 million (2010-11: £0.35 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

In addition, employer contributions of £28,000 (2010-11: £9,000), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

[4] www.civilservice-pensions.gov.uk

Contributions due to the partnership pension providers at the reporting date were nil (2010-11: nil). Contributions prepaid at that date were £0.9 million (2010-11: nil).

The FSCS, MAS and UKFI operate defined contribution schemes, details of which are included in their respective annual accounts. Employers' contributions to these schemes totalled £2.1 million during 2011-12 (2010-11: £1.2 million). Contributions due to the pension providers at the reporting date were £0.2 million (2010-11: £0.1 million).

The FSCS additionally operates a defined benefit scheme. The amount recognised in the Statement of Financial Position is a net liability of £3.6 million (2010-11: net liability of £2.9 million).

6.3 Ill health retirement

During 2011-12 there were no early retirements on ill-health grounds (2010-11: two people, resulting in additional accrued pension liabilities of £0.1 million). The costs of such retirements are funded by normal contributions to the PCSPS.

6.4 Average number of persons employed

The average number of full-time equivalent persons employed during the year was as follows:

					2011-12	2010-11 (Restated)
					Number	Number
	Ministers	Special Advisers	Officials	Others	Total	Total
Core Treasury	6	6	1,152	38	**1,202**	**1,375**
Agencies	-	-	140	18	**158**	**156**
NDPBs and other bodies	-	-	350	20	**370**	**341**
Total persons employed	**6**	**6**	**1,642**	**76**	**1,730**	**1,872**

6.5 Additional ministerial salaries borne by HM Treasury

HM Treasury also bears the following ministerial salaries:

Official title	Name	2011-12 Salaries £000	2010-11 Salaries £000
Prime Minister	David Cameron (from May 2010)	75 – 80	65 – 70
	Gordon Brown (from June 2007 to May 2010)		5 – 10
Chief Whip (Commons)	Patrick McLoughlin (from May 2010)	30 – 35	25 – 30
	Nicholas Brown for Oct 2008 to May 2010)		5 – 10
Deputy Chief Whip (Commons)	John Randall (from May 2010)	30 – 35	25 – 30
	Alistair Carmichael (from May 2010)	15 – 20	15 – 20
	Thomas McAvoy (from Oct 2008 to May 2010)		0 – 5
Chief Whip (Lords)	Baroness Anelay of St John's (from May 2010)	115 – 120	100 – 105
	Lord Bassam (from Oct 2008 to May 2010)		15 – 20
Deputy Chief Whip (Lords)	Lord Shutt of Greenland (from May 2010)	120 – 125	95 – 100
	Lord Davies of Oldham (to May 2010)		10 – 15
Lords in waiting (8 posts, 3 unpaid)		515 – 520	540 – 545
Government and Assistant Government Whips (14 posts, 2 unpaid)		230 – 235	315 – 320

7. Other administration costs

7.1 Other administration costs

	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
			2011-12			2010-11 (Restated)
	£000	£000	£000	£000	£000	£000
Staff-related costs, including training and travel	3,819	4,307	4,331	3,823	4,560	4,584
Accommodation costs:						
Interest element of on-balance sheet PFI contract	9,599	9,599	9,599	9,718	9,718	9,718
Service element of on-balance sheet PFI contract	4,318	4,318	4,327	3,700	3,700	3,700
Contingent rent on PFI contract	5,028	5,028	5,028	3,967	3,967	3,967
Other accommodation costs	5,590	7,587	8,036	5,524	7,959	8,203
Office services	7,993	10,683	11,013	7,617	10,683	10,840
Consultancy: legal	4,268	5,001	5,709	3,945	4,406	4,634
Consultancy and professional services: IT	8,634	9,180	9,281	13,948	14,259	14,330
Other consultancy	2,292	2,343	5,969	10,608	15,835	16,112
Other professional services	7,219	8,338	470	3,143	3,172	475
Auditors' remuneration	4	4	26	12	12	30
Taxation	-	-	1,103	-	-	-
Other	-	-	-	(14)	(14)	(14)
Non cash items						
Depreciation and amortisation of non-current assets	4,609	6,761	6,837	4,288	6,514	6,588
Loss/(gain) on disposal of non-current assets	1	1	1	84	84	84
Loss on impairment of non-current assets	-	-	-	127	127	127
Auditors' remuneration	371	435	435	371	434	434
Total non cash items	**4,981**	**7,197**	**7,273**	**4,870**	**7,159**	**7,233**
Total	**63,745**	**73,585**	**72,165**	**70,861**	**85,416**	**83,812**

UKFI's auditor's remuneration of £16,000 is eliminated on consolidation as a result of being recharged to Core Treasury. This cost is therefore included in Core Treasury other professional services.

No payments were made to the auditors in respect of non-audit services.

Administration costs include an increase in accommodation costs for Core Treasury of £1.6 million as a result of an inflationary uplift included within the contract and an increase in occupancy. These costs have been offset by an increase in accommodation recharges of £2.2 million, included in operating income.

While Core Treasury expenditure on consultancy decreased by £13.3 million, expenditure on other professional services increased by £4.1 million. This is largely driven by an increase in expenditure by Core Treasury on UKFI as a result of reimbursing costs incurred on the sale of Northern Rock.

7.2 Costs incurred and related recoveries on financial stability interventions

Other administration costs include professional fees incurred in relation to the financial stability interventions. Some of these costs have been recharged to the institutions that have benefited from these measures as summarised below:

		2011-12 £000	2010-11 £000
Professional fees incurred:	Legal advice	325	466
	Financial advice	1,077	8,055
	Other advice	1,101	2,116
Other costs		15,798	11,823
Total		**18,301**	**22,460**
Related recoveries		11,511	19,816

8. Other programme costs

	Note	Core Treasury	Core Treasury and Agencies	Group 2011-12	Core Treasury	Core Treasury and Agencies	Group 2010-11 (Restated)
		£000	£000	£000	£000	£000	£000
UK coinage: manufacturing costs	22	15,732	15,732	15,732	13,811	13,811	13,811
UK coinage: metal costs	22	24,468	24,468	24,468	19,652	19,652	19,652
Equitable Life administration	19.3.1	20,273	20,273	20,273	6,835	6,835	6,835
Royal Household Pensions		3,635	3,635	3,635	3,861	3,861	3,861
Civil List		9,513	9,513	9,513	9,513	9,513	9,513
Grant repayment		16,010	16,010	16,010	-	-	-
FSCS and MAS expenditure:							
FSCS compensation costs		-	-	278,422	-	-	392,938
FSCS claims outsourcing costs		-	-	11,645	-	-	13,442
FSCS Welcome costs				7,430			890
Staff-related costs, including training and travel		-	-	2,152	-	-	1,963
FSCS change programme		-	-	9,836	-	-	17,231
Other accommodation costs		-	-	4,391	-	-	1,992
Office services		-	-	23,940	-	-	19,253
Consultancy: legal		-	-	10,072	-	-	3,405
Consultancy and professional services: IT		-	-	1,770	-	-	2,501
Other consultancy		-	-	4,777	-	-	2,705
Debt advice services		-	-	900	-	-	-
FSA agency fee		-	-	396	-	-	314
Auditors' remuneration		-	-	414	-	-	206
Taxation		-	-	83	-	-	22
Other programme expenditure		308	5,096	6,210	1,498	6,028	6,653
Non cash items							
FSCS and MAS depreciation and amortisation		-	-	965	-	-	967
FSCS pension costs		-	-	(1,154)	-	-	(355)
BEAPFF and APS derivative fair value movements in SCNE	14.1	(28,443,612)	(28,443,612)	(28,443,612)	(12,387,350)	(12,387,350)	(12,387,350)
Non-supply - Banking and gilts registration services		11,332	11,332	11,332	11,309	11,309	11,309
Impairment of financial assets	23.7	14,099,548	14,099,548	14,099,548	942,156	942,156	942,156
Loss on disposal of investments		315,000	315,000	315,000	-	-	-
Provisions provided in year	19.1	4,489	5,417	7,691	1,495,024	1,495,025	1,520,315
Release of surplus provision	19.1	(50,474)	(50,474)	(50,474)	(30,812)	(30,812)	(30,812)
Unwinding of discount on provision	19.1	28,128	28,129	28,129	17	18	18
Change in provision due to change in discount rate	19.1	1	1	1	(12)	(12)	(12)
Total non cash items		**(14,035,588)**	**(14,034,659)**	**(14,032,574)**	**(9,969,668)**	**(9,969,666)**	**(9,943,764)**
Total programme costs		**(13,945,649)**	**(13,939,932)**	**(13,580,505)**	**(9,914,498)**	**(9,909,966)**	**(9,426,577)**

Auditors' remuneration includes £78,000 (2010-11: nil) for non-audit services.

FSCS Welcome costs relate to compensation costs and the costs associated with handling claims for Welcome Financial Services Limited. The costs are recovered from Welcome and the corresponding income is included in note 9.

9. Operating income

9.1 Operating income analysed by activities

			2011-12			2010-11 (Restated)
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Administration income						
Letting of accommodation	2,823	2,816	2,816	604	1,120	1,120
Recharges and other recoveries	4,538	14,871	14,510	9,531	24,389	24,786
Consultancy income	984	984	984	5,023	5,023	5,023
DMO fees and charges	-	6,492	6,492	-	2,827	2,827
Other administration income	3,220	3,237	3,219	4,552	4,565	4,287
	11,565	**28,400**	**28,021**	**19,710**	**37,924**	**38,043**
Programme income						
FSCS levy income	-	-	603,747	-	-	851,964
FSCS Welcome recoveries	-	-	48,808	-	-	1,022
FSCS other recoveries	-	-	37,112	-	-	19,741
MAS income	-	-	45,673	-	-	32,050
Fees for financial guarantees	984,659	984,659	984,659	1,338,729	1,338,729	1,338,729
Fees for contingent capital	320,000	320,000	320,000	320,000	320,000	320,000
Interest and fee income from loans	987,598	987,598	617,979	624,300	624,300	289,599
Amortisation of loans	189,633	189,633	189,633	149,081	149,081	149,081
Other financial stability income	-	-	-	2,802	2,802	2,802
Net losses due to hedging ineffectiveness	(1,369)	(1,369)	(1,369)	(84,608)	(84,608)	(84,608)
Pool Re insurance premiums	35,805	35,805	35,805	111,106	111,106	111,106
Bank of England payment	2,297,900	2,297,900	2,297,900	62,764	62,764	62,764
Royal Mint dividend	4,000	4,000	4,000	4,000	4,000	4,000
Other dividends	221	221	221	513	513	513
Royalty income	1,596	1,596	1,596	741	741	741
Sale of coinage scrap metal	892	892	892	560	560	560
Royal Household Pensions	967	967	967	1,044	1,044	1,044
Civil List	1,254	1,254	1,254	1,254	1,254	1,254
Reimbursement of grant repayment from DCLG	16,010	16,010	16,010	-	-	-
Other programme income	16	1,389	1,389	2,510	3,620	3,620
	4,839,182	**4,840,555**	**5,206,276**	**2,534,796**	**2,535,906**	**3,105,982**
Total operating income	**4,850,747**	**4,868,955**	**5,234,297**	**2,554,506**	**2,573,830**	**3,144,025**

The Bank of England payment in lieu of dividend includes an additional payment in relation to the profits on the Special Liquidity Scheme. For further details see note 36.4.

Income received from Pool Re and Pool Re (Nuclear) is in the form of insurance premiums for the funding commitment provided by HM Treasury as described in note 24.1. The decrease in income of £75.3 million is due to 2010-11 including a £73.8 million additional accrual for premiums and interest outstanding for calendar years 2009 and 2010. Annual premiums for 2011-12 compared to 2010-11 decreased by £1.5 million.

Reimbursement of grant repayment from Department for Communities and Local Government (DCLG) relates to the return of grant monies to the European Union Structural Fund (EUSF). Whilst HM Treasury was the original signatory of the grant from the EUSF, it was not responsible for administering the grant. DCLG have agreed to reimburse HM Treasury for the cost of grant repayment.

9.2 Analysis of amounts payable to the Consolidated Fund

The following income and receipts are payable to the Consolidated Fund:

		Outturn 2011-12		Outturn 2010-11 (Restated)
	Income	*Cash receipts*	Income	*Cash receipts*
	£000	*£000*	£000	*£000*
Operating income				
Operating income outside the scope of the Estimate – paid over in year	34,934	*34,934*	38,497	*38,497*
Operating income outside the scope of the Estimate – payable at 31 March	910	*35*	73,889	*90*
	35,844	***34,969***	**112,386**	***38,587***
Excess cash				
Excess cash surrendered to the Consolidated Fund – paid over in year	5,853,971	*5,853,971*	5,804,761	*5,804,761*
Excess cash surrenderable to the Consolidated Fund – payable at 31 March	11,041	*11,041*	18,191	*18,191*
	5,865,012	***5,865,012***	**5,822,952**	***5,822,952***
Total amounts paid and payable to the Consolidated Fund	**5,900,856**	***5,899,981***	**5,935,338**	***5,861,539***

Operating income outside the scope of the Estimate relates to income received which is outside of HM Treasury's ambit. This mainly comprises Pool Re insurance premiums received by Core Treasury and Special Liquidity Scheme fees received by the DMO. The difference between income recognised and cash receipts paid over arises from income accrued but not yet received.

Excess cash surrenderable to the Consolidated Fund relates to cash received by Core Treasury and its agencies in excess of that needed to meet operating costs. Significant sources included interest and loan repayments received from Northern Rock (Asset Management), Bradford & Bingley and the FSCS; fee income from RBS for contingent capital and for its inclusion the APS; fee income in respect of guarantees issued under the Credit Guarantee Scheme and in respect of deposit guarantees issued to Northern Rock, Northern Rock (Asset Management) and Bradford & Bingley; and proceeds from the sale of Northern Rock.

10. Segment reporting

10.1 Operating segments

The operating segment analysis is reported in a manner consistent with the internal reporting provided to HM Treasury's Executive Management Board (EMB). This reporting covers Core Treasury and Agencies and excludes NDPBs and other bodies. As at 31 March 2012, HM Treasury's operating segments consisted of the following:

- Core Treasury department (excluding the Office of Tax Simplification)
- Office of Tax Simplification
- Financial Instruments
- UK Debt Management Office
- Asset Protection Agency
- UK Financial Investments
- Office for Budget Responsibility[5]

The EMB, which is responsible for allocating resources across the Treasury Group, and for assessing the performance of the operating segments based on each segment's outturn against budget, has been identified as the chief operating decision maker, in accordance with accounting standards. Transactions between segments are carried out at arm's length and any material intra-group transactions and balances are eliminated on consolidation.

10.2 Segmental analysis

Group segmental reporting analysis

Analysis of net expenditure

			2011-12			2010-11 (Restated)
	Gross Expenditure	Income	Net Expenditure/ (Income)	Gross Expenditure/ (Income)	Income	Net Expenditure/ (Income)
	£000	£000	£000	£000	£000	£000
Core Treasury						
Administration	132,840	(11,565)	121,275	147,605	(19,710)	127,895
Equitable Life	20,273	-	20,273	1,499,705	-	1,499,705
Royal Household Pension Scheme & Civil List	13,148	(2,221)	10,927	13,374	(2,298)	11,076
Other Programme	49,994	(2,356,439)	(2,306,445)	17,762	(182,195)	(164,433)
Office of Tax Simplification	209	-	209	118	-	118
Financial Instruments	(14,028,644)	(2,480,522)	(16,509,166)	(11,445,194)	(2,350,303)	(13,795,497)
UK Debt Management Office	19,699	(8,429)	11,270	19,345	(4,609)	14,736
Asset Protection Agency	10,332	(10,332)	-	14,715	(14,715)	-
UK Financial Investments	5,693	(5,693)	-	2,918	(2,918)	-
Office for Budget Responsibility	1,705	(1)	1,704	-	-	-
Total reported segments	**(13,774,751)**	**(4,875,202)**	**(18,649,953)**	**(9,729,652)**	**(2,576,748)**	**(12,306,400)**
Reconciliation to SCNE:						
Eliminations between reported segments	(6,484)	6,484	-	(2,702)	2,702	-
Financial Services Compensation Scheme	763,855	(690,248)	73,607	863,973	(872,809)	(8,836)
Money Advice Service	40,943	(45,673)	(4,729)	31,216	(32,050)	(834)
Eliminations with non-reported segments	(420,342)	370,342	(50,001)	(389,878)	334,880	(54,998)
Group total per SCNE	**(13,396,779)**	**(5,234,297)**	**(18,631,076)**	**(9,227,043)**	**(3,144,025)**	**(12,371,068)**

[5] The OBR was formally commissioned as an independent body at the commencement of financial year 2011-12. During 2010-11, the costs of running OBR were met from within Core HM Treasury.

Analysis of net assets

	2011-12		2010-11 (Restated)	
	Total Assets	Net Assets	Total Assets	Net Assets
	£000	£000	£000	£000
Core Treasury	139,000,692	136,581,834	131,613,061	127,945,264
UK Debt Management Office	3,178	462	3,066	164
Asset Protection Agency	3,869	943	6,287	1,608
UK Financial Investments	734	-	560	-
Office for Budget Responsibility	393	142	-	-
Total reported segments	**139,008,866**	**136,583,381**	**131,622,974**	**127,947,036**
Reconciliation to SoFP:				
Eliminations between reported segments	(456)	-	(340)	-
Financial Services Compensation Scheme	18,146,776	(259,977)	19,050,336	(640,270)
Money Advice Service	25,455	5,563	17,526	834
Eliminations with non-reported segments	(18,321,001)	3,197	(19,141,553)	403,953
Group total per SoFP	**138,859,640**	**136,332,164**	**131,548,943**	**127,711,553**

11. Property, plant and equipment

11.1 Group property, plant and equipment 2011-12

	Land	Buildings	Leasehold Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	2011-12 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation									
At 1 April 2011 (Restated)	24,812	74,438	4,668	268	2,344	16,848	1,570	2,602	**127,550**
Transfers	-	-	-	-	171	141	-	(312)	-
Additions	-	-	22	-	89	1,072	-	11,922	**13,105**
Disposals	-	-	-	-	-	(91)	(1)	-	**(92)**
At 31 March 2012	**24,812**	**74,438**	**4,690**	**268**	**2,604**	**17,970**	**1,569**	**14,212**	**140,563**
Accumulated depreciation									
At 1 April 2011 (Restated)	-	1,654	3,341	39	1,591	10,312	-	-	**16,937**
Charge in year	-	1,692	439	27	219	2,966	-	-	**5,343**
Released on disposal	-	-	-	-	-	(91)	-	-	**(91)**
At 31 March 2012	**-**	**3,346**	**3,780**	**66**	**1,810**	**13,187**	**-**	**-**	**22,189**
Net book value 1 April 2011 (Restated)	24,812	72,784	1,327	229	753	6,536	1,570	2,602	**110,613**
Net book value 31 March 2012	**24,812**	**71,092**	**910**	**202**	**794**	**4,783**	**1,569**	**14,212**	**118,374**

Group property, plant and equipment 2010-11

	Land	Buildings	Leasehold Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	2010-11 (Restated) Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation									
At 1 April 2010	24,812	74,438	4,066	262	2,093	12,410	1,649	-	**119,730**
Transfers	-	-	-	-	-	4,661	-	(4,661)	-
Additions	-	-	602	6	251	1,612	3	7,263	**9,737**
Impairments	-	-	-	-	-	-	(127)	-	**(127)**
Disposals	-	-	-	-	-	(1,835)	(2)	-	**(1,837)**
Revaluation	-	-	-	-	-	-	47	-	**47**
At 31 March 2011	**24,812**	**74,438**	**4,668**	**268**	**2,344**	**16,848**	**1,570**	**2,602**	**127,550**
Accumulated depreciation									
At 1 April 2010	-	-	2,837	13	1,359	9,857	-	-	**14,066**
Charge in year	-	1,654	504	26	232	2,224	-	-	**4,640**
Released on disposal	-	-	-	-	-	(1,769)	-	-	**(1,769)**
At 31 March 2011	**-**	**1,654**	**3,341**	**39**	**1,591**	**10,312**	**-**	**-**	**16,937**
Net book value 1 April 2010	24,812	74,438	1,229	249	734	2,553	1,649	-	**105,664**
Net book value 31 March 2011	**24,812**	**72,784**	**1,327**	**229**	**753**	**6,536**	**1,570**	**2,602**	**110,613**

The net book value of property, plant and equipment comprises:

	Core Treasury	Agencies	NDPBs and other bodies	Group
	£000	£000	£000	£000
31 March 2011 (Restated)	108,718	350	1,545	**110,613**
31 March 2012	**116,582**	**196**	**1,596**	**118,374**

11.2 1 Horse Guards Road

1 Horse Guards Road is financed via a PFI contract and, applying the principles of IFRIC 12, the provision of serviced accommodation is treated as an infrastructure asset of HM Treasury. A full valuation was carried out by the Valuation Office Agency (VOA) in March 2010. A desktop revaluation is scheduled to take place in March 2013 by the VOA. Details of the PFI contract are included in note 21.2.

Commencing in 2010-11, HM Treasury has been carrying out a workspace project at 1 Horse Guards Road. The aim of the project is to increase the number of public sector occupants working in the building in addition to the Department. Optimising the space allows HM Treasury to generate rental income by more than doubling the original occupancy. The project involves space consolidation, building refurbishment and infrastructure upgrades. Capital expenditure on the workspace project during 2011-12 was £11.5 million (2010-11: £3.1 million) which is reflected in the increase in assets-under-construction in note 11.1.

12. Intangible assets

Group intangible assets 2011-12

	Externally generated software	Software licences	Goodwill	Assets under construction	Internally generated software	2011-12 Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2011	4,140	9,980	1,772	600	4,453	**20,945**
Transfers	-	10	-	(147)	137	-
Additions	-	199	-	5,296	939	**6,434**
Disposals	-	-	-	-	(418)	**(418)**
At 31 March 2012	**4,140**	**10,189**	**1,772**	**5,749**	**5,111**	**26,961**
Accumulated depreciation						
At 1 April 2011	1,147	9,143	-	-	3,706	**13,996**
Charge in year	1,689	555	-	-	219	**2,463**
Released on disposal	-	-	-	-	(418)	**(418)**
At 31 March 2012	**2,836**	**9,698**	**-**	**-**	**3,507**	**16,041**
Net book value 1 April 2011	2,993	837	1,772	600	747	**6,949**
Net book value 31 March 2012	**1,304**	**491**	**1,772**	**5,749**	**1,604**	**10,920**

Group intangible assets 2010-11

	Externally generated software	Software licences	Goodwill	Assets under construction	Internally generated software	2010-11 (Restated) Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2010	1,509	9,846	-	1,500	3,696	**16,551**
Transfers	2,631	-	-	(2,980)	349	-
Additions	-	235	1,772	2,080	444	**4,531**
Disposals	-	(101)	-	-	(36)	**(137)**
At 31 March 2011	**4,140**	**9,980**	**1,772**	**600**	**4,453**	**20,945**
Accumulated depreciation						
At 1 April 2010	72	7,971	-	-	3,150	**11,193**
Charge in year	1,075	1,250	-	-	592	**2,917**
Released on Disposal	-	(78)	-	-	(36)	**(114)**
At 31 March 2011	**1,147**	**9,143**	**-**	**-**	**3,706**	**13,996**
Net book value 1 April 2010	1,437	1,875	-	1,500	546	**5,358**
Net book value 31 March 2011	**2,993**	**837**	**1,772**	**600**	**747**	**6,949**

The net book value of intangible assets comprises:

	Core Treasury	Agencies	NDPBs and other bodies	Group
	£000	£000	£000	£000
31 March 2011 (Restated)	2,830	4,102	17	**6,949**
31 March 2012	**7,680**	**2,615**	**625**	**10,920**

13. Available-for-sale assets

13.1 Available-for-sale assets held HM Treasury

	Note	At 1 April 2011 (Restated)	Additions	Disposals	Fair Value Adjustment	Impairments	At 31 March 2012
		£000	£000	£000	£000	£000	£000
Bank of England share capital		4,423,000	-	-	(1,036,000)	-	**3,387,000**
Royal Mint Public Dividend Capital		5,500	-	-	-	-	**5,500**
Partnerships UK ordinary shares		7,865	-	-	2,548	-	**10,413**
UK Financial Investments ordinary shares		-	-	-	-	-	**-**
UK Asset Resolution ordinary shares		3,035,100	-	-	1,641,300	-	**4,676,400**
Northern Rock plc ordinary shares		1,188,000	-	(1,188,000)	-	-	**-**
Northern Rock perpetual capital notes		-	66,000	-	16,000	-	**82,000**
RBS ordinary shares	13.1.1	16,171,128	-	-	(5,213,296)	-	**10,957,832**
RBS B shares		20,802,900	-	-	4,697,100	(11,403,600)	**14,096,400**
RBS Dividend Access Shares		2,288,427	-	-	(489,054)	-	**1,799,373**
Lloyds Banking Group ordinary shares	13.1.1	16,037,814	-	-	(3,735,777)	(3,025,561)	**9,276,476**
Local Partnerships ordinary shares		700	-	-	169	-	**869**
Total		**63,960,434**	**66,000**	**(1,188,000)**	**(4,117,010)**	**(14,429,161)**	**44,292,263**

HM Treasury's shares in the Bank of England, Partnerships UK, UK Asset Resolution and Local Partnerships are valued based on HM Treasury's share of net asset value. Fair value changes therefore reflect the change in the value of net assets held by the bodies. In particular, the decrease in fair value of the share capital of the Bank of England is principally driven by the distribution of the Special Liquidity Scheme surplus which has been offset by actuarial gains on retirement benefits and gains on available for sale assets. For further details see note 36.4.

Summaries of changes to net asset value are included in balance sheet extracts in note 13.2.

HM Treasury's shares in Royal Mint and UK Financial Investments are held at historical cost and consequently there have been no fair value adjustments in-year.

HM Treasury disposed of its shares in Northern Rock during 2011-12. One element of the sale proceeds were perpetual capital notes. The fair value adjustment reflects the change in their valuation from the time of the sale to the reporting date. For further details, see note 23.2.

HM Treasury's ordinary shares in RBS and Lloyds Banking Group and B shares in RBS have been revalued based on the closing share price. Shares have been assessed on a tranche-by-tranche basis, where losses are significant or prolonged they have been recognised through impairments. Previous losses on the RBS B shares that had been recognised through the available-for-sale reserve have been transferred to impairments. For further details see note 13.1.1.

The fair value of the single RBS Dividend Access Share (DAS) reduced as a result of changes to assumptions in the DAS valuation model. In particular, the assumed dividend start date has been adjusted from 2013 to 2015. For further details on the valuation, including uncertainties arising from the use of the valuation model, see note 23.2.

13.1.1 Available-for-sale assets managed on a tranche by tranche basis

HM Treasury has obtained ordinary shares in both RBS and Lloyds Banking Group at various points since October 2008. Fair value and impairment calculations are completed separately for each tranche to reflect the different acquisition costs over time. Across each of the tranches, the weighted average cost per share of RBS shares is £0.51 and of Lloyds Banking Group shares is £0.74.

The table below summarises the fair value adjustments and impairment charges for each tranche of shares. Further details on the financial performance of RBS and Lloyds Banking Group are included in notes 13.2.5 and 13.2.6 respectively.

	At 1 April 2011	Fair Value Adjustment	Impairments	At 31 March 2012
	£000	£000	£000	£000
Royal Bank of Scotland (Ordinary shares)				
Purchase of shares in October 2008	9,322,064	(3,005,275)	-	**6,316,789**
Participation in rights issue in April 2009	6,849,064	(2,208,021)	-	**4,641,043**
Total for Royal Bank of Scotland	**16,171,128**	**(5,213,296)**	**-**	**10,957,832**
Lloyds Banking Group (Ordinary shares)				
Purchase of shares in October 2008	1,538,321	-	(648,536)	**889,785**
Conversion of HBOS shares into Lloyds ordinary shares in January 2009	2,689,025	-	(1,133,659)	**1,555,366**
Participation in rights issue in June 2009	2,626,439	136,092	(1,243,366)	**1,519,165**
Participation in rights issue in December 2009	9,184,029	(3,871,869)	-	**5,312,160**
Total for Lloyds Banking Group	**16,037,814**	**(3,735,777)**	**(3,025,561)**	**9,276,476**

13.2 Accounts extracts of Available for Sale assets

This note provides certain financial information taken from the most recent financial statements for investments held in the Consolidated Statement of Financial Position.

13.2.1 Bank of England

HM Treasury wholly owns the capital stock in the Bank of England.

The Bank of England is required to pay HM Treasury in lieu of dividend a sum equal to 50 per cent of the Banking Department's net profit for its previous financial year, or such other sum as HM Treasury and the Bank of England may agree. For 2011-12, the amount includes the payment of the Special Liquidity Scheme surplus of £2,262 million, bringing the total dividend payable to £2,298 million (2010-11: £64 million).

Extracts from the Banking Department's Accounts for the year ended 29 February 2012

	2012 £ million	2011 £ million
Extracts from the income statement		
Profit before tax	82	132
Corporation tax net of tax relief on payment to HM Treasury	(10)	(5)
Profit for the year attributable to shareholder	72	127
Payment to HM Treasury[1]	(36)	(64)
Profit retained for the year	**36**	**63**
Extracts from the balance sheet		
Loans and advances to banks and other financial institutions	15,157	17,570
Other loans and advances	286,582	199,808
Securities held at fair value through profit and loss	4,782	4,752
Available-for-sale securities	5,340	4,941
Other assets	3,611	2,528
Total assets	**315,472**	**229,599**
Deposits from central banks	(14,806)	(13,836)
Deposits from banks and other financial institutions	(217,623)	(154,405)
Other deposits	(70,163)	(50,043)
Foreign currency bonds in issue	(5,104)	(5,037)
Other liabilities	(4,389)	(1,855)
Total liabilities	**(312,085)**	**(225,176)**
Total equity attributable to shareholder	**3,387**	**4,423**

[1] Does not include £2,262 million relating to the SLS surplus paid out of reserves.
For further information, refer to the full Bank of England Annual Report and Accounts, which are available at: www.bankofengland.co.uk

The Issue Department is required to pay to the National Loans Fund in lieu of dividend a sum equal to 100 per cent of the Issue Department's net profit for its previous financial year. For 2011-12, a dividend of £851 million (2010-11: £475 million) is payable. This represents the interest on securities and other assets held by the Issue Department less the costs of production of bank notes and other expenses.

The Issue Department's liabilities (bank notes in circulation) are interest free. Notes in circulation at 29 February 2012 totalled £54.9 billion (2011: £52.2 billion). The notes are a liability of the Bank of England, which must be backed by an equivalent value of securities.

13.2.2 Royal Mint

HM Treasury wholly owns the Public Dividend Capital of the Royal Mint Trading Fund (and therefore its subsidiary company).

A dividend of £4 million is payable to HM Treasury for the year 2011-12 (2010-11: £4 million).

Extracts from the Royal Mint Trading Fund's Accounts for the year ended 31 March 2012

	2012	2011 (Restated)
	£000	£000
Extracts from the profit and loss statement		
Turnover	313,928	215,067
Operating profit	9,289	3,655
Net interest payable	(966)	(522)
Profit before taxation	**8,323**	**3,133**
Tax on profit of ordinary activities	1,251	(590)
Profit for the year	**9,574**	**2,543**
Extracts from the statement of financial position		
Non-current assets	66,401	47,669
Current assets	65,768	68,994
Liabilities due within one year	(55,349)	(58,652)
Liabilities due after more than one year	(1,371)	(2,744)
Net assets and shareholders' funds	**75,449**	**55,267**

For further information, refer to the full Royal Mint Report and Accounts, which are available at: www.royalmint.com .

13.2.3 Partnerships UK plc

Partnerships UK plc (PUK) is in the process of disposing of its various businesses and is expected to go into solvent liquidation in September 2012.

HM Treasury retains a 44.6 per cent equity interest in the shares of PUK and its investment is valued based on the break-up value of PUK.

PUK have not declared a dividend during 2011-12 (2010-11: £2.2 million).

Extracts from Partnerships UK plc's Accounts for the 18 months ended 30 September 2011

	18 months ended 30 September 2011	Year ended 31 March 2010
	£000	£000
Extracts from the group profit and loss statement		
Group turnover	3,717	12,786
Profit/(loss) on ordinary activities before taxation	9,586	(8,083)
Tax (charge)/credit on profit/loss of ordinary activities	(2,362)	837
Profit/(loss) for the financial period	**7,224**	**(7,246)**
Extracts from the group balance sheet		
Current assets	26,781	44,194
Current liabilities	(3,413)	(23,050)
Equity shareholders' funds	**23,368**	**21,144**

13.2.4 United Kingdom Asset Resolution limited (UKAR)

UKAR was established on 1 October 2010 as the single holding company for Northern Rock (Asset Management) plc (NRAM) and Bradford & Bingley plc (B&B). HM Treasury's shares in NRAM and B&B were transferred to UKAR during 2010-11. NRAM and B&B continue to be separate legal entities and publish their own financial statements, extracts of which are included below.

Extracts from United Kingdom Asset Resolution Limited's Accounts for the year ended 31 December 2011

	2011 £ million	2010 (Restated[1]) £ million
Extracts from the income statement		
Net operating income	1,753	2,141
Profit before taxation	1,375	1,487
Tax on profit of ordinary activities	(214)	(277)
Profit for the year	**1,161**	**1,210**
Extracts from the balance sheet		
Total assets	95,230	110,874
Total liabilities	(90,554)	(107,839)
Total equity	**4,676**	**3,035**
Total non-shareholders' funds	(126)	(209)
Share capital and reserves	**4,550**	**2,826**

[1] UKAR's comparative information has been restated to reflect changes in accounting policies and reclassifications by B&B and NRAM. For further information, refer to the full UK Asset Resolution Limited Annual Report and Accounts, which are available at: www.ukar.co.uk

Extracts from Northern Rock (Asset Management) plc's Accounts for the year ended 31 December 2011

	2011 £ million	2010 (Restated) £ million
Extracts from the consolidated income statement		
Net operating income	1,268	1,377
Profit before taxation	941	314
Tax (charge)/credit on profit of ordinary activities	(113)	9
Profit for the year	**828**	**323**
Extracts from the consolidated balance sheet		
Total assets	55,324	66,096
Total liabilities	(53,100)	(64,958)
Total equity	**2,224**	**1,138**
Total non-shareholders' funds	(125)	(209)
Share capital and reserves	**2,099**	**929**

For further information, refer to the Northern Rock (Asset Management) plc Report and Accounts, which are available at: www.n-ram.co.uk.

Extracts from Bradford & Bingley plc's Accounts for the year ended 31 December 2011

	2011 £ million	2010 (Restated) £ million
Extracts from the consolidated income statement		
Net operating income	485	764
Profit before taxation	435	1,172
Tax on profit of ordinary activities	(101)	(286)
Profit for the year	**334**	**886**
Extracts from the consolidated balance sheet		
Total assets	40,102	44,947
Total liabilities	(37,661)	(43,064)
Share capital and reserves	**2,441**	**1,883**

For further information, refer to the full Bradford & Bingley plc Report and Accounts, which are available at www.bbg.co.uk.

13.2.5 Royal Bank of Scotland Group plc

Extracts from Royal Bank of Scotland Group plc's Accounts for the year ended 31 December 2011

	2011 £ million	2010 £ million
Extracts from the consolidated income statement		
Total income	28,937	31,868
Loss before taxation	(766)	(399)
Tax charge on loss of ordinary activities	(1,250)	(634)
Profit/(loss) from discontinued operations, net of tax	47	(633)
Loss for the year	**(1,969)**	**(1,666)**
Extracts from the consolidated balance sheet		
Total assets	1,506,867	1,453,576
Total liabilities	(1,430,814)	(1,376,725)
Total equity	**76,053**	**76,851**

For further information, refer to the full Royal Bank of Scotland Group plc Report and Accounts, which are available at: www.rbs.com.

13.2.6 Lloyds Banking Group plc

Extracts from Lloyds Banking Group plc's Accounts for the year ended 31 December 2011

	2011 £ million	2010 (Restated) £ million
Extracts from the consolidated income statement		
Total income	26,812	44,044
Profit/(loss) before taxation	(3,542)	281
Tax (charge)/credit on profit/loss of ordinary activities	828	(539)
Loss for the year	**(2,714)**	**(258)**
Extracts from the consolidated balance sheet		
Total assets	970,546	991,574
Total liabilities	(923,952)	(944,672)
Total equity	**46,594**	**46,902**

For further information, refer to the full Lloyds Banking Group plc Report and Accounts, which are available at: www.lloydsbankinggroup.com.

13.2.7 Local Partnerships LLP

Extracts from Local Partnerships LLP's Accounts for the year ended 31 March 2012

	2012 £000	2011 £000
Extracts from the profit and loss account		
Turnover	8,344	10,291
Operating profit/(loss)	2,484	(1,032)
Interest payable and similar charges	12	-
Members' remuneration and profit shares for discretionary division among members	(141)	(102)
Profit/(loss) for discretionary division	**2,355**	**(1,134)**
Extracts from the balance sheet		
Non-current assets	-	20
Current assets	4,852	3,246
Current liabilities	(761)	(948)
Non-current liabilities	-	(582)
Net assets attributable to members	**4,091**	**1,736**

For further information, refer to the full Local Partnership LLP Report and Accounts, which are available at: www.localpartnerships.org.uk.

14. Derivative financial instruments

14.1 Core Treasury holds the following derivative financial assets

	At 1 April 2011	Cash Movement	Fair Value Adjustment	At 31 March 2012
	£000	£000	£000	£000
BEAPFF derivative	10,500,151	-	27,968,612	**38,468,763**
APS derivative	(100,000)	(250,000)	475,000	**125,000**
Total	**10,400,151**	**(250,000)**	**28,443,612**	**38,593,763**

14.2 Core Treasury holds the following forward currency contracts

	At 1 April 2011	Fair Value Adjustment	At 31 March 2012
	£000	£000	£000
Forward currency contracts assets expiring within one year	65,241	(55,237)	**10,004**
Forward currency contracts assets expiring after more than one year	4,613	(4,613)	-
Forward currency contracts liabilities expiring within one year	(28,733)	20,262	**(8,471)**
Forward currency contracts liabilities expiring after more than one year	(4,151)	4,151	-
Total	**36,970**	**(35,437)**	**1,533**

The fair value methodology for derivatives is detailed in note 23.2.

No derivative financial instruments are held by other members of the Treasury Group.

15. Loans and receivables

15.1 Group loans

	Note	At 1 April 2011 (Restated)	Additions	Transfers	Loan Repayments	Impairment Reversals	Amortisation	Impairments	At 31 March 2012
		£000	£000	£000	£000	£000	£000	£000	£000
Partnerships UK loan stock		7,797	-	-	(7,797)	-	-	-	-
Northern Rock Asset Management loan	26	21,592,514	-	-	(1,754,175)	-	-	-	**19,838,339**
Bradford & Bingley working capital facility	27	8,550,000	-	-	(575,000)	-	-	-	**7,975,000**
Bradford & Bingley statutory debt	27	2,147,039	-	-	-	70,483	84,190	-	**2,301,712**
KSF statutory debt	31	137,936	-	-	(56,353)	3,318	4,309	-	**89,210**
London Scottish statutory debt	32	10,955	963	-	(5,480)	-	235	(891)	**5,782**
Heritable statutory debt	30	27,474	-	1,671	(17,514)	3,445	1,310	-	**16,386**
Icesave statutory debt	33	619,878	4,124	3,826	(238,826)	89,918	28,615	-	**507,535**
Dunfermline statutory debt	34	1,011,014	-	-	(190,000)	101,189	-	-	**922,203**
Bradford & Bingley FSCS debt[6]	27	15,654,513	-	-	-	-	-	-	**15,654,513**
KSF FSCS debt[6]	31	1,243,089	5,722	-	(294,321)	-	-	-	**954,490**
London Scottish FSCS debt[6]	32	224,757	6,963	-	(44,795)	-	-	-	**186,925**
Heritable FSCS debt[6]	30	231,960	1,671	(1,671)	(88,649)	-	-	-	**143,311**
Icesave FSCS debt[6]	33	1,435,334	14,696	(9,111)	(432,053)	-	-	-	**1,008,866**
Depositors' and Investors' Guarantee Fund (DIGF) loan	33	1,951,376	9,588	5,285	(682,243)	61,593	70,974	-	**1,416,573**
Local Partnerships UK loan		375	-	-	-	-	-	-	**375**
Loans given by IFUL	36.5	75,654	19,167	-	-	-	-	-	**94,821**
Bilateral loan to Ireland	35	-	1,210,110	-	-	-	-	-	**1,210,110**
Total loans and advances		**54,921,665**	**1,273,004**	**-**	**(4,387,206)**	**329,946**	**189,633**	**(891)**	**52,326,151**

In addition to the loans above, Core Treasury had intra-group loans of £5.9 million to the FSCS relating to amounts advanced by the Treasury to the FSCS to fund depositor payouts not paid out by the FSCS at the reporting date (2010-11: £15.6 million). Details of all loans to the FSCS are included in note 36.3.

[6] Core Treasury has made loans to the FSCS to enable payout to eligible depositors for amounts up to the FSCS guarantee limit. From a group perspective, the FSCS elements of loans represent claims in the administration of the failed banks up to the guarantee limit and statutory debt represents amounts over that limit. The loans are recoverable through the administration, or, in the case of Bradford & Bingley, wind-down. Any shortfall against the FSCS element will be met by the FSCS levying the financial services industry. For further details on the allocation of loans see note 36.3.

15.2 Trade receivables

15.2.1 Analysis by type

	Note			2011-12			2010-11 (Restated)
		Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
		£000	£000	£000	£000	£000	£000
Amounts falling due within one year							
Trade receivables		4,504	4,512	4,786	3,469	3,645	19,312
Taxation and social security		1,251	1,251	1,270	1,742	1,742	1,742
Deposits and advances		200	252	407	237	286	395
Accrued interest and dividend income		472,926	472,926	102,760	429,173	429,173	94,759
Prepayments and other accrued income		59,246	63,272	66,550	59,273	63,790	65,171
Bank of England special payment receivable		2,261,897	2,261,897	2,261,897	-	-	-
NS&I receivable	19.3.1	332,134	332,134	332,134	-	-	-
Northern Rock sale receivable		60,000	60,000	60,000	-	-	-
Fees receivable for financial guarantees		141,363	141,363	141,363	1,083,882	1,083,882	1,083,882
Levies receivable, net of provision		-	-	61,784	-	-	14,591
Other receivables		1,190	1,197	33	2	13	56
Total due within one year		**3,334,711**	**3,338,804**	**3,032,984**	**1,577,778**	**1,582,531**	**1,279,908**
Amounts falling due after more than one year							
Fees receivable for financial guarantees		243,829	243,829	243,829	384,252	384,252	384,252
Accrued income		41,651	41,651	41,651	39,891	39,891	39,886
Other receivables		-	43	43	3,746	3,879	3,879
Total due after more than one year		**285,480**	**285,523**	**285,523**	**427,889**	**428,022**	**428,017**
Total trade receivables		**3,620,191**	**3,624,327**	**3,318,507**	**2,005,667**	**2,010,553**	**1,707,925**

15.2.2 Analysis by classification of trade receivables

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12	2010-11 (Restated)	2011-12	2010-11 (Restated)
	£000	£000	£000	£000
Balances with other central government bodies	2,255,216	21,689	242,963	286,633
Balances with local authorities	5,985	(507)	-	-
Balances with NHS Trusts	(1,262)	8	-	-
Balances with public corporations and trading funds	8,037	3,806	-	-
Subtotal: intra government balances	**2,267,976**	**24,996**	**242,963**	**286,633**
Balances with bodies external to government	765,008	1,254,912	42,560	141,384
Total trade receivables	**3,032,984**	**1,279,908**	**285,523**	**428,017**

16. Inventories

HM Treasury pays Royal Mint for coins upon production in line with the Coinage Contract between the two bodies. Production is in accordance with an agreed schedule and under the contract Royal Mint produces a 12 week supply of buffer stock. HM Treasury holds the inventory of finished coins on its Statement of Financial Position, as shown below.

	2011-12	2010-11
	£000	£000
Coinage scrap metal inventories	28	28
Finished coinage inventories awaiting issue	17,390	9,836
Total	**17,418**	**9,864**

No inventories are held by any other members of the Treasury Group.

17. Cash

17.1 Cash and cash equivalents

			2011-12			2010-11 (Restated)
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Balance at 1 April	18,265	18,280	224,315	1,940	1,955	80,559
Net change in cash balances	(7,552)	(7,566)	(57,493)	16,325	16,325	143,756
Balance at 31 March 2012	**10,713**	**10,714**	**166,822**	**18,265**	**18,280**	**224,315**
The following balances were held at 31 March:						
Government Banking Service	10,713	10,713	11,367	18,265	18,265	18,379
Bank of England	-	-	123,405	-	14	229,685
Commercial banks and cash in hand	-	1	32,050	-	1	(23,749)
Balance at 31 March 2012	**10,713**	**10,714**	**166,822**	**18,265**	**18,280**	**224,315**

Commercial banks and cash in hand include an overdraft amount of £5.4 million relating to the FSCS (2010-11: £37.2 million).

17.2 Reconciliation of Net Cash Requirement to change in cash

	2011-12	2010-11 (Restated)
	£000	£000
Net cash negative requirement for Core Treasury and Agencies	5,864,650	5,433,539
Supply from the Consolidated Fund (current year)	-	387,413
Supply from the Consolidated Fund (prior year)	-	106
Excess cash paid to the Consolidated Fund	(5,853,971)	(5,804,761)
Unused supply paid to the Consolidated Fund	(16,191)	-
Amounts due to the Consolidated Fund received and paid over	(2,089)	(2,061)
Amounts due to the Consolidated Fund received and not paid over	35	2,089
Increase/(decrease) in cash held by Core Treasury and Agencies	**(7,566)**	**16,325**
Net cash negative requirement for the OBR	362	-
Add increase/(decrease) in cash held by arms length bodies	(50,289)	127,431
Net increase/(decrease) in cash held by group	**(57,493)**	**143,756**

The total net cash negative requirement for the Treasury Group is £5,865 million (2010-11: £5,434 million).

18. Liabilities

18.1 Trade payables and other liabilities

	Note	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
				2011-12			2010-11 (Restated)
		£000	£000	£000	£000	£000	£000
Amounts falling due within one year							
Trade payables		1,692	1,787	6,613	1,839	2,035	4,297
Taxation and social security		1,508	1,796	2,824	1,554	1,894	2,497
Deferred contingent capital fee income		240,000	240,000	240,000	240,000	240,000	240,000
Capital accruals		800	800	800	1,893	2,055	2,055
Other accruals and deferred income		19,981	24,005	50,437	24,845	29,430	69,307
EUSF grant repayment		16,010	16,010	16,010	-	-	-
Due to claimants and/or Welcome		-	-	54,089	-	-	49,176
Equitable Life payables	19.3.1	27,400	27,400	27,400	-	-	-
Other payables		982	1,102	2,740	1,066	1,160	5,613
PFI contract		1,804	1,804	1,804	1,676	1,676	1,676
Consolidated Fund payable for:							
Operating income outside the scope of the Estimate to be surrendered		33,023	33,058	33,058	33,908	33,998	33,998
Excess cash to be surrendered		11,041	11,041	11,041	17,901	18,191	18,191
Total falling due within one year		**354,241**	**358,803**	**446,816**	**324,682**	**330,439**	**426,810**
Amounts falling due after more than one year							
PFI contract		127,172	127,172	127,172	128,976	128,976	128,976
Deferred income		3,182	3,182	3,247	3,333	5,044	5,113
FSCS pension liability		-	-	3,622	-	-	2,851
Consolidated Fund payable for operating income outside the scope of the Estimate		41,651	41,651	41,651	39,891	39,891	39,891
Total falling due after one year		**172,005**	**172,005**	**175,692**	**172,200**	**173,911**	**176,831**
Total trade payables		**526,246**	**530,808**	**622,508**	**496,882**	**504,350**	**603,641**

18.2 Analysis by classification of trade payables

		Amounts falling due within one year		Amounts falling due after more than one year
	2011-12	2010-11 (Restated)	2011-12	2010-11 (Restated)
	£000	£000	£000	£000
Balances with other central government bodies	354,359	29,111	41,651	38,891
Balances with local authorities	3	(21)	-	–
Balances with NHS Trusts	2	(2)	-	–
Balances with public corporations and trading funds	(391)	2,914	-	–
Subtotal: intra government balances	**353,973**	**32,002**	**41,651**	**38,891**
Balances with bodies external to government	92,843	394,808	134,041	137,942
Total trade payables	**446,816**	**426,810**	**175,692**	**176,833**

18.3 Other liabilities - financial guarantees

	2011-12	2010-11
Core Treasury	£000	£000
Credit Guarantee Scheme	41,410	941,274
Deposit guarantees	559,255	598,818
Total	**600,665**	**1,540,092**

19. Provisions for liabilities and charges

19.1 Analysis of provisions

for the year ended 31 March 2012

	Equitable Life	Financial stability	Early departure costs	FSCS levy	Other	Total
	£000	£000	£000	£000	£000	£000
Core Treasury						
Balance at 1 April 2011	1,492,870	3,635	1,014	-	420	**1,497,939**
Provided in the year	-	3,087	256	-	1,146	**4,489**
Provision utilised in year	(195,265)	(558)	(436)	-	(347)	**(196,606)**
Provision not required written back	(48,036)	(2,365)	-	-	(73)	**(50,474)**
Unwinding of discount	28,110	-	18	-	-	**28,128**
At 31 March 2012	**1,277,679**	**3,799**	**852**	**-**	**1,146**	**1,283,476**
Agencies						
Balance at 1 April 2011	-	-	113	-	-	**113**
Provided in the year	-	-	870	-	58	**928**
Provision utilised in year	-	-	(59)	-	-	**(59)**
Unwinding of discount	-	-	1	-	-	**1**
At 31 March 2012	**-**	**-**	**925**	**-**	**58**	**983**
NDPBs and other bodies						
Balance at 1 April 2011	-	-	772	24,481	295	**25,548**
Provided in the year	-	-	2,073	-	201	**2,274**
Provision utilised in year	-	-	(576)	(21,291)	-	**(21,867)**
At 31 March 2012	**-**	**-**	**2,269**	**3,190**	**496**	**5,955**
Group						
At 1 April 2011 (Restated)	1,492,870	3,635	1,899	24,481	715	**1,523,600**
At 31 March 2012	**1,277,679**	**3,799**	**4,046**	**3,190**	**1,700**	**1,290,414**

for the year ended 31 March 2011(Restated)

	Equitable Life	Financial stability	Early departure costs	FSCS levy	Other	Total
	£000	£000	£000	£000	£000	£000
Core Treasury						
Balance at 1 April 2010	-	38,675	1,427	-	1,115	**41,217**
Provided in the year	1,492,870	1,722	62	-	370	**1,495,024**
Provision utilised in year	-	(6,246)	(480)	-	(769)	**(7,495)**
Provision not required written back	-	(30,516)	-	-	(296)	**(30,812)**
Unwinding of discount	-	-	17	-	-	**17**
Change in discount rate	-	-	(12)	-	-	**(12)**
At 31 March 2011	**1,492,870**	**3,635**	**1,014**	**-**	**420**	**1,497,939**
Agencies						
Balance at 1 April 2010	-	-	185	-	-	**185**
Provided in the year	-	-	1	-	-	**1**
Provision utilised in year	-	-	(74)	-	-	**(74)**
Unwinding of discount	-	-	1	-	-	**1**
At 31 March 2011	**-**	**-**	**113**	**-**	**-**	**113**
NDPBs and other bodies						
Balance at 1 April 2010	-	-	-	-	257	257
Provided in the year	-	-	772	24,481	38	25,291
At 31 March 2011	**-**	**-**	**772**	**24,481**	**295**	**25,548**
Group						
At 1 April 2010	-	38,675	1,612	-	1372	**41,659**
At 31 March 2011	**1,492,870**	**3,635**	**1,899**	**24,481**	**715**	**1,523,600**

19.2 Maturity analysis of provisions

for the year ended 31 March 2012

	Equitable Life	Financial stability	Early departure costs	FSCS levy	Other	Total
	£000	£000	£000	£000	£000	£000
Core Treasury						
Provisions due within one year	306,013	3,799	517	-	1,146	**311,475**
Provisions due after more than one year	971,666	-	335	-	-	**972,001**
Balance at 31 March 2012	**1,277,679**	**3,799**	**852**	**-**	**1,146**	**1,283,476**
Agencies						
Provisions due within one year	-	-	911	-	58	**969**
Provisions due after more than one year	-	-	14	-	-	**14**
Balance at 31 March 2012	**-**	**-**	**925**	**-**	**58**	**983**
NDPBs and other bodies						
Provisions due within one year	-	-	196	3,190	496	**3,882**
Provisions due after more than one year	-	-	2,073	-	-	**2,073**
Balance at 31 March 2012	**-**	**-**	**2,269**	**3,190**	**496**	**5,955**
Group						
Provisions due within one year	306,013	3,799	1,624	3,190	1,700	**316,326**
Provisions due after more than one year	971,666	-	2,422	-	-	**974,088**
Balance at 31 March 2012	**1,277,679**	**3,799**	**4,046**	**3,190**	**1,700**	**1,290,414**

for the year ended 31 March 2011(Restated)

	Equitable Life	Financial stability	Early departure costs	FSCS levy	Other	Total
	£000	£000	£000	£000	£000	£000
Core Treasury						
Provisions due within one year	500,000	3,635	418	-	420	**504,473**
Provisions due after more than one year	992,870	-	596	-	-	**993,466**
Balance at 31 March 2011	**1,492,870**	**3,635**	**1,014**	**-**	**420**	**1,497,939**
Agencies						
Provisions due within one year	-	-	57	-	-	**57**
Provisions due after more than one year	-	-	56	-	-	**56**
Balance at 31 March 2011	**-**	**-**	**113**	**-**	**-**	**113**
NDPBs and other bodies						
Provisions due within one year	-	-	572	21,291	-	**21,863**
Provisions due after more than one year	-	-	200	3,190	295	**3,685**
Balance at 31 March 2011	**-**	**-**	**772**	**24,481**	**295**	**25,548**
Group						
Provisions due within one year	500,000	3,635	1,047	21,291	420	**526,393**
Provisions due after more than one year	992,870	-	852	3,190	295	**997,207**
Balance at 31 March 2011	**1,492,870**	**3,635**	**1,899**	**24,481**	**715**	**1,523,600**

19.3 Explanation of provisions

19.3.1 Equitable Life

As part of the Spending Review on 20 October 2010, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out upfront over the first three years of the Spending Review period. Further details on the scheme are available on the Equitable Life Payment Scheme website.[7]

Payments commenced in June 2011 and warrants issued totalled £167.9 million during the year. Of the £167.9 million of warrants issued, £27.9 million had not been cashed. At the reporting date, letters had been sent to policyholders confirming future payments of £27.4 million. As the timing and amount of these payments are certain, they are included as payables in note 18.1, and the provision has been reduced accordingly.

National Savings and Investments (NS&I) process payments under the scheme on behalf of HM Treasury. HM Treasury advances funding to NS&I to allow it to make payments and at the reporting date the amount advanced but not yet disbursed is a receivable from NS&I of £332.1 million (2010-11: £nil). The costs of administering the scheme are met by HM Treasury and for 2011-12 were £20.3 million (2010-11: £6.8 million).

19.3.2 Financial stability provisions

Financial stability provisions relate to impairments on committed statutory debt loans and to planned retrospective changes to the interest rate charged on the bilateral loan to Ireland.

During 2011-12, financial stability provisions of £0.6 million were utilised against statutory debt impairments. Further provisions have been made in relation to amounts drawn down but not yet allocated between FSCS and statutory debt elements and for confirmed loan commitments. Provisions not required have been released to the SCNE.

The provision for the interest rate change on the Ireland loan has been made following the Chancellor's announcement on 22 July 2011 that the interest rate would be reduced. Once agreed, the revised interest rate will be applied retrospectively to loan tranches drawn down during 2011-12.

For all financial stability provisions, the expected timing of the resulting transfer of economic benefits is expected to occur by 31 March 2013.

19.3.3 Early departure costs

Core Treasury and its agencies meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The full costs become a binding obligation when the early retirement is agreed and these are held in a provision.

During 2011-12 the APA created a provision for early departure costs in relation to a voluntary exit programme launched in March 2012, voluntary redundancies and, potentially, compulsory redundancies for several APA employees.

The expected timings of any resulting transfer of economic benefits for early departure costs are considered to be £1.6 million within one year and the balance after one year.

19.3.4 FSCS levy

The levy provision of £3.2 million relates to requests for refunds received from levy payers. The provision amount is based on the best information available to the Directors of the FSCS.

[7] http://equitablelifepaymentscheme.independent.gov.uk

The expected timing of the resulting transfer of economic benefits is expected to occur by 31 March 2013.

19.3.5 Other provisions

Other provisions include dilapidations and legal costs.

During 2011-12, new provisions have been created by Core Treasury for legal costs in relation to a number of ongoing claims. The expected timings of any resulting transfer of economic benefits are considered to be less than one year.

Provisions for dilapidations have been made by the APA and the FSCS. The APA provision relates to its lease for the premises at Eastcheap Court, London, and the FSCS provision relates to its lease for premises at 1 Portsoken Street, London.

The expected timing of the resulting transfer of economic benefits is within one year for the APA provision and after one year for the FSCS provision.

20. Capital commitments

	2011-12 £000	2010-11 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Undrawn loan commitments from IFUL	25,178	40,599
Undrawn B&B working capital facility	3,525,000	2,950,000
Undrawn NRAM working capital facility	2,500,000	2,500,000
Bilateral loan to Ireland	2,016,890	3,227,000
OSCAR IT upgrade project	3,233	6,063
Workspace optimisation	600	6,900
FSCS office fit-out	3,201	-
Other	200	-
Approved but not contracted capital commitments		
Undrawn loan commitments to FSCS	10,000	65,000
Other	1,506	1,980
Total capital commitments	**8,085,808**	**8,797,542**
Of which:		
Core Treasury	8,082,607	8,797,542
Agencies	-	-
NDPBs and other bodies	3,201	-
Total capital commitments	**8,085,808**	**8,797,542**

21. Commitments under leases

21.1 Operating leases

Total future minimum lease payments under operating lease are given in the table below for each of the following periods.

			2011-12			2010-11 (Restated)
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Buildings:						
Not later than one year	284	1,752	3,193	150	1,450	1,669
Later than one year and not later than five years	145	4,759	7,605	305	5,029	5,183
Later than five years	-	4,326	8,107	-	5,749	6,792
	429	**10,837**	**18,905**	**455**	**12,228**	**13,644**
Other:						
Not later than one year	85	181	344	699	797	797
Later than one year and not later than five years	233	283	933	-	153	197
Later than five years	-	-	-	-	-	-
	318	**464**	**1,277**	**699**	**950**	**994**

21.2 Core Treasury PFI contract

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership in respect of Core HM Treasury's buildings at 1 Horse Guards Road. Applying the principals of IFRIC 12 *Service Concession Arrangements*, the provision of the serviced accommodation at 1 Horse Guards Road building is treated as an infrastructure asset of HM Treasury (see note 11.2).

The PFI contract has been assessed under IAS 39 – *Financial Instruments Recognition and Measurement* to determine that no embedded derivatives exist that need to be separately accounted for in the financial statements. This PFI finance lease obligation has been accounted for as a liability in note 18.1.

The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements: imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

The finance lease obligation under the on-balance sheet (SoFP) PFI contract comprises:	2011-12 £000	2010-11 £000
Rentals due within one year	11,275	11,275
Rentals due between two to five years	45,100	45,100
Rentals due thereafter	229,261	240,536
Total rental payments	**285,636**	**296,911**
Less interest element	(156,660)	(166,258)
Total	**128,976**	**130,653**

The total amount charged in the SCNE in respect of the service element (including contingent rent element) was £9.3 million (2010-11: £7.7 million).

At 31 March 2011 HM Treasury was committed to pay minimum service charges in future years:

	2011-12	2010-11
	£000	£000
Service charge due within one year	10,037	8,471
Service charge due between two to five years	46,419	39,907
Service charge due thereafter	445,809	457,817
Total service charges	**502,265**	**506,195**

No other members of the Treasury Group have entered into PFI arrangements.

21.3 Core Treasury IT service

In 2010-11, HM Treasury signed a contract with Fujitsu to provide information and communication technology services. These services are delivered as part of the Cabinet Office Public Sector Flex shared service framework; a shared services solution which offers benefits and economies of scale across Government.

Fujitsu is also responsible for providing support and service facilities to deliver a more flexible and resilient ICT service over the five year period of the contract to 2014-15.

The accounting for the IT services contract has been assessed under IFRC 12 *Service Concession Arrangements* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The purchase of exclusive assets required to run the service are included on HM Treasury's Statement of Financial Position and depreciated across their useful economic life. Assets purchased but not controlled by HM Treasury are charged to the SCNE over the life of the contract. The cost of the IT service is charged direct to the SCNE. Details of the contractual payments are shown below:

	2011-12	2010-11
Minimum payments	£000	£000
Not later than one year	8,544	10,027
Later than one year and not later than five years	17,761	31,302
Later than five years	-	-
Total	**26,305**	**41,329**

21.4 Cabinet Office services

From 1 April 2012, HM Treasury has entered into contracts on behalf of the Cabinet Office in relation to telephony and IT services. Amounts are recharged to Cabinet Office in line with an agreed memorandum of understanding.

The additional lease costs not included in notes 21.1 or 21.3 which relate to the Cabinet Office share of the contract agreements are shown below.

	Telephony	IT Services
Minimum payments	£000	£000
Not later than one year	260	12,450
Later than one year and not later than five years	715	24,900
Later than five years	-	-
Total	**975**	**37,350**

22. Other financial commitments: manufacturing coinage

HM Treasury has committed to pay the Royal Mint for the metal and manufacturing costs of supplying new UK circulating coinage to meet the demand from banks and other distributors. The manufacturing price is agreed in a Coinage Contract covering 2011-12 to 2014-15. The Royal Mint recharges HM Treasury for the metal prices it incurs, which are variable in line with market prices.

Monthly payments are made for coins manufactured by the Royal Mint. Coins which have been produced and paid for by HM Treasury but have not yet been issued are stored by the Royal Mint and held as inventory on HM Treasury's Statement of Financial Position. The coins are later issued to the coin centres and then purchased by banks at face value when required. The payments by the banks are made into the Coinage Deposit Account and surrendered to the Consolidated Fund by the Royal Mint.

For the year 2011-12 HM Treasury purchased 1,350 million coins (2010-11 1,145 million) and 1,163 million (2010-11 1,112 million) coins were despatched to the coin centre. The net inventory movement resulted in manufacturing charges of £15.7 million (2010-11: £13.8 million) to the SCNE, including VAT, and metal charges of £24.5 million (2010-11: £19.7 million).

23. Financial instruments

The following tables and narrative provide information on the balances relating to financial instruments included in these accounts and analyses the nature and extent of risks arising from these instruments, and how the risks have been managed.

23.1 Classification

Classes of financial instruments 2011-12

Group	Fair value through SCNE	Hedging derivatives	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets / liabilities	At 31 March 2012
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	118,374	**118,374**
Intangible assets	-	-	-	-	-	10,920	**10,920**
Available-for-sale financial assets	-	-	44,292,263	-	-	-	**44,292,263**
Loans and advances to financial institutions	-	-	-	52,326,151	-	-	**52,326,151**
Trade and other receivables due after more than one year	-	-	-	285,523	-	-	**285,523**
Derivative financial assets expiring within one year	38,593,763	10,004	-	-	-	-	**38,603,767**
Trade and other receivables due within one year	-	-	-	3,032,984	-	-	**3,032,984**
Inventories	-	-	-	-	-	17,418	**17,418**
Cash	-	-	-	172,240	-	-	**172,240**
Total assets	**38,593,763**	**10,004**	**44,292,263**	**55,816,898**	**-**	**146,712**	**138,859,640**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(443,992)	(2,824)	**(446,816)**
Bank overdraft	-	-	-	-	(5,418)	-	**(5,418)**
Provisions due within one year	-	-	-	-	(316,326)	-	**(316,326)**
Derivative financial liabilities expiring within one year	-	(8,471)	-	-	-	-	**(8,471)**
Financial guarantees	-	-	-	-	(600,665)	-	**(600,665)**
Other payables falling due after more than one year	-	-	-	-	(175,692)	-	**(175,692)**
Provisions due after more than one year	-	-	-	-	(974,088)	-	**(974,088)**
Total liabilities	**-**	**(8,471)**	**-**	**-**	**(2,516,181)**	**(2,824)**	**(2,527,476)**
Total taxpayers' equity	**38,593,763**	**1,533**	**44,292,263**	**55,816,898**	**(2,516,181)**	**143,888**	**136,332,164**
Of which:							
Core Treasury	38,593,763	1,533	44,292,263	55,962,983	(2,408,879)	140,172	**136,581,835**
Agencies	-	-	-	4,137	(5,257)	2,523	**1,403**
NDPBs and other bodies	-	-	-	(150,222)	(102,045)	1,193	**(251,074)**
Total	**38,593,763**	**1,533**	**44,292,263**	**55,816,898**	**(2,516,181)**	**143,888**	**136,332,164**

Classes of financial instruments 2010-11

Group	Fair value through SCNE	Hedging derivatives	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets / liabilities	At 31 March 2011 (Restated)
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	110,613	**110,613**
Intangible assets	-	-	-	-	-	6,949	**6,949**
Available-for-sale financial assets	-	-	63,960,434	-	-	-	**63,960,434**
Derivative financial assets expiring after more than one year	-	4,613	-	-	-	-	**4,613**
Loans and advances to financial institutions	-	-	-	54,921,665	-	-	**54,921,665**
Trade and other receivables due after more than one year	-	-	-	428,017	-	-	**428,017**
Derivative financial assets expiring within one year	10,500,151	65,241	-	-	-	-	**10,565,392**
Trade and other receivables due within one year	-	-	-	1,279,908	-	-	**1,279,908**
Inventories	-	-	-	-	-	9,864	**9,864**
Cash and cash equivalents	-	-	-	261,488	-	-	**261,488**
Total assets	**10,500,151**	**69,854**	**63,960,434**	**56,891,078**	**-**	**127,426**	**131,548,943**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(424,313)	(2,497)	**(426,810)**
Bank overdraft	-	-	-	-	(37,173)	-	**(37,173)**
Provisions due within one year	-	-	-	-	(526,393)	-	**(526,393)**
Derivative financial liabilities expiring within one year	-	(28,733)	-	-	-	-	**(28,733)**
Financial guarantees	-	-	-	-	(1,540,092)	-	**(1,540,092)**
Derivative financial liabilities expiring after more than one year	(100,000)	(4,151)	-	-	-	-	**(104,151)**
Other payables falling due after more than one year	-	-	-	-	(176,831)	-	**(176,831)**
Provisions due after more than one year	-	-	-	-	(997,207)	-	**(997,207)**
Total liabilities	**(100,000)**	**(32,884)**	**-**	**-**	**(3,702,009)**	**(2,497)**	**(3,837,390)**
Total taxpayers' equity	**10,400,151**	**36,970**	**63,960,434**	**56,891,078**	**(3,702,009)**	**124,929**	**127,711,553**
Of which:							
Core Treasury	10,400,151	36,970	63,960,434	56,961,210	(3,533,359)	119,858	**127,945,264**
Agencies	-	-	-	4,901	(7,241)	4,112	**1,772**
NDPBs and other bodies	-	-	-	(75,033)	(161,409)	959	**(235,483)**
Total	**10,400,151**	**36,970**	**63,960,434**	**56,891,078**	**(3,702,009)**	**124,929**	**127,711,553**

23.2 Fair value of financial assets and liabilities

(i) Financial instruments measured at fair value through SCNE

Asset Protection Scheme (APS) derivative: As a derivative, the APS is measured at fair value, as determined using a valuation model. The APS is a unique financial instrument, but the common instrument it most closely resembles is a synthetic Collateralised Debt Obligation (CDO), an instrument which transfers credit risk, in whole or in part, on a pool of assets without transferring ownership of the assets themselves. The valuation model used to determine the fair value of the APS is a Gaussian copula model with stochastic recovery, which is an industry standard model for valuing CDO instruments. Further details on the design of the valuation model can be found in *HM Treasury Resource Accounts: 2009-10*.

The APS valuation at 31 March 2012 was an asset of £125 million (2010-11: liability of £100 million). This represents the payment of fees received of £2,350 million and changes since inception in remaining life to maturity, credit spreads, foreign exchange rates, interest rates, and the portfolio. Consequently, HM Treasury has made a mark-to-market gain of £2,475 million since inception of the APS on 22 December 2009 (2011-12: £475 million; 2010-11: £1,800 million; 2009-10: £200 million). Shortened time to maturity and portfolio changes (e.g. migration, amortisation, prepayments) lead to a gain that was partially offset by moves in credit spreads. There was negligible movement due to foreign exchange or interest rates. The APS valuation, and consequent mark-to-market gain in the income statement, is consistent with HM Treasury's central projection of a net benefit to the taxpayer from the Asset Protection Scheme of £5 billion, comprising fee income (being £2.5 billion from Lloyds and £2.5 billion from RBS). For a sensitivity analysis of the APS derivative, see note 23.5.1.

Bank of England Asset Purchase Facility Fund (BEAPFF) derivative: The fair value of the derivative represents the best estimate of the amount due to HM Treasury from Bank of England on settlement of the scheme. The derivative is fair valued on the basis of the difference between the fair value of the BEAPFF's assets and liabilities.

The BEAPFF derivative valuation at 31 March 2012 was an asset of £38.5 billion (2010-11: asset of £10.5 billion). The fair value gain of £28 billion has been recognised in the SCNE in 2011-12. The asset value of £38.5 billion reflects interest income recognised since inception of £24.9 billion, realised gains on financial instruments of £0.2 billion and mark-to-market gains of £16.3 billion less interest expense and similar charges of £2.9 billion.

Of the net gain of £38.5 billion, £23.8 billion was held as cash at the reporting date (2010-11: £14.1 billion).

The remaining £14.7 billion comprised financial assets of £319.4 billion less the loan from the Bank of England of £304.7 billion used to finance asset purchases. The majority of the BEAPFF's holdings are gilts and as such their market value is sensitive to interest rate changes. Over time, changes in interest rates will result in the BEAPFF recording changes in mark-to-market gains on the current gilt portfolio. Losses could be crystallised to the extent that gilts are sold before their maturity and the speed by which this is done in the Bank's overall exit strategy.

In addition to the £23.8 billion of cash held at the reporting date, the BEAPFF continues to accumulate cash, primarily through coupon payments on the gilt holdings. The BEAPFF also continues to pay interest expenses and similar charges on the loan from the Bank of England to finance asset purchases. At this point, it is not known whether the net income from coupon payments and interest will offset any potential capital losses from gilt sales. This will depend on the Bank's strategy on Quantitative Easing, in particular on future interest rates and on the timing and pace of gilt sales that the Bank of England chooses to implement.

For a sensitivity analysis of the BEAPFF derivative see note 23.5.2 and for an analysis of assets held see note 23.6.1.

(ii) Hedging derivatives

Forward currency contracts relating to the Credit Guarantee Scheme:

The fair value of forward foreign exchange contracts on initial recognition is zero. Following initial recognition, the fair value is determined by comparing the exchange rates associated with two forward contracts. These are:

- the forward contract already held by HM Treasury, due to mature at a specified date at the future; and
- an equivalent forward contract that could be acquired at the reporting date that would mature on the same specified date in the future.

The foreign currency cash-flows are translated into Sterling using the two exchange rates. The difference is discounted and recognised as the movement in fair value. At 31 March 2012, HM Treasury held net forward currency assets of £1.5 million (2010-11: net assets of £37 million). For further details see note 14.2.

(iii) Available-for-sale assets

HM Treasury's available-for sale assets are detailed in note 13.1 and comprise:

- ordinary shares in RBS and Lloyds Banking Group;
- a single RBS dividend access share (DAS);
- perpetual capital notes received as part of the sale proceeds of Northern Rock ; and
- share capital of public bodies, including Public Dividend Capital of the Royal Mint.

The fair value of HM Treasury's investments in the ordinary shares of RBS and Lloyds Banking Group is determined by using the published share prices as at the reporting date. While RBS B shares are not listed on a stock exchange, they can be converted into ordinary shares at the option of HM Treasury at any time. Therefore, it is assumed they are worth the market value of the underlying ordinary shares and are valued using the closing price of RBS ordinary shares.

For the RBS DAS, there is no market price. It has the right to an enhanced dividend over and above the sum of the ordinary dividend entitlement of each B share originally purchased by HM Treasury. It is payable if dividends are paid on ordinary shares (and therefore effectively at the discretion of the RBS Board) at any time up to and including the day falling 20 days after such time as the market price of RBS's ordinary shares exceeds 65 pence for 20 or more out of 30 consecutive dealing days. This is termed the cancellation trigger.

On 6 June 2012 RBS implemented a sub-division and consolidation of its ordinary shares which has resulted in an adjustment to the terms of the DAS. These changes do not have any impact on the valuation of the DAS.

The value of the DAS has been estimated using an option based valuation model using market observable and non-observable data and assumptions. Key assumptions used are:

- a single data-point for the risk spread is assumed in the model;
- the model assumes that there are no dividend payments before 2015, based on market estimates; and
- the current risk spread of the B shares as determined by the implied cost of equity and the implied yield of traded securities.

The DAS value estimate is highly sensitive to underlying assumptions, the dividend start date in particular. RBS's ability to start dividend payments will be dependent on the evolution of its earnings prospects and its capital position, both are heavily influenced by economic and regulatory developments. Based on external forecasts and other market benchmarks as at the valuation date, we have assumed that RBS will be able to start dividend payments in 2015. However, if the dividend start date is delayed, for instance, by a year to 2016, the estimated DAS value decreases by £0.5 billion from £1.8 billion to £1.3 billion. A sensitivity analysis on the value of the DAS for a range of reasonable alternative inputs into the model is included in note 23.5.3.

The value of the perpetual capital notes has also been estimated using a valuation model. The perpetual capital notes have a par value of £150 million and receive discretionary interest at a rate of 10.5 per cent per annum from 2013. They can be converted into shares on a successful sale or listing of Virgin Money or if its capital ratio were to fall below a fixed level. The valuation approach adopted uses market data to estimate a value for a Lower Tier 2 security and to then estimate the premium for a Tier 1 over a Lower Tier 2 security; the approach does not ascribe any value to the conversion feature.

In accordance with the special accounts direction issued to HM Treasury, investments in public bodies, excluding Public Dividend Capital, are recognised at fair value. As there is no observable market data for shares in these bodies, HM Treasury's share of net asset value is used as a measure of fair value.

In accordance with the FReM, investments in Public Dividend Capital are carried at historical cost less any impairment recognised. This applies to HM Treasury's investment in the Royal Mint. Therefore, a fair value comparative for this body is not disclosed. Further details on all available-for-sale assets are included in note 13.1.

(iv) Loans and receivables

Loans and receivables are carried at amortised cost at the reporting date. Details of loans are included in note 15.1.

Loans provided by HM Treasury predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. It is not possible to provide a reliable estimate of the current fair values of these loans.

Northern Rock (Asset Management) and Bradford & Bingley have not been accessing financial markets to raise new funding and, if they did, market interest rates would be distorted by their being in Temporary Public Ownership. For the statutory and FSCS loans, the counterparties are failed financial institutions which are in administration or wind-up. Therefore, there are no current market prices for loans to these bodies.

Although fair values are not available, the table below provides an indication of the cost to HM Treasury of providing the loans, at current rates of interest, by discounting future cash flows receivable at HM Treasury's cost of borrowing, as approximated by UK gilt prices.

Cost of borrowing for loans and receivables which are carried at amortised cost

	2011-12		2010-11 (Restated)	
	Amortised cost	Discounted at cost of borrowing	Amortised cost	Discounted at cost of borrowing
	£000	£000	£000	£000
Partnerships UK loan stock	-	-	7,797	7,922
Northern Rock Asset Management loan	19,838,339	17,623,432	21,592,514	17,201,985
Bradford & Bingley working capital facility	7,975,000	8,551,099	8,550,000	8,487,564
Bradford & Bingley statutory debt	2,301,712	2,588,756	2,147,039	2,064,428
KSF statutory debt	89,210	91,892	137,936	139,224
London Scottish statutory debt	5,782	5,965	10,955	11,043
Heritable statutory debt	16,386	18,066	27,474	27,270
Icesave statutory debt	507,535	515,822	619,878	643,333
Dunfermline statutory debt	922,203	921,485	1,011,014	1,057,972
Bradford & Bingley FSCS debt	15,654,513	15,778,786	15,654,513	13,467,835
KSF FSCS debt	954,490	942,603	1,243,089	1,149,348
London Scottish FSCS debt	186,925	187,242	224,757	215,205
Heritable FSCS debt	143,311	147,250	231,960	200,564
Icesave FSCS debt	1,008,866	1,000,217	1,435,334	1,356,192
Depositors' and Investors' Guarantee Fund (DIGF) loan	1,416,573	1,473,255	1,951,376	1,939,255
Local Partnerships UK loan	375	375	375	375
Loans given by IFUL	94,821	102,452	75,654	77,212
Ireland loan	1,210,110	1,431,766	-	-
Total	**52,326,151**	**51,380,463**	**54,921,665**	**48,046,727**

23.2.1 Valuation hierarchy of financial instruments carried at fair value

Financial instruments	Level 1	Level 2	Level 3	Other[1]	Total
	£m	£m	£m	£m	£m
Available-for-sale financial assets	20,234	22,171	1,881	6	**44,292**
Derivatives financial assets	-	38,479	125	-	**38,604**
	20,234	**60,650**	**2,006**	**6**	**82,896**
Derivative financial liabilities	-	(8)	-	-	**(8)**
Total	**20,234**	**60,642**	**2,006**	**6**	**82,888**

[1]This column comprises available-for-sale assets which are held at historical cost in accordance with the FReM. These assets cannot be classified within the fair value hierarchy.

The valuation hierarchy above classifies financial instruments carried at fair value into three levels according to the source of information used to determine the fair values.

Level 1 fair values are measured using unadjusted quoted prices in active markets for identical assets or liabilities. This category comprises of investments in ordinary shares of RBS and Lloyds Banking Group.

Level 2 fair values are measured using inputs other than quoted prices that are either directly or indirectly observable. This includes the Bank of England Asset Purchase Facility derivative, forward contracts relating to Credit Guarantee Schemes, B shares in RBS, and investments in public bodies where net asset value is used as a proxy for fair value under the special accounts direction.

Level 3 fair values are measured using at least one unobservable input which could have a significant effect on the instrument's valuation. This includes the Asset Protection Scheme derivative and Dividend Access Share.

During 2011-12, HM Treasury's shares in UK Asset Resolution and Local Partnerships were transferred from the 'other' category to level 2. This was as a consequence of changes to HM

Treasury's special accounts direction which resulted in these bodies being valued at fair value (as approximated by net asset value) compared to historical cost in the prior year.

There were no transfers between level 1 and level 2 during the year and there have been no transfers in or out of level 3.

23.3 Income and expense

The income and expense recognised in the SCNE in relation to financial instruments include:

Financial instruments income/(expense)	Note	2011-12 £m	2010-11 (Restated) £m
Financial guarantee fees	9.1	985	1,339
RBS contingent capital fees	9.1	320	320
RBS extension fee		-	3
Interest and dividend income	9.1	658	358
Fair value adjustments of APS derivative	8	475	1,800
Fair value adjustments of BEAPFF derivative	8	27,969	10,587
Gains/(losses) due to hedging ineffectiveness	9.1	(1)	(85)
Impairment of financial assets	8	(14,100)	(942)
Loss on Northern Rock disposal		(315)	-
Amortisation of loans	9.1	190	149
SLS income		2,262	-
Total		**18,443**	**13,529**

In addition to the income and expense recognised directly in the SCNE detailed above, APS fees of £250 million were received from RBS (2010-11: £700 million). These fees were recognised against the fair value of the APS derivative and are not recognised directly in the SCNE.

23.4 Financial risk management and financial risk factors

HM Treasury has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. The financial services interventions expose it to a variety of financial risks: market risk, credit risk and liquidity risk. In return for taking on financial risk, HM Treasury charges fees to institutions participating in interventions, as detailed in note 23.3.

Integral to HM Treasury's approach to financial risk management has been the design of the interventions and the terms and conditions imposed. Through the design of the interventions and their subsequent management, HM Treasury seeks to minimise the overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate. For further details, see notes 26 - 37 on the background to financial stability schemes and interventions.

The HM Treasury Board is ultimately responsible for risk management and HM Treasury's overall risk management programme. The risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on HM Treasury's financial performance. Financial risks are continually monitored and evaluated through normal management processes and form a core part of day-to-day operations for HM Treasury's policy teams and sub-committees.

23.5 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: foreign exchange risk, price risk and interest rate risk.

(i) Foreign exchange risk

HM Treasury's risk to foreign currency volatilities in respect of the CGS fees are managed through hedging activity. The foreign currency fee income receivable is accounted for as a cash flow hedge item and the associated forward currency contract derivative is accounted for as a cash flow hedge instrument. The combination forms a cash flow hedge relationship. The forward matures on the date of receipt of foreign currency income.

At 31 March 2012, the fair value of the CGS foreign currency fee income receivable is £74.7 million (2010-11: £725 million) and the fair value of the forward contract net asset is £1.5 million (2010-11: net asset of £37 million).

At 31 March 2012, the value of the hedging reserve is £0.6 million (2010-11: £19 million). During the term of the hedge relationship, the hedge is considered effective.

The financial guarantee liabilities within the CGS scheme represent the potential outflow of cash in the event of a default. As the timing of when a default event will occur and the amounts payable are not known, these exposures are not hedged.

As at 31 March 2012, the sterling equivalent of the foreign currency financial guarantee liabilities under CGS is £39.2 million (2010-11: £619.9 million).

The table below shows the effect of a 10 and 25 per cent strengthening/(weakening) on the financial guarantee liability position of the foreign exchange rate (relative to £ sterling) on the SCNE.

At 31 March 2012 (Sterling equivalent £ millions)	CGS-Financial guarantee liabilities	Sensitivity Analysis			
		+10%	+25%	-10%	-25%
USD	29	3	7	(3)	(7)
EUR	7	1	2	(1)	(2)
AUD	2	-	1	-	(1)
JPY	1	-	-	-	-
Total	**39**	**4**	**10**	**(4)**	**(10)**

At 31 March 2011 (Sterling equivalent £ millions)	CGS-Financial guarantee liabilities	Sensitivity Analysis			
		+10%	+25%	-10%	-25%
USD	383	38	96	(38)	(96)
EUR	137	14	34	(14)	(34)
AUD	18	2	5	(2)	(5)
JPY	81	8	20	(8)	(20)
Total	**619**	**62**	**155**	**(62)**	**(155)**

Foreign exchange exposures within the APS are not hedged. This decision has been taken due to the low likelihood of making payouts under the scheme and the acceptable level of foreign exchange risk on an individual payout. See note 23.5.1 for a sensitivity analysis of the APS derivative valuation, including sensitivity to foreign exchange movements.

(ii) Price risk

HM Treasury is exposed to price risk for the equity securities it holds as available-for-sale assets. No market exists for the remaining investments, which are primarily other Government bodies, some of which are never intended for sale. Such investments are accounted for at net asset value or historical cost and thus not exposed to price risk.

Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and RBS are listed on the London Stock Exchange. In addition, RBS' B-shares are considered to be equivalent in market value to RBS's ordinary shares. A sensitivity analysis for the RBS dividend access share is given separately in note 23.5.3.

The analysis below shows the SCNE and equity impact of a 10 per cent and 25 per cent increase or decrease in the market price of investments in RBS and Lloyds Banking Group, excluding the RBS dividend access share. These variances were considered reasonably possible as at the reporting date.

Change in market price		2011-12		2010-11
	SCNE	Equity	SCNE	Equity
	£m	£m	£m	£m
Increase of 10 per cent	1,806	2,116	341	4,961
Increase of 25 per cent	4,515	4,556	341	12,912
(Decrease) of 10 per cent	(1,806)	1,137	(7,200)	1,899
(Decrease) of 25 per cent	(8,665)	(571)	(11,747)	(1,506)
Holding value of the shares at 31 March		**36,130**		**32,209**

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of fluctuations on future cash flows arises on variable rate loans. The table below shows the effect of movements in LIBOR or Bank of England Base Rate on the SCNE for variable rate loans.

Change in interest rates	2011-12	2010-11 (Restated)
	£m	£m
Increase 10 bps	29	32
(Decrease) 10 bps	(29)	(32)
Variable rate interest receivable in year	**893**	**673**

The risk of fluctuations in fair value arises on fixed interest rate and zero interest loans. As at the reporting date, HM Treasury had provided one loan at a fixed interest rate which is the bilateral loan to Ireland. If interest rates were to vary by 100 basis points, a degree considered reasonably possible, the fair value of the loan would decrease by approximately £93 million. There would be no impact on the SCNE as the loan is carried at amortised cost using the effective interest rate to discount future cash flows.

For statutory debt, where HM Treasury does not receive any interest, an increase in market interest rates would have the effect of decreasing the underlying fair value of the loans. If interest rates were to vary by 100 basis points, the fair value of the statutory debt loans would decrease by approximately £181 million. In accordance with the FReM, the discount rate applied to statutory debt is the higher of 3.5 per cent and the rate intrinsic to the financial instrument.

Therefore fair value changes would only be recognised in the SCNE if market interest rates exceeded 3.5 per cent.

23.5.1 Market risk and sensitivity analysis relating to APS derivative

The value of the APS is subject to changes in market factors, primarily credit spreads and foreign exchange rates (in particular USD and EUR). Changes in credit spread impact the implied loss in the asset pool and thus the value of the APS protection. Changes in foreign exchange rates impact the GBP value of potential losses that are denominated in foreign currencies.

The sensitivity of the APS value to the specified changes in these market factors is summarised below.

At 31 March 2012 Risk factor	Increase in APS liability		Decrease in APS liability	
	Factor	£m	Factor	£m
Credit spreads (absolute moves)	+10bps	0.9	-10 bps	(1.3)
Credit spreads (relative moves)	+10%	2.1	-10%	(2.4)
Foreign exchange rates (positive for strengthening GBP)	-1%	1.8	+1%	(1.6)

At 31 March 2011 Risk factor	Increase in APS liability		Decrease in APS liability	
	Factor	£m	Factor	£m
Credit spreads (absolute moves)	+10bps	29	-10 bps	(29)
Credit spreads (relative moves)	+10%	57	-10%	(54)
Foreign exchange rates (positive for strengthening GBP)	-1%	13	+1%	(12)

23.5.2 Market risk and sensitivity analysis for the BEAPFF derivative

Market risk in the BEAPFF's asset portfolio arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets as a result of changes in market interest rates. Risk is monitored through the value at risk and in the form of 'delta', which is the change in valuation from a 1 basis point increase or decrease in market interest rates. The value at risk at 31 March 2012 was £10.6 billion (2010-11: £4.3 billion) and the delta was £313 million (2010-11: £170 million).

23.5.3 Market risk and sensitivity analysis for the Dividend Access Share (DAS)

The valuation of the DAS is based on estimates of the future dividends that may be paid. The dividend right expires when the RBS share price equals or exceeds 65p per share over a certain period. The financial model therefore estimates the dividends paid before this trigger is reached, and then discounts these expected dividends to establish a present value.

The value of the DAS decreases as the underlying share price goes up, as this increases the likelihood of the share price reaching 65p and dividend payments consequently ending. The valuation is also sensitive to the volatility of the RBS share price and the discount rate used in the financial model. The table below provides a sensitivity analysis for a range of scenarios considered plausible at 31 March 2012.

At 31 March 2012 Input to the model	Increase in DAS value		Decrease in DAS value	
	Input	£m	Input	£m
Share price sensitivity	-10p	791	+10 p	(625)
Credit spread sensitivity	-100bps	262	+100bps	(227)
Volatility sensitivity	+5%	125	-5%	(136)
First dividend payment date	-1 year (to 2014)	601	+1 year (to 2016)	(454)

At 31 March 2011 Input to the model	Increase in DAS value		Decrease in DAS value	
	Input	£m	Input	£m
Share price sensitivity	-10bps	1,253	+10 bps	(1,043)
Credit spread sensitivity	-100bps	388	+100bps	(323)
Volatility sensitivity	+5%	162	-5%	(182)
First dividend payment date	-1 year (to 2012)	874	+1 year (to 2014)	(606)

23.6 Credit risk

Credit risk is the risk that a counterpart to a financial instrument will cause a financial loss to HM Treasury by failing to discharge an obligation. HM Treasury is exposed to credit risk through schemes entered into by the Government. The Treasury's credit risk arises from loans issued to financial institutions, financial guarantees, and the balance receivable under forward contracts. See notes 26 to 37 for a description of the individual investments and schemes and their related exposures.

The table below shows the credit rating and utilisation of credit facilities of HM Treasury's most significant counterparties at the reporting date. These credit ratings are produced by Standard and Poor's and will reflect improvements in the credit worthiness of UK financial institutions as a result of Government interventions in providing loans and advances or financial guarantees.

			2011-12		2010-11 (Restated)
As at 31 March	Credit rating	Exposure	Total facility	Exposure	Total facility
		£m	£m	£m	£m
Loans and advances to financial institutions:					
Northern Rock (Asset Management) plc	A	19,838	22,338	21,593	25,470
Bradford & Bingley plc	A-	10,277	13,802	10,697	13,647
Recoverable compensation payments made by the FSCS[1]	A	17,948	17,958	18,790	19,345
Depositors' and Investors' Guarantee Fund	BBB-	1,417	1,417	1,951	1,951
Bilateral loan to Ireland	BBB+	1,210	3,227	-	3,227
Financial guarantees fees receivable:					
Northern Rock (Asset Management) plc	A	89	-	105	-
Bradford & Bingley plc	A -	203	-	257	-
CGS[2]	BBB to A+	90	-	1,107	-
RBS fees for APS	A	150	-	400	-

[1] The credit rating of FSCS debt has been approximated using the weighted average credit rating of top 10 levy payers. This is on the basis that any shortfall in the administration process will be met by levying the financial services industry.
[2] The CGS guarantees specified debt issuances by a number of institutions, each with their own credit rating. The range of credit ratings is given above.

HM Treasury manages credit risk in relation to its investments in Northern Rock (Asset Management) and Bradford & Bingley through UK Financial Investments Limited (UKFI) and UK Asset Resolution (UKAR). UKAR has been established to facilitate the orderly management of the closed mortgage books of both organisations and manages both organisations. The individual business plans of both Northern Rock (Asset Management) and Bradford & Bingley as prepared and implemented by UKAR project full repayment of loans to HM Treasury. On behalf of HM

Treasury, UKFI monitors the implementation of agreed business plans and reports its findings to HM Treasury. Both HM Treasury and UKFI are satisfied with the planned repayment schedule.

In addition, as security on the loan to Northern Rock (Asset Management) plc, HM Treasury holds a floating charge over the entire company's assets including its mortgage pool. As at 31 December 2011, the fair value of the company's assets was £55,324 million (2010: £66,096 million). HM Treasury holds no other security over its loan assets.

HM Treasury provides a loan facility to FSCS to repay depositors the FSCS guaranteed portion of retail debts. The loans with FSCS are anticipated to be fully recoverable. The repayments by FSCS will be made through recoveries from administrators and any shortfall will be raised through industry levies.

HM Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the amounts it paid out to depositors in respect of amounts covered by the DIGF. HM Treasury continues to assume a full recovery of funds. For further details, see note 33.

HM Treasury has monitoring arrangements in place for the Ireland loan. Ireland can only request each draw downs against the loan facility following the successful completion of each quarterly IMF and European Commission review. In addition to reviewing the IMF and European Commission assessments, HM Treasury assesses whether there has been a material and adverse change affecting Ireland's ability to repay the bilateral loan. To date all requests for loan draw downs have been approved.

Financial institutions participating in the CGS pay fees for each of their guaranteed debt issuances. There has been no non-payment of fees during the operation of the scheme to date and the fees are assumed to be fully recoverable. For further details on the CGS, see note 36.1.

RBS pays fees for participation in the APS. Minimum future fee payments are estimated to be £150 million but could be higher depending on when RBS exit the scheme. There has been no non-payment of fees during the operation of the scheme to date and the fees are assumed to be fully recoverable. For further details on the APS, see note 36.6.

In addition to the above, HM Treasury also has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the administrators. The only exception to this is the statutory debt to Bradford & Bingley plc which is managed by UKFI.

23.6.1 Credit risk ratings for BEAPFF assets

The tables below represents an analysis of debt securities and commercial paper held by BEAPFF by credit risk groupings, based on external rating agency designation or equivalent at 31 March 2012.

Sector concentration of assets

Sector		2011-12		2010-11
	UK Government £m	**Corporate £m**	**UK Government £m**	**Corporate £m**
Bonds	318,998	372	194,844	1,356
Secured commercial paper	-	-	-	30
Total	**318,998**	**372**	**194,844**	**1,386**

Credit risk ratings for bonds

Credit risk rating		2011-12		2010-11
	Nominal holdings £m	**% of holdings**	**Nominal holdings £m**	**% of holdings**
AAA	318,998	99.88	194,844	99.31
AA	21	0.01	93	0.05
A	187	0.06	547	0.28
BBB	164	0.05	716	0.36
Total	**319,370**	**100**	**196,200**	**100**

Credit risk ratings for commercial paper

Credit Risk Rating		2011-12		2010-11
	Nominal holdings £m	**% of holdings**	**Nominal holdings £m**	**% of holdings**
A1/P1/F1	-	-	30	100
Total	**-**	**-**	**30**	**100**

23.7 Impairment of financial instruments

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date, based on objective evidence of impairment (see accounting policy note 1.18.4).

In-year and cumulative impairment charges for financial instruments are detailed in the table below:

Impairments as at 31 March	Opening cumulative impairments charged to the SCNE	Impairments eliminated on disposal of assets	Impairments charged to the SCNE in year	Impairments reversed in the SCNE in year	2011-12 Closing cumulative impairments charged to the SCNE
	£m	£m	£m	£m	£m
Loans and receivables	(1,688)	-	(1)	330	(1,359)
Available-for-sale financial instruments	(18,313)	212	(14,429)	-	(32,530)
Total	**(20,001)**	**212**	**(14,430)**	**330**	**(33,889)**

The in-year impairment charge of £14,429 million against available-for-sale instruments relates to HM Treasury's holdings of RBS and LBG shares (see note 13.1). Of the cumulative impairment charge of £32,530 million, £20,774 million relates to RBS shares and £11,756 million to LBG shares.

The impairment reversal of £330 million for loans and receivables comprises £62 million for the loan to the Depositors' and Investors' Guarantee Fund (DIGF) and £268 million for statutory debt (see note 15.1). The impairment reversal reflects improvements in the expected recovery levels of statutory debt and a reduction in the expected timeframe for recovery of the DIGF loan in full.

The following assets (comprised solely of aged trade receivables) are past due as at 31 March 2012, but have not been impaired as they are expected to be fully recoverable:

Assets past due but not impaired as at 31 March	2011-12	2010-11
	£m	£m
Past due up to three months	0.03	3.62
Past due three months to six months	0.01	0.03
Past due over six months	-	-
Total	**0.04**	**3.65**

23.8 Liquidity risk

Liquidity risk is the risk that HM Treasury is unable to meet its payment obligations associated with its financial liabilities as they fall due.

HM Treasury's liquidity management includes:

- monitoring cash flows to ensure that daily cash requirements are met; and
- re-assessing the net cash requirement on a regular basis and reporting to Parliament as part of the Estimates process.

The table below presents the undiscounted cash flows payable by HM Treasury under non-derivative and derivative financial liabilities by remaining contractual maturities at the reporting date. Liabilities disclosed in the table are the contractual undiscounted cash flows. Foreign exchange forward contracts will be settled on a gross basis.

Group	Up to 3 months	3-12 months	Over 1 year	2011-12 Total	2010-11 (Restated) Total
	£m	£m	£m	£m	£m
Non derivative liabilities:					
Trade and other payables[1]	161	33	173	**367**	**364**
Provisions	79	237	974	**1,290**	**1,498**
Derivative Liabilities:					
APS[2]	-	-	-	**-**	**100**
Forward currency contracts held for hedging:					
- Outflow	20	9	-	**29**	**203**
- Inflow	(19)	(8)	-	**(27)**	**(191)**

[1]Trade and other payables exclude deferred income relating to contingent capital fees as this liability will not result in an outflow of cash and guarantee liabilities as no payment is anticipated for these liabilities.

[2]The APS derivative is an asset of £125 million in 2011-12.

In addition to the financial liabilities shown above, HM Treasury has a maximum exposure under quantifiable contingent liabilities of £123.2 billion (2010-11: 326.4 billion). For further details on contingent liabilities, see note 24.

24. Contingent liabilities

24.1 Contingent liabilities disclosed under IAS 37

Northern Rock (Asset Management) plc

HM Treasury has guaranteed indemnities provided by Northern Rock (Asset Management) plc for its new directors against liabilities and losses incurred in the course of their actions whilst the bank is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has confirmed to the Financial Services Authority (FSA) its intention to take appropriate steps (should they prove necessary) to ensure that Northern Rock (Asset Management) plc will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are estimated to be £1.6 billion.

Northern Rock plc

HM Treasury guaranteed indemnities provided by Northern Rock plc for its new directors against liabilities and losses incurred in the course of their actions whilst the bank was in public ownership. The indemnity was lifted on 1 January 2012 when the bank was sold to Virgin Money.

Under the terms of the sale of Northern Rock, HM Treasury has provided certain warranties and a tax indemnity to Virgin Money. The warranties and tax indemnity are both time-limited and subject to an overall cap (100% of the final consideration in relation to the warranties in relation to title, capacity and authority and 35% of the final consideration in other cases). The warranties in relation to title, capacity and authority are considered to be so remote as to not meet the definition of a contingent liability. Maximum potential liabilities under the remaining warranties are estimated to be £310 million.

Bradford & Bingley plc (B&B)

HM Treasury has guaranteed indemnities provided by B&B for the directors appointed post public ownership against liabilities and losses incurred in the course of their actions whilst the company is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has confirmed to the FSA its intention to take appropriate steps (should it prove necessary) to ensure that B&B will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the FSA which may vary as circumstances demand.

United Kingdom Asset Resolution Limited (UKAR)

HM Treasury has guaranteed indemnities provided by UKAR for its directors against liabilities and losses incurred in the course of their actions whilst the entity is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

Royal Bank of Scotland plc (RBS)

To ensure that RBS is properly and robustly secured in a downturn, HM Treasury has made available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum. This commitment is in place for 5 years, until 22 December 2014, but can be ended early by the bank with the consent of the Financial Services Authority. The contingent capital would, if drawn down, be injected in tranches in the form of B-shares, should the core tier one capital ratio of RBS fall below 5 per cent. The fee may be paid in cash, B-shares, or deferred tax assets. Maximum potential liabilities under this intervention are estimated to be £8 billion.

Infrastructure Finance Unit Limited (IFUL)

HM Treasury has guaranteed indemnities provided by IFUL for its directors against liabilities and losses incurred in the course of their actions. Maximum potential liabilities under this intervention are considered unquantifiable.

United Kingdom Financial Investments Limited (UKFI)

HM Treasury has guaranteed indemnities provided by UKFI for its directors against liabilities and losses incurred in the course of their actions as directors. Maximum potential liabilities under this intervention are considered unquantifiable.

Bank of England Asset Purchase Facility Fund Limited (BEAPFF)

HM Treasury has guaranteed indemnities provided by the BEAPFF for its officers and directors against liabilities and losses incurred in the course of their actions in relation to the operation of the Asset Purchase Facility. Maximum potential liabilities under this intervention are considered unquantifiable.

Bradford & Bingley plc pension indemnity

The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 requires HM Treasury to give a guarantee or to make other arrangements for the purposes of securing that the assets of the remaining section of the Bradford & Bingley Pension Scheme are sufficient to meet its liabilities. This “remaining section” comprises the whole Scheme other than the portion relating to service with Bradford & Bingley International; responsibility for that latter part in effect transferred to Abbey in September 2008. HM Treasury has therefore guaranteed to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. The size of the contingent liability is £14.7 million as at 31 December 2011, based on the most recent published accounts of Bradford and Bingley.

Compensation Schemes

Under the Northern Rock plc Compensation Scheme Order 2008 an independent valuer was appointed to assess what compensation, if any, is payable to former shareholders and others as a result of the company being taken into public ownership. On 30 March 2010 the valuer issued Assessment Notices and a Final Document, in which he concluded that no compensation is payable. Under the Order any affected party may request the valuer to reconsider his assessment, and may refer his revised assessment to the Upper Tribunal (formerly the Financial Services and Markets Tribunal). The valuer issued a revised assessment notice on 4 October 2010 upholding his view that the amount payable to former Northern Rock shareholders is nil. A number of former shareholders referred the case to the Upper Tribunal, where a hearing took place in May 2011. On 6 October 2011, the Upper Tribunal announced that it had upheld the valuer's decision. Subsequently, former shareholders applied to the Upper Tribunal for permission to appeal to the Court of Appeal. The Upper Tribunal granted permission to appeal on 28 October 2011. The Court of Appeal hearing has been scheduled for January 2013.

Under the Bradford & Bingley plc Compensation Scheme Order 2008 an independent valuer was appointed to assess what compensation, if any, is payable to former shareholders and others as result of the company being taken into public ownership. On 5 July 2010 the valuer issued Assessment Notices and a Final Document, in which he concluded that no compensation is payable. Under the Order any affected party may request the valuer to reconsider his assessment, and may refer his revised assessment to the Upper Tribunal (formerly the Financial Services and Markets Tribunal). The valuer issued a revised assessment notice on 14 March 2011 upholding his view that the amount payable to former shareholders is nil. Subsequently, the case was referred to the Upper Tribunal and a hearing took place on 24 November 2011. As there was no applicant actively pursuing the claim, the judge gave shareholders until 13 January 2012 to write in to say whether they wish to participate actively in the proceedings. A number of individuals have indicated that they would like proceedings to continue and a preliminary hearing has been scheduled for 10 May 2012.

In accordance with Section 4 of the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, HM Treasury is liable to pay to specified third parties any amount of compensation determined to be payable by the independent valuer. The valuer will set out his assessment of the amount of compensation, if any, payable to persons whose rights have been affected by the Transfer Order and assess the amount the FSCS would have been likely to have recovered from Dunfermline Building Society in insolvency. The valuer has yet to publish his report. Maximum potential liabilities under this intervention are considered unquantifiable.

Under the Order, HM Treasury is required to appoint an Appointment Panel, which is responsible for appointing an independent valuer. The Panel is also responsible for removing the independent valuer from office on the grounds of incapacity or serious misconduct. HM Treasury has indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred in connection with, or arising from, their membership of the Panel and the performance of the Panel's functions. Maximum potential liabilities under this intervention are considered unquantifiable.

Pool Re and Pool Re (Nuclear) Limited

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies, owned by insurers. Their role is to provide terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption following a terrorist attack in Great Britain (excluding Northern Ireland). HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. The total reserves of Pool Re as at the date of their last published accounts (December 2011) were £4.5 billion (2010: £4.2 billion) and of Pool Re (Nuclear) were £26.5 million (2010: £25.5 million). In the event of losses exceeding Pool Re's or Pool Re (Nuclear)'s available resources, HM Treasury will fund the difference which will be repaid by Pool Re or Pool Re Nuclear over time. Maximum potential liabilities under this arrangement are therefore considered unquantifiable. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Royal Mint Trading Fund

The Royal Mint Trading Fund has a Memorandum of Understanding arrangement with the National Loans Fund by which it can draw down funds in the form of a financing facility, with an upper limit of £36 million. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50 million. If the Royal Mint Trading Fund was unable to meet this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met by HM Treasury.

24.2 Contingent liabilities not required to be disclosed under IAS 37 but included for Parliamentary reporting and accountability

In addition to contingent liabilities disclosed in accordance with IAS 37, HM Treasury discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities which have been reported to Parliament in accordance with the requirements of Managing Public Money. These comprise items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to HM Treasury entering into the arrangement.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The Government has indemnified the Bank of England and the fund specially created to implement the facility from any losses arising out of or in connection with the facility. The maximum authorised value of purchases under the APF is £335 billion. The current fair value of assets purchased under the scheme is £319 billion, and a BEAPFF derivative asset of £38.5 billion is carried at fair value on the Statement of Financial Position as at the reporting date.

Asset Protection Scheme (APS)

In December 2009, RBS acceded to the APS, insuring an asset pool of £282 billion. The first £60 billion of losses within this pool is borne by RBS and 90 per cent of losses thereafter are met by HM Treasury. The value of assets covered by the pool as at 31 March 2012 was £120.8 billion. Maximum exposure to HM Treasury is estimated at £54.7 billion, although no payout is expected, as reflected in the derivative asset valuation of £125 million at the reporting date.

Credit Guarantee Scheme

The Credit Guarantee Scheme provides a Government guarantee for new short and medium term debt issuance to eligible institutions. The Scheme became operational in October 2008 and closed to new issuance in February 2010. Maximum potential liabilities under this intervention are estimated to be £24.2 billion based on guarantees in place at the reporting date, of which a financial guarantee liability of £41.4 million is carried at fair value on the Statement of Financial Position.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and will help businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point.

Under the NLGS, the government will allow eligible banks to issue limited quantities of government guaranteed debt, up to a total of £20 billion. Banks will be required to pass on the resultant reduction in funding cost through a reduction in the interest rate charged on new loans to small businesses; businesses with turnover of less than £50 million per annum. At the reporting date, an initial allocation of £5bn in guaranteed funding has been made to participating banks, although no guaranteed debt has been issued. Maximum potential liabilities under this intervention are estimated to be £20 billion over the next two years.

Northern Rock plc and Northern Rock (Asset Management) plc guarantees

On 1 January 2010 HM Treasury put in place arrangements to guarantee certain retail and wholesale deposits transferred to Northern Rock plc pursuant to the restructuring of the bank. These guarantees were terminated in May 2010 and November 2010 respectively, from which point deposits are no longer guaranteed with the exception of fixed term retail deposits existing at 24 February 2010 and fixed term wholesale deposits existing at 1 January 2010, which are guaranteed to maturity. Maximum potential liabilities under this intervention are estimated to be £0.5 billion based on guaranteed deposits at the reporting date, of which a financial guarantee liability of £18 million is carried at fair value on the Statement of Financial Position at the reporting date.

HM Treasury also announced replacement guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and wholesale deposits held in accounts with Northern Rock (Asset Management) plc existing immediately after the transfer became effective on 1 January 2010. Maximum potential liabilities under this intervention are estimated to be £10.6 billion as at the reporting date, of which a financial guarantee liability of £85.7 million is carried at fair value on the Statement of Financial Position at the reporting date.

Bradford & Bingley guarantees

In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley. Maximum potential liabilities under this intervention are estimated to be £3.2 billion as at 31 March 2012, of which a financial guarantee liability of £429.4 million is carried at fair value on the Statement of Financial Position at the reporting date.

Barlow Clowes

HM Treasury continues to indemnify the liquidators and receivers of the collapsed Barlow Clowes group of companies pursuant to the deeds of indemnity dated 3 April 1991 and 29 March 1994. Maximum potential liabilities under this intervention are unquantifiable.

Insurance Brokers' Registration Council

Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the Insurance Brokers' Registration Council (IBRC) passed to HM Treasury. HM Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity. Maximum potential liabilities under this intervention are considered unquantifiable.

25. Losses and special payments

The administration costs of the Treasury and its agencies include £10,000 arising from 25 claims for losses, and claims waived or abandoned (2010-11: £25,000 from 48 claims) and £747,000 arising from special payments on 14 exit packages (2010-11: £1,839,000 on 50 exit packages). Further details on exit packages can be found in the Remuneration Report in Chapter 7.

Background to financial interventions and financial stability schemes

Notes 26 to 37 of these resource accounts provide a summary of the key events in each of HM Treasury's financial interventions, and also developments in 2011-12. The summary includes significant financial transactions and these reflect actual cash flows for loans and other interventions. The summary includes details of statutory debt payments. These were payments made to compensate deposit holders for amounts above the FSCS compensation limit in place at the time. For accounting purposes, HM Treasury loans for statutory debt payments are recognised on a net present value basis with adjustments made for impairment and amortisation of cost, see note 15.1 for details.

For further information on the period before 1 April 2011, please see HM Treasury's Annual Report and Accounts 2010-11.

26. Northern Rock and Northern Rock (Asset Management) additional information

26.1 Background

On 22 February 2008, by an order made under the Banking (Special Provisions) Act 2008, the shares of Northern Rock plc were transferred into Temporary Public Ownership (TPO).

The Bank of England provided a loan of £18.8 billion to finance the transfer which was novated on 28 August 2008 on the same terms to HM Treasury.

On 1 January 2010, the former Northern Rock business was restructured to create two new companies: Northern Rock plc and Northern Rock (Asset Management) plc (NRAM). All customer deposits and a proportion (around 10 per cent) of the mortgage book were transferred to the new bank, Northern Rock. The remaining mortgages, the existing loan from HM Treasury and most wholesale funding remained in NRAM. NRAM does not offer new mortgage products or hold any customer deposits and is committed to a wind down of its business.

As part of the restructuring, the loan to NRAM increased on 4 January 2010 by £8.5 billion, taking the outstanding loan balance to £22.8 billion in order for NRAM to finance the difference between mortgage assets and retail and wholesale deposit liabilities that were transferred to Northern Rock plc.

On 31 December 2009, HM Treasury provided Northern Rock with £1.4 billion of capital support in order for the company to meet the FSA's regulatory capital requirements. HM Treasury also provided a commitment to the FSA that, if necessary, up to £1.6 billion in additional capital support will be provided to NRAM to allow it to continue to meet its regulatory capital requirements.

On 1 October 2010, NRAM and Bradford & Bingley were integrated under a single holding company, UK Asset Resolution Limited (UKAR). Both companies remain as separate legal entities under UKAR, each with its own balance sheet liabilities and government support arrangements. The integration has created a solid platform for the orderly management of both companies' mortgage books, helping to maximise value for the taxpayer.

On 15 June 2011, the Chancellor announced the decision to put Northern Rock up for sale. In line with EC state aid requirements, the sale process was conducted in an open, transparent and non-discriminatory manner.

Deutsche Bank was appointed as a joint adviser to both UKFI and Northern Rock for the sale process. On 17 November 2011 the Chancellor announced the sale of Northern Rock to Virgin Money plc. The Treasury received initial proceeds of £747 million of cash from Virgin Money on closing on 31 December 2011, plus a perpetual Tier 1 capital note with a par value of £150 million, valued at £66 million on acquisition. A further payment of at least £60 million is anticipated as a post-closing adjustment during 2012-13.

The estimated value of the total proceeds is £873 million, resulting in a loss of £315 million on disposal. The loss has been recognised in the SCNE.

In addition to the proceeds, the sale agreement includes a clause through which a successful sale or listing of Virgin Money before the end of 2016 would result in payments to Treasury of up to £80 million.

26.2 Independent valuer

On 30 March 2010, the independent valuer appointed under the Northern Rock plc Compensation Scheme Order 2008, Andrew Caldwell, published his assessment of the compensation payable to former shareholders. Mr Caldwell determined that there was no value in the shares (or right to receive shares) immediately before the transfer of Northern Rock into TPO and therefore, that no compensation is payable by HM Treasury to former shareholders (and to those whose rights to receive shares were extinguished under the Northern Rock plc Transfer Order 2008).

All shareholders were given the opportunity to ask the valuer to reconsider his assessment. On 4 October 2010, after considering the requests for reconsideration, Mr Caldwell issued his Revised Assessment Notice. Mr Caldwell stated in his Revised Assessment Notice that he remains of the conclusion that no compensation is payable by HM Treasury to former shareholders of Northern Rock (or other affected parties). A number of former shareholders who disputed the assessment referred the case to the Upper Tribunal. On 6 October 2011, the Upper Tribunal delivered its ruling and concluded that the independent valuer was correct in his interpretation of the statutory provisions, that his application of them to the facts was reasonable and professional, and that the nil valuation should stand. On 28 October 2011, the Upper Tribunal granted permission to former shareholders to appeal its ruling on the correct interpretation of the Withdrawal Assumption. The Upper Tribunal refused permission to appeal in relation to any other issues. An application has been made to the Court of Appeal for permission to deal with other issues, namely the extent of the Upper Tribunal's jurisdiction and related matters. The Court of Appeal granted permission for the appeal and a hearing has been scheduled for January 2013.

26.3 Recovery of costs and related income

Northern Rock and NRAM pay a monthly fee in respect of existing retail and wholesale guarantee arrangements. The fee income totalled £15.6 million in 2011-12.

26.4 HM Treasury loan to NRAM

As at 31 March 2012, the outstanding loan to NRAM is £19.8 billion. This reflects repayments of £1.8 billion during 2011-12.

The interest receivable on HM Treasury's loan to NRAM for 2011-12 is £153.3 million.

HM Treasury also provides a working capital facility (WCF) loan to NRAM with a current commitment of up to £2.5 billion to help the company with its wind down. This has not been drawn on to date. No fee is payable on the WCF unless drawn down.

HM Treasury expects the loan facilities provided to NRAM to be repaid in full over the period of wind down as per the business plan.

27. Bradford & Bingley additional information

27.1 Background

On 29 September 2008, in exercise of a power under the Banking (Special Provisions) Act 2008, HM Treasury transferred the shares of Bradford & Bingley plc (B&B) into public ownership. Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey). In order to facilitate this transfer, the FSCS and HM Treasury made cash payments to Abbey equal to the value of deposit liabilities. The Bank of England provided the FSCS with a loan in order to enable the FSCS to make this payment; the loan was transferred to HM Treasury in December 2008.

Total cash paid to Abbey by the FSCS and HM Treasury for the transferred retail deposit liabilities was £18.5 billion. Of this £18.5 billion, HM Treasury is liable for deposit balances in excess of £35,000, (the FSCS compensation limit at the time) which have been determined to be £2.8 billion. The FSCS is liable for the remaining £15.7 billion.

In September 2008, the Bank of England provided a working capital facility loan to B&B. The facility was refinanced by HM Treasury on 29 December 2008 and stood at £8.0 billion as at 31 March 2012 whilst the commitment remains at £11.5 billion.

27.2 Independent valuer

On 24 June 2009, HM Treasury, on the recommendation of an independent panel, appointed Peter Clokey as independent valuer under the terms of the Bradford & Bingley plc Compensation Scheme Order 2008. The independent valuer completed his final assessment on 5 July 2010 and concluded that no compensation is payable by HM Treasury to former B&B shareholders and bondholders.

All affected parties, including shareholders and bondholders, were given the opportunity to submit a request for the valuer to re-determine his decision. Mr Clokey published his Revised Assessment Notice on the 14 March 2011, stating that he remains of the conclusion that no compensation is payable to former shareholders of B&B.

Mr Clokey's Revised Assessment Notice included details of how to refer the case to the Upper Tribunal should any person affected by the determination remain dissatisfied. Approximately 700 such applications were made to the Upper Tribunal and a preliminary hearing took place on 10 May 2012.

27.3 Recovery of costs and related income

B&B pay a monthly fee in respect of the wholesale deposit guarantee arrangements. The fee income totalled £67.5 million in 2011-12.

27.4 HM Treasury loans to B&B and the FSCS

As at 31 March 2012, the outstanding B&B working capital loan balance is £8.0 billion, the outstanding FSCS loan is £15.7 billion and the HM Treasury statutory debt is £2.8 billion. Following impairment and amortisation of cost on statutory debt, the net present value is £2.3 billion, see note 15.1.

B&B pay interest on the working capital facility. Interest receivable for 2011-12 totalled £367.3 million.

The FSCS pay interest on the loan from HM Treasury relating to B&B deposits. Interest accrued during 2011-12 totalled £315.4 million. This will be paid on 1 October 2012.

28. Royal Bank of Scotland additional information

28.1 Background

On 8 October 2008, the Government announced a recapitalisation scheme under which capital support would be made available to eligible institutions from public sector resources. As a result of the arrangement, in December 2008, HM Treasury acquired approximately £15 billion of ordinary shares plus £5 billion of preference shares in RBS.

On 19 January 2009, the Government announced its agreement with RBS to convert HM Treasury's £5 billion preference share investment into new ordinary shares.

On 26 November 2009, the Government and RBS signed binding agreements under which on 22 December 2009 the Government injected £25.5 billion of capital in the form of B shares. Over the course of 2011-12, HM Treasury's economic ownership of RBS decreased to 82% and the ownership of the ordinary share capital decreased to 66.1%, due to the increase in total share count arising from equity issued by RBS, including in relation to share-based remuneration awards.

In addition, the Government has agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's Core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5 per cent ('the Contingent Capital Commitment').

On 22 December 2009, RBS acceded to the Asset Protection Scheme (APS). Further details on the APS are included in note 36.6.

28.2 Recovery of costs and related income

During 2011-12, RBS paid £250 million in fees for inclusion in the APS and £320 million in contingent capital fees. In addition, Asset Protection Agency operating costs were recharged to RBS (2011-12: £10 million; 2010-11: £15 million).

29. Lloyds Banking Group additional information

29.1 Background

On 13 October 2008, under the Government recapitalisation scheme, HM Treasury acquired ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB. It also acquired preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB.

On 19 January 2009, HBOS and Lloyds TSB merged to form the Lloyds Banking Group (LBG) and this resulted in HM Treasury holding 43.4 per cent of the share capital and £4 billion of preference shares in LBG.

On 7 March 2009, the Government announced its agreement with LBG to convert HM Treasury's £4 billion preference share investment into new ordinary shares, and LBG's intention to participate in the APS. In November 2009, LBG announced that it planned to raise sufficient capital through the market to meet the FSA's capital requirements without the need for additional support from the APS. A fee of £2.5 billion was subsequently levied on LBG for the implicit protection it received since indicating it would participate.

In June 2009, LBG shareholders approved an issue of new ordinary shares. Over the course of 2011-12, HM Treasury's holdings of the ordinary share capital of LBG decreased to 39.8%, due to the increase in total share count arising from equity issued by LBG, including in relation to share-based remuneration awards.

There have been no financial transactions with LBG during 2011-12.

30. Heritable Bank additional information

30.1 Background

Heritable Bank plc (Heritable) is a UK subsidiary of Landsbanki islands hf (an Icelandic bank) and was regulated by FSA.

On 8 October 2008, by orders made under the Banking (Special Provisions) Act 2008, the majority of Heritable's retail deposit liabilities were initially transferred to Deposits Management (Heritable) Limited (DMH), a subsidiary of HM Treasury, and then subsequently to ING Direct N.V. This transfer was supported by payments of cash from HM Treasury and the FSCS to ING equal to the value of the deposit book liabilities less £1 million. The wind down of DMH was completed in 2010-2011.

Total cash paid to ING by the FSCS and HM Treasury for the transferred deposit liabilities was £547.1 million. Of this £547.1 million, HM Treasury is liable for deposit balances in excess of £50,000 (the FSCS compensation limit at the time), which have been determined to be £89.9 million. The FSCS is liable for the remaining balances and borrowed £457.2 million from HM Treasury for the ING payment.

A small amount of Heritable's retail deposits were not transferred to ING and the FSCS paid out directly to these depositors including compensation for amounts above £50,000. The FSCS was liable for amounts up to £50,000 (the FSCS compensation limit at the time), and borrowed a further £12.5 million from HM Treasury to compensate eligible depositors. HM Treasury is liable for amounts in excess of £50,000, which have been determined to be £1.8 million. The FSCS is liable for the remaining £10.7 million loan amount.

Heritable is now in administration. As at 31 March 2012, the outstanding FSCS loan is £143.3 million and the amount due to compensate the HM Treasury for its liability is £29.5 million. Following impairment and amortisation of cost on the statutory debt, the net present value is £16.4 million, see note 15.1.

30.2 Recovery of costs and related income

The professional fees incurred by HM Treasury relating to Heritable are included in the total financial stability costs in note 7.2.

The FSCS pays interest on the loan from HM Treasury. Interest accrued during 2011-12 totalled £3.6 million. This will be paid on 1 October 2012.

The £91.7 million provided by HM Treasury to ING for retail depositors' balances in excess of £50,000 is not accruing any interest. It is recoverable from the administration process for Heritable.

To date, the administrator for Heritable has paid out dividends to FSCS and HM Treasury totalling £377.7 million. Of this, £315.5 million was used by the FSCS to repay part of the loan with HM Treasury and the remaining £62.2 million was used to reimburse HM Treasury for its statutory debt payments for deposit balances in excess of £50,000. Dividends received during 2011-12 totalled £99.2 million.

31. Kaupthing Singer & Friedlander additional information

31.1 Background

On 8 October 2008, by an order made under the Banking (Special Provisions) Act 2008, the majority of retail deposit liabilities of Kaupthing Singer and Friedlander ('KSF') were initially transferred to Deposits Management (Edge) Limited, a subsidiary of Bank of England, and subsequently to ING Direct N.V (ING). In order to facilitate this transfer the FSCS and HM Treasury made cash payments to ING equal to the value of the deposit liabilities less £5 million (the amount paid by ING for the deposit book).

The FSCS and HM Treasury paid £2.7 billion to ING to fund the transfer of deposit liabilities from KSF 'Edge' to ING. Of this £2.7 billion, HM Treasury is liable for deposit balances in excess of £50,000, which have been determined to be £0.2 billion. The FSCS is liable for the remaining balances and has borrowed £2.5 billion from HM Treasury for the ING payment.

A small amount of KSF's deposits were not transferred to ING and the FSCS directly paid out to eligible depositors in KSF non-'Edge' products, including compensation for amounts above £50,000. A further loan of £530 million was made available to the FSCS to enable payments to commence, of which the FSCS has repaid £171.1 million. Following due diligence conducted by the FSCS, the remaining £358.9 million has been split with £67.8 million deemed as a loan to the FSCS for compensation up to £50,000 and £291.1 million deemed as a liability of HM Treasury for payouts to depositors with balances in excess of £50,000.

KSF is now in administration. As at 31 March 2012, the outstanding FSCS loan is £954.5 million and the amount due to compensate HM Treasury for its liability is £183 million. Following impairment and amortisation of cost on the statutory debt, the net present value is £89.2 million, see note 15.1.

31.2 Recovery of costs and related income

The professional fees incurred by HM Treasury relating to KSF are included in the total financial stability costs in note 7.2.

The FSCS pay interest on the loan from HM Treasury. Interest accrued during 2011-12 totalled £21.1 million. This will be paid on 1 October 2012.

The compensation due to HM Treasury for payment of deposits above £50,000 is not accruing any interest. It is recoverable from the administration process for KSF.

To date, the administrator for KSF has paid out dividends to FSCS and HM Treasury totalling £1.9 billion. Of this, £1.6 billion was used by the FSCS to repay part of the loan with HM Treasury and the remaining £0.3 billion was used to reimburse HM Treasury for its statutory debt payments for deposit balances in excess of £50,000. During 2011-2012 dividends totalled £0.4 billion.

32. London Scottish Bank additional information

32.1 Background

On 30 November 2008, the High Court made an Administration Order in relation to London Scottish Bank plc (LSB) and administrators were appointed. HM Treasury will meet payments above the £50,000 threshold for eligible depositors. The compensation due to HM Treasury for payment of deposits above £50,000 is not accruing any interest. It is recoverable from the administration process for LSB.

To date, HM Treasury has provided the FSCS with a loan of £260 million to enable payments to eligible depositors to commence. Following due diligence conducted by the FSCS, the current loan has been split with £231.7 million deemed as a loan to the FSCS for compensation up to £50,000 and £28.3 million deemed to be HM Treasury's payouts to depositors with balances in excess of £50,000.

As at 31 March 2012, the outstanding FSCS loan is £186.9 million and the statutory debt is £22.9 million. Following impairment and amortisation of cost on statutory debt, the net present value is £5.8 million, see note 15.1.

32.2 Recovery of costs and related income

The professional fees incurred by HM Treasury and specifically related to LSB are included in total financial stability costs in note 7.2.

The FSCS pays interest on the loan from HM Treasury. Interest accrued during 2011-12 totalled £4.1 million. This will be paid on 1 October 2012.

The compensation due to HM Treasury for payment of deposits above £50,000 is not accruing any interest. It is recoverable from the administration process for LSB.

The undrawn element of the loan facility attracts a monthly commitment fee payable by the FSCS to HM Treasury. On 31 March 2012, the remaining undrawn amount on the total facility is £10 million.

33 Icesave additional information

33.1 Background

On 8 October 2008, the Financial Services Authority (FSA) concluded that Icesave, the UK branch of Landsbanki, was in default for the purposes of the FSCS.

As at 31 March 2012, HM Treasury has provided funding of £4.5 billion to make payouts to UK retail deposit holders at Icesave. Of this, about £2.3 billion is the liability of the Icelandic authorities for payouts up to €20,887 per depositor in accordance with the EU Deposit Guarantee Scheme Directive; £1.4 billion falls to the FSCS for compensation for amounts above €20,887 and below £50,000; and £0.8 billion represents compensation by HM Treasury for amounts above £50,000.

HM Treasury is continuing to work with the Icelandic Authorities to ensure the UK is refunded for the amounts it paid out to depositors in respect of amounts covered by the Depositors' and Investors' Guarantee Fund (DIGF). A loan agreement that would have had that effect was put to a referendum of the Icelandic people on 9 April 2011 and was rejected. The matter has been referred by the European Free Trade Association (EFTA) Surveillance Authority to the EFTA Court. HM Treasury continues to assume a full recovery of funds.

During 2011-12, the administrator for Icesave has paid out dividends to HM Treasury and the FSCS of £1.3 billion. Of this, £0.4 billion was used by the FSCS to repay part of the loan with HM Treasury, £0.7 billion was allocated to the DIGF share of the loan and the remaining £0.2 billion was used to reimburse HM Treasury for its statutory debt payments for deposit balances in excess of £50,000.

As at 31 March 2012, the outstanding FSCS loan is £1 billion, the DIGF loan is £1.6 billion and the statutory debt is £0.6 billion. Following impairment and amortisation of cost, the net present value of the statutory debt is £0.5 billion and the net present value of the DIGF loan is £1.4 billion, see note 15.1.

33.2 Recovery of costs and related income

The professional fees incurred by HM Treasury relating to Icesave are included in the total financial stability costs in note 7.2.

The FSCS pays interest on the loan from HM Treasury. Interest accrued during 2011-12 totalled £26 million. This will be paid on 1 October 2012.

Interest is receivable from Icelandic authorities in respect of the loan provided to the DIGF for payouts up to €20,887 per depositor.

The compensation due to HM Treasury for payment of deposits above £50,000 is not accruing any interest. It is recoverable from the administration process for Landsbanki.

34. Dunfermline Building Society additional information

34.1 Background

On 28 March 2009, the Financial Services Authority, after consultation with HM Treasury and Bank of England, concluded that Dunfermline Building Society met the general conditions for entry into Special Resolution Regime under the Banking Act 2009. On 30 March 2009 the Bank of England made a transfer instrument transferring part of Dunfermline's business to Nationwide and Dunfermline's social housing loans book to a bridge bank (wholly owned by the Bank of England). A court order was made that day placing Dunfermline into building society special administration.

HM Treasury made a payment of £1.6 billion to Nationwide on 30 March 2009 in order to match the difference between the retail and wholesale deposit liabilities and the mortgage assets transferred from Dunfermline to Nationwide.

A liability against Dunfermline was created in the Transfer Instrument made by the Bank of England on 30 March 2009 in respect of the payment HM Treasury made to Nationwide, therefore HM Treasury is a creditor in the administration. Any amount not recovered from the administration may be recovered from the FSCS under section 214B of the Financial Services and Markets Act 2000 (subject to a statutory cap on the amount that may be recovered from the FSCS).

To date, the administrator for Dunfermline has paid out dividends to HM Treasury totalling £633 million. Further dividends are expected over the period of the administration as determined by the administrators.

On 23 December 2009, HM Treasury announced that an independent panel had selected and appointed Ian Burns as the independent valuer to determine any compensation to be paid by the FSCS in accordance with the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009. The valuer's decision will determine the statutory FSCS cap; the amount of money the FSCS will be required to pay towards the costs HM Treasury paid for the Resolution of Dunfermline Building Society.

As at 31 March 2012, HM Treasury's claim in the administration stood at £0.9 billion and, following an initial payment of statutory interest at 15% on the first disbursement, is not accruing further interest. Following the receipt of interest, previous impairments have been reversed. For further details, see note 15.1.

34.2 Recovery of costs and related income

The professional fees incurred by HM Treasury in connection with the resolution of Dunfermline are included in total financial stability costs in note 7.2.

During 2011-12, HM Treasury received interest of £80.3 million (2010-11: nil) from the Dunfermline administration.

35. Ireland bilateral loan additional information

35.1 Background

In December 2010 following Parliamentary approval through the Loans to Ireland Act 2010[8] the Government agreed to provide a £3.2 billion bilateral loan to Ireland as part of an international package of financial assistance for Ireland.

Subject to conditions set out in the loan agreement (the full terms of which are set out in the credit facility agreement, available on the Parliament website[9]), disbursements under the loan

[8] http://www.legislation.gov.uk

facility are made following the successful completion of the relevant financial assistance programme reviews by the IMF and the European Commission, following consultation with Member States. At 31 March 2012, three disbursements totalling £1.2 billion had been made.

Further information on the loan to Ireland is provided to the House of Commons on a biannual basis under section 2 of the Loans to Ireland Act 2010. The first such report was published on 11 June 2012.

35.2 Interest payments and loan terms

The interest rate to be applied to each disbursement of the loan is detailed in the credit facility agreement. Last year, the Chancellor committed in principle to reduce the interest rate whilst still covering the UK's cost of funding. The new rate has been agreed based on the UK's cost of funds plus a service fee of 0.18% where the UK's cost of funding for this purpose is defined as the average yield on gilt issuance in the 6 months prior to the disbursement of a tranche. This is subject to the loan agreement being revised to reflect the new rate. Once finalised, the new rate will also apply retrospectively to previous disbursements. A provision therefore has been included to anticipate this retrospective reduction in interest payments already made.

Each loan must be repaid in full 7.5 years after its disbursement date.

35.3 Wider UK involvement in European financial assistance interventions

In addition to the bilateral loan to Ireland, the UK has continued to support IMF programme loans through the National Loans Fund (NLF). Details on support provided to the IMF can be found in the NLF's 2011-12 accounts.

The UK holds contingent liabilities for the European Financial Stabilisation Mechanism, which is available to all EU Member States, and the European Balance of Payments Facility, which is available to non-euro area Member States. Both these mechanisms are financed by the European Commission raising money on capital markets, guaranteed by the EU budget. The contingent liabilities for these mechanisms are reflected in the Consolidated Fund Accounts 2011-12.

[9] http://www.parliament.uk

36. Financial stability schemes

36.1 Credit Guarantee Scheme

On 8 October 2008, the Government announced a Credit Guarantee Scheme (CGS).

The CGS commenced on 13 October 2008. The purpose of the Scheme is to help restore confidence by making available, to eligible institutions, a government guarantee of senior unsecured short and medium term debt for a fee.

The drawdown window for new issuance closed on 28 February 2010. Institutions were able to re-finance maturing debt already guaranteed under the scheme until 9 April 2012.

As at 31 March 2012, outstanding debt issuance under the scheme stood at £24.2 billion. All debt is due to mature by the end of October 2012.

Total income recognised during 2011-12 for the scheme was £0.9 billion (2010-11: £1.2 billion).

36.2 Bank of England Asset Purchase Facility

On 19 January 2009, the Government authorised the Bank of England to create a new fund, the Asset Purchase Facility (APF). The original objective of the facility was to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK. On 3 March 2009, the Chancellor, Mr. Alistair Darling, authorised the Monetary Policy Committee (MPC) to use the APF for monetary policy purposes.

Over the period March 2009 to January 2010, £200 billion of assets were purchased. During 2011-12, the Committee voted to extend asset purchases by a further £125 billion.

At 31 March 2012, the authorised limit of asset purchases is £335 billion, comprising £325 billion financed from central bank reserves and a further £10 billion for the purchase of private sector assets financed from central bank reserves, Treasury Bills, and the DMO's cash management operations. The net investment made by the APF at 31 March 2012 is £304 billion.

The Bank of England has published APF accounts for the year ended February 2012. For further details see the Bank of England's website.[10]

36.3 The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is an independent body established under the Financial Services and Markets Act 2000 (FSMA) to protect the rights of consumers. The FSCS is a scheme which covers business conducted by firms authorised by the Financial Services Authority (FSA), the independent body set up by Government to regulate financial services in the UK. Other financial institutions (authorised by their home state regulator) that operate in the UK may also be covered by the FSCS in certain circumstances.

HM Treasury charges interest on the loans to the FSCS at a rate of 12-month sterling LIBOR plus 30 basis points. The loans were subject to adjustments following FSCS due diligence during the financial year on deposit amounts. The outcome of this due diligence resulted in reallocation of outstanding balances between FSCS loans and HM Treasury statutory debt.

[10] www.bankofengland.co.uk.

The table below shows the loans and statutory debts (undiscounted) made by HM Treasury to the FSCS up to 31 March 2012:

	B&B	Heritable	KSF	LSB	Icesave
	£000	£000	£000	£000	£000
FSCS loan balance as at 01 April 2011	15,658,945	236,937	1,248,811	222,633	1,437,940
Draw downs	-	-	-	9,037	12,144
Increase/(decrease) in FSCS loan balance following due diligence	-	(1,671)	-	-	(9,111)
FSCS loan repayments	(4,432)	(86,029)	(294,321)	(44,796)	(432,051)
FSCS loan balance as at 31 March 2012	**15,654,513**	**149,237**	**954,490**	**186,874**	**1,008,922**
HM Treasury statutory debt as at 01 April 2011 (before impairment)	2,761,702	44,151	239,319	27,368	788,730
Draw downs	-	-	-	962	4,125
Increase /(decrease) in statutory debt following due diligence	-	1,671	-	-	3,826
Statutory debt repayments during the year	-	(17,514)	(56,353)	(5,480)	(238,826)
HM Treasury statutory debt balance as at 31 March 2012	**2,761,702**	**28,308**	**182,966**	**22,850**	**557,855**
Facility remaining undrawn at 31 March 2012[1]	**-**	**-**	**20,000**	**10,000**	**-**

[1] The undrawn KSF facility has been cancelled with effect from 1 April 2012.

36.4 Bank of England Special Liquidity Scheme

On 21 April 2008, the Bank of England launched the Special Liquidity Scheme (SLS) to improve the liquidity position of the banking system by allowing banks and building societies to swap, for up to three years, some of their illiquid assets for UK Treasury Bills. The drawdown period closed on 30 January 2009.

The scheme was in place for three years, until January 2012. Under the scheme, the Bank of England was indemnified by HM Treasury against any losses incurred. No loss was incurred by the Bank of England and the scheme has ended with a retained surplus of £2.3 billion. As at 31 March 2012, this amount is payable by the Bank of England to HM Treasury.

Further details on the SLS can be found on the Bank of England's website.

36.5 Infrastructure Finance Unit Limited

On 3 March 2009, the Government announced it would put in place measures to lend to PFI projects to ensure vital PFI infrastructure projects went forward as planned.

Infrastructure Finance Unit Limited (IFUL) was established to act as the lender of record for all PFI transactions supported HM Treasury and is administered by Infrastructure UK.

Since then, IFUL has lent to one PFI project, committing loans of £120 million in relation to the Greater Manchester Waste Disposal Authority PFI scheme.

In October 2010, HM Treasury announced in the Spending Review 2010 that it would not provide any further funding for the company other than to meet its contractual obligations. Under the policy announced on formation of the company, its lending activities were designed to be temporary and reversible. In accordance with this policy, the company will consider the sale of its loan asset when favourable market conditions return.

36.6 Asset Protection Scheme

On 19 January 2009, the Government announced its intention to offer an Asset Protection Scheme (APS) to restore confidence in the banks and get credit flowing again, by providing participating institutions with protection against future credit losses on defined portfolios of assets in exchange for a fee. The Government protection covers 90 per cent of the credit losses exceeding the amount of the first loss, with the institution retaining the residual 10 per cent exposure.

The APS has been designed to draw a line under problems arising from impaired assets. The capital relief provided by the scheme enables capital to be redeployed to the healthier core of banks' business to attract investments and deposits and make loans to creditworthy businesses and households. HM Treasury has established the Asset Protection Agency to operate the APS at an arm's length.

On 22 December 2009, RBS acceded to the APS. Under the terms of the APS, RBS paid an annual fee of £700 million for the first three years, and is now paying £500 million a year in quarterly instalments of £125 million for the remaining term of its participation in the APS.

Exit would need to be approved by the FSA or be by agreement with HMT and RBS will pay a minimum exit fee. The minimum exit fee will be the larger of either £2,500 million, or 10 per cent of the actual regulatory capital relief received by RBS while it was in the APS, less in either case annual fees already paid. To date, RBS have paid fees of £2,350 million for inclusion in the APS.

37. Credit easing schemes

37.1 Business Finance Partnership

On 29 November 2011, the Chancellor announced that the Government would, as part of a package of measures aimed at easing the flow of credit to businesses in the UK, make available an initial £1bn for investment through non-bank lending channels.

The aims of the Business Finance Partnership are to increase the supply of capital through such channels and, in the longer term, to help to diversify the sources of finance available to businesses.

The Government intends to invest up to £1.2 billion through non-bank lending channels that lend directly to mid-sized businesses and/or SMEs in the UK. This investment will be made alongside private sector investors on fully commercial terms.

At 31 March 2012, no investments had been made under the scheme.

37.2 National Loan Guarantee Scheme

The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012. The aim of the scheme is to help smaller businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point.

The NLGS works by providing participating banks with guarantees on unsecured debt in return for a fee. This enables participating banks to borrow at a cheaper rate, and these banks will pass on the entire benefit they receive from these guarantees to smaller businesses through cheaper loans.

At 31 March 2012, no guaranteed debt has been issued under the scheme.

38. Related party transactions

38.1 Core Treasury

HM Treasury in its role as custodian of the Consolidated Fund has transactions with other Government departments and Central Government bodies but those transactions are outside the scope of the Resource Accounts and are disclosed instead in the Consolidated Fund statements.

Core Treasury has had a number of transactions with other government departments and local government bodies. Most of these transactions have been with Her Majesty's Revenue & Customs, Cabinet Office, Foreign and Commonwealth Office and The City of Westminster. In addition to these, HM Treasury has had material transactions with the Financial Services Compensation Scheme comprising of loan repayments, interest fees and commitment fees. During 2011-12, loan repayments totalled £861.6 million (2010-11: £548 million), interest charges £370.2 million (2010-11: £334.4 million) and commitment fees £0.03 million (2010-11: £0.4 million).

Although the Bank of England, the Royal Mint, Northern Rock, Northern Rock (Asset Management), Bradford & Bingley, Partnerships UK, Local Partnerships, Royal Bank of Scotland and Lloyds Banking Group fall outside the resource accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Dividends and other income received from these bodies are material and recorded in the Statement of Comprehensive Net Expenditure. For details on the transactions with the above entities, see notes 26 to 37. For extracts of published accounts, see note 13.2.

38.2 UK Debt Management Office

The DMO is an executive agency of HM Treasury and has had various transactions with Core Treasury. Core Treasury provides several support services to the DMO, including purchase order processing, invoice processing and payment, payroll processing and some financial accounting services. The DMO also utilises the services of Treasury Legal Advisors.

In addition to Core Treasury, the DMO has had transactions with the following bodies who are considered to be related parties: public sector clients of the Commissioners for the Reduction of the National Debt (fund management services), the Public Works Loan Board (loan administration services), the Bank of England (banking and settlement agency services), National Savings & Investments (recovery for hedging cost), the Asset Protection Agency (recharge of accommodation, facilities management and IT services costs) and the Department of Energy and Climate Change (carbon emissions auction services). During the year, no Minister or DMO Managing Board member has undertaken any material transactions with the DMO.

For further details see the DMO Annual Report and Accounts 2011-12.

38.3 Asset Protection Agency

The APA is an executive agency of HM Treasury and has had a number of transactions with other government departments, most of which have been with the DMO in relation to a service level agreement to provide facilities management and IT services. Other less significant transactions have been with Financial Services Authority, the Government Actuary's Department and the Government Car and Dispatch Agency.

The APA has had material transactions with RBS in relation to recharge of the Agency's costs. For further details see the APA Annual Report and Accounts 2011-12.

38.4 Financial Services Compensation Scheme

The FSA appoints, and has the right to remove, directors to the Board of the FSCS and it establishes the rules under which the FSCS became operative as from midnight on 30 November 2001. The FSA is considered to be a related party but not a controlling party.

During the year, the FSA provided an agency service to the FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Overall, payments less receipts of £536.9 million (2010-11: £917.9 million) were made by the FSA to the FSCS, leaving amounts due from the FSA to the FSCS at 31 March 2012 of £0.1 million (2011: £1.6 million).

The FSA is a party to the lease agreement for the FSCS's premises at the 7th Floor, 1 Portsoken Street, London (see Note 18) as guarantor of performance of the lease.

For further details see the FSCS Annual Report and Accounts 2011-12.

38.5 Money Advice Service

Under the Financial Services Act (2010), the FSA approves the budget for MAS and is a related party, although not a controlling party. During the year, the FSA provided an agency service to MAS. The scope of the service provided included the provision of invoicing and payroll services, information systems and facilities. On 17 October 2011 MAS moved office to 120 Holborn and became independent of the FSA for information systems and facilities services. The FSA continue to provide flexible benefits processing and fee collection services on behalf of MAS.

MAS also received grant funding from the Department for Business, Innovation and Skills to carry out research into the debt advice landscape and appropriate debt advice delivery models.

For further details see the MAS Directors' Report and Financial Statements for the year ended 31 March 2012.

38.6 UK Financial Investments Limited

UKFI is a wholly owned subsidiary undertaking of HM Treasury. During the year, UKFI received income from HM Treasury of £2.5 million (2010-11: £2.7 million) for the provision of investment management services and a further £3.2 million (2010-11: £nil) for the reimbursement of costs in relation to the disposal of Northern Rock. UKFI also recharged adviser fees to Northern Rock (Asset Management) and Bradford & Bingley. For further details see the UKFI Annual Report and Accounts 2011-12.

38.7 Office for Budget Responsibility

The OBR has had various transactions with Core Treasury during the year. Core Treasury provides administrative support services, including HR and financial services, for which it charges the OBR.

The OBR has other related party transactions with the Attorney General's Office for support services. For further details, see the OBR Annual Report and Accounts 2011-12.

38.8 Senior decision makers

Julian Kelly, Group Director, Finance and Commercial, was appointed as a non-executive board member of UK Financial Investments Ltd on 10 January 2011. In this capacity he also chairs UKFI's Audit Committee. He receives no remuneration for this role.

Keith Morgan, UKFI's Head of Wholly Owned Investments, is a non-executive director of Bradford & Bingley, Northern Rock (Asset Management), plus UK Asset Resolution.

Ministers, non-executive members of the HM Treasury Board, senior management and members of the Audit Committee of the Treasury Group have confirmed to the Accounting Officer that they do not have any transactions with related parties which are not in the ordinary course of business, or which are at preferential rates.

39. Third party assets

The third party assets relate to residual application monies and uncashed forfeiture refunds.

During the privatisation process, residual application monies arose because many share offers were oversubscribed and all the original cheques received from subscribers were cashed.

Subsequently, the monies remitted by some subscribers, along with their applications for shares, needed to be partially or wholly refunded.

Uncashed forfeiture refunds relate to monies received from subscribers in respect of instalment payments for shares, after the original application had been accepted. Having paid the first instalment, some of the applicants failed to pay the further instalments. Therefore, it was necessary to refund the monies received.

In both cases refund cheques were sent to subscribers, however many of these were never cashed. Consequently the balances relating to the uncashed cheques remained as deposits in the bank accounts. These are not departmental assets and are not included in the accounts. The bank balances held at the reporting date are set out in the table below:

Monetary Assets	2010-11	Gross inflows	Gross outflows	2011-12
	£000	£000	£000	£000
Deposit Accounts	1,137	-	-	1,137
Total	**1,137**	**-**	**-**	**1,137**

40. Events after the reporting period

No significant adjusting or non-adjusting events have been identified.

41. Date authorised for issue

The financial statements were authorised for issue on 13 July 2012.

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Published by TSO (The Stationery Office) and available from:

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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000
Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-0-10-297834-6

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