HM TREASURY

HM Treasury Resource Accounts:

2009-10

HC 261

July 2010

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2009-10

(For the year ended 31 March 2010)

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

Ordered by the House of Commons to be printed on 26 July 2010

HC 261 LONDON: THE STATIONERY OFFICE £26.75

ISBN: 9780102968538
PU1030

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

ID 2379976 07/10

Printed on paper containing 75% recycled fibre content minimum.

Contents

1 Management commentary

1.1 The accounts have been prepared under a direction issued by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Treasury group (“HM Treasury” or “the Group”). HM Treasury adopted International Financial Reporting Standards (IFRS) for the first time in these accounts as modified by the Government Financial Reporting Manual). Consequently, the opening statement of financial position as at 1 April 2008 has been restated in accordance with IFRS and a Reconciliation of Request for Resources between 2008-09 and 2009-10 Resource Outturn provided within the financial statements.

1.2 These Accounts present the consolidated results for the financial year 2009-10 of the following entities: the core Treasury, the UK Debt Management Office (DMO), the Office of Government Commerce (OGC), the Asset Protection Agency (APA) and Infrastructure Finance Unit Ltd. Most of the analysis in these accounts include separate figures for the core Treasury. Figures for the DMO alone are reported in its separately published accounts, which can be viewed at http://www.dmo.gov.uk/. The Royal Mint (http://www.royalmint.com/) and Buying Solutions (http://www.buyingsolutions.gov.uk/) are Trading Funds of the core Treasury and the OGC respectively, and as such publish their own accounts. Figures for UK Financial Investments (UKFI) are published in its separately published accounts which can be viewed at http://www.ukfi.co.uk/. These are not consolidated into these accounts (see note 1.2 of these Accounts), but are shown as investments.

1.3 As the UK's finance and economics ministry, HM Treasury is responsible for the finance function of Government as a whole, as well as for its own business as a department. These accounts relate only to HM Treasury's own business. They include the resources engaged in managing the Government's overall finances, but not the substantive transactions managed. These are accounted for separately – see note 1.2 of these accounts.

1.4 HM Treasury Group had two Departmental Strategic Objectives (DSO), set under the 2007 Comprehensive Spending Review (CSR2007) for the period 2008-09 to 2010-11. In addition, the Treasury was also the lead department for one cross government Public Service Agreement (PSA). The Government’s approach to the 2010 Spending Review has set out that the performance framework of DSOs, and the related PSAs, will be replaced with a new performance framework to be developed as part of the Spending Review process. Hence, 2009-10 has become the last year of reporting against the DSOs and PSAs.

1.5 Each CSR07 DSO was underpinned by a number of outcomes. These DSOs and their related outcomes are set out below.

- DSO1 – Maintain Sound Public Finances

  1(a) Meeting the obligations of the Fiscal Responsibility Bill;

  1(b) Ensuring that the tax yield is sustainable and risks managed;

  1(c) Managing public spending;

  1(d) Professionalising and modernising the finance and procurement functions in government; and

1(e) Managing government cash, debt and reserves efficiently and effectively.

- DSO2 – Ensure high and sustainable levels of economic growth, well being and prosperity for all

  2(a) Supporting low inflation;

  2(b) Promoting efficiency and fairness of the tax system;

  2(c) Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future;

  2(d) Improving the quality and value for money of public services;

  2(e) Supporting fair stable and efficient financial markets;

  2(f) Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and the worst performing regions;

  2(g) Protecting the environment an economically efficient and sustainable way; and

  2(h) Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

In addition, the CSR07 PSA on which the Treasury led for the reporting period was:

- PSA 9 – Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020.

1.6 Performance against both the DSOs and the PSA has been reported twice a year since 2008-09, once in the (spring) Annual Report and Accounts and once in the Autumn Performance Report. The latest of these was published in December 2009. Reporting for 2009-10 has been determined by PES(2010)09 – Publishing departmental reports and accounts, and the unaudited information is shown in Annex A to this document.

Efficiency

1.7 The Treasury Group VFM Delivery Agreement was published in December 2007, incorporating a VfM target of £30 million savings per annum by 2010-11. Budget 2009 announced further plans to increase Treasury Group's VfM target to £35 million recurrent savings from 2010-11 onwards, contributing to the previous government's £35 billion overall VfM target. Treasury Group's contribution is being achieved by participation in the Operational Efficiency Programme (OEP) together with other initiatives designed to maximise value for money, while ensuring that outputs and quality of service delivery are not adversely affected. A revised VfM Delivery Agreement incorporating the £35 million target was published in July 2009[1]. The government has subsequently announced a further efficiency target for 2010-11, deducting £6m cash releasing saving from our settlement for that year.

[1] http://www.hm-treasury.gov.uk/d/vfmdeliveryagreement090709.pdf

The Core Treasury

Activities

1.8 The core Treasury's main activities are:

- the provision of advice to Ministers on economic and financial policy, and the acquisition of the information, knowledge and expertise needed to do so effectively; and
- the communication and implementation of that policy - for instance by managing the central finances of Government, preparing legislation, exercising its powers of financial control within Government, procuring the supply of coinage and influencing economic agents.

Much of this work is undertaken in partnership with other bodies. A description of arms length bodies is included in the Statement of Treasury Group Compliance with Corporate Governance Code of Good Practice (section 2).

1.9 For historical reasons, the Treasury has some additional functions not related to the business of a finance and economics ministry, including payments under the Civil List Act and Royal Household Pension Scheme. These are Standing Services of the Consolidated Fund which are included in the Treasury's Resource Budget, but outside the boundary of these resource accounts.

Results in 2009-10

1.10 As noted in paragraph 1.6, the Treasury regularly reports on its achievements against its objectives in:

- (spring) Annual Report and Accounts; and
- the Autumn Performance Report.

1.11 As also noted above, 2009-10 marks the end of the DSO and PSA performance framework and information usually contained in the Spring Annual Report has been replaced by Annex A in accordance with PES 2010(09).

1.12 Further commentary on the results for 2009-10 can be found at paragraphs 1.52 to 1.70

Reviews commissioned by HM Treasury

1.13 During the year, the Chancellor of the Exchequer and other ministers commissioned the following reviews:

- Relocation: transforming where and how government works - Ian Smith was commissioned to conduct an independent review on the scope for further government relocations out of London and the South East. The report was published on 24 March 2010, alongside Budget 2010[2].
- Review of corporate governance of UK banking industry - The Chancellor of the Exchequer, the Secretary of State for Business, Enterprise and Regulatory Reform and the Financial Services Secretary to the Treasury asked Sir David Walker to conduct an independent review to recommend measures to improve the corporate

[2] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/d/budget2010_smith_review.pdf

governance of UK banks, particularly with regard to risk management. His report was published on 26 November 2009[3].

- British offshore financial centres - The Chancellor asked Michael Foot to conduct an independent review of the long-term opportunities and challenges facing the British Crown Dependencies and Overseas Territories as financial centres, which have been brought into focus by recent financial and economic events. His report was published on 29 October 2009[4].

- Cave Review: competition and innovation in water markets - The Chancellor and Secretary of State for Environment, Food and Rural Affairs commissioned Professor Martin Cave to conduct a review into competition and innovation in the water markets. Professor Martin Cave published his interim report on the 18 November 2008, and his final report on 22 April 2009[5].

- In January 2009, Sir John Chadwick was commissioned to advise the previous Government on a number of issues in relation to determining relative losses suffered by Equitable Life policyholders and the impact of those losses. Since he started his work, Sir John has published three interim reports, which have given updates on the progress of his work, his thoughts on how to approach the various issues raised and his ideas on calculating policyholder relative loss. Sir John has also held various consultations with interested parties to help inform his work. These reports are available on Sir John Chadwick's website[6].

- In accordance with the Compensation Orders for Northern Rock and Bradford and Bingley, Andrew Caldwell and Peter Clokey were appointed as the respective Independent Valuers. The Northern Rock Independent Valuer's Report was published on 30 March 2010 [7] (and the Bradford and Bingley Independent Valuer's Report was published on 5 and 6 July 2010[8].

Events since 31 March 2010

1.14 Following the General Election on 6 May 2010, a new coalition government has been formed and a new Ministerial team announced. Ministerial roles and responsibilities have been redefined. For further information can be found on the Treasury's website[9].

1.15 The following key announcements have been made during the post balance sheet period (1 April 2010 to the signature date of these accounts):

- 17 May 2010 - the establishment of the Office for Budget Responsibility (OBR). The OBR is currently operating on an interim basis. The Terms of Reference for the interim OBR were agreed on 8 June 2010 and published on the OBR's website. The OBR will be put on a permanent footing once the necessary legislation has been enacted[10].

- 25 May 2010 – following the pledge in the coalition agreement to "implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent

[3] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/walker_review_information.htm
[4] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/d/foot_review_main.pdf
[5] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.defra.gov.uk/environment/water/industry/cavereview/
[6] http://www.chadwick-office.org/documents.asp
[7] http://www.northernrockvaluer.org.uk/faq.aspx
[8] http://www.bandbvaluer.org.uk/.
[9] http://www.hm-treasury.gov.uk/minprofile_index.htm
[10] http://budgetresponsibility.indepedent.gov.uk/.

payment scheme, for their relative loss as a consequence of regulatory failure.",a Bill will be taken forward to enable ex-gratia payments to be made in relation to Equitable Life, and that the design of the scheme should be determined by an independent commission[11].

- 6 June 2010 - Sir John Vickers will chair the Independent Commission on Banking. The Independent Commission on Banking will formulate policy recommendations and will produce a final report by the end of September 2011[12].
- 20 June 2010 - John Hutton will chair the independent Public Service Pensions Commission. The commission will undertake a fundamental structural review of public service pension provision by Budget 2011. It will produce an interim report in September 2010 ahead of the Spending Review[13].
- 21 June 2010 - Will Hutton will chair an independent review of fair pay in the public sector. The review will investigate pay scales across the public sector, and make recommendations on how to ensure that no public sector manger can earn more than twenty times the lowest paid person in the organisation. The review will publish an interim report in Autumn 2010, and a final report in Spring of 2011[14].
- 22 June 2010 - confirmation in the Budget, of the intention to create an independent Office of Tax Simplification[15] and the establishment of Infrastructure UK (IUK) to lead work within HM Treasury to enable greater private sector investment in infrastructure, and improve the Government's long-term planning and delivery[16].
- 5 and 6 July 2010 - the Bradford and Bingley plc (B&B) Independent Valuer announced his Assessment Notice determining that no compensation is payable by HM Treasury to former shareholders of B&B or to former holders of subscription rights relating to shares in B&B or to holders of rights associated with dated subordinated notes of B&B[17].
- 22 July 2010 – Sir John Chadwick will be issuing his advice on the Equitable Life ex-gratia payment scheme. A copy of the report will be available on his website[18].

The Future

1.16 The June 2010 budget set out the government's five-year plan to rebuild the economy based on the government's stated values of responsibility, freedom and fairness [19]. In addition in his budget speech, the Chancellor announced that the 2010 Spending Review (SR10) and the conclusions will be presented on 20 October 2010. SR10 will set spending plans for the period 2010-11 to 2013-14, and will set the Treasury's priorities for that period. In conjunction with preparation for the Spending Review, the Department is undertaking a Strategic Review of its activities. Both will inform the future role of the Department.

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[11] http://www.hm-treasury.gov.uk/press_07_10.htm
[12] http://www.hm-treasury.gov.uk/press_11_10.htm
[13] http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm
[14] http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm
[15] http://www.hm-treasury.gov.uk/d/junebudget_tax_policy_making.pdf
[16] http://www.hm-treasury.gov.uk/d/junebudget_complete.pdf
[17] http://www.bandbvaluer.org.uk/
[18] http://www.chadwick-office.org/documents.asp
[19] http://www.hm-treasury.gov.uk/2010_june_budget.htm

Asset Protection Agency

Background, rationale and how taxpayers are protected

1.17 In January 2009 the then Chancellor of the Exchequer announced the creation of the Asset Protection Scheme (APS), one of the major steps taken by the UK Government in response to the global financial crisis.

1.18 Under the APS, HM Treasury provides protection in return for a fee against a proportion of future credit losses on a defined pool of assets to the extent that credit losses exceed a "first loss" amount, to be borne by the participating institution.

1.19 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, by putting a floor to banks' exposure to losses associated with these assets. This enables the healthier core of banks' business to attract investments and deposits and make loans to creditworthy businesses and households.

1.20 In February 2009 and March 2009, the Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG) announced their intention to participate in the APS respectively.

1.21 On 3 November 2009, the Government announced the conclusion of discussions with LBG and RBS regarding the key terms of their participation in the Government's APS.

1.22 As a result of improved market conditions, LBG did not participate in the APS and instead raised additional private sector capital and paid a fee of £2.5bn to the Government for the implicit protection it had received during 2009.

1.23 On 19 December 2009, RBS shareholders approved accession to the APS. This was under revised terms that improve incentives and deliver better risk-sharing with the private sector compared to the in-principle agreement reached in February 2009. RBS has insured an asset pool of £282bn, with a £60bn first loss piece.

1.24 The APS assets remain on RBS's balance sheet and RBS also remains the primary manager of the assets. However, the APS Terms and Conditions require that RBS complies with wide-ranging asset management, reporting and governance conditions, designed to ensure that the taxpayer is properly protected and that bank customers are treated fairly.

Governance HM Treasury and APA

1.25 On 7 December 2009, HM Treasury has established the Asset Protection Agency (APA) to operate the APS at an arm's length. The scheme remains on the HM Treasury balance sheet, whilst the APA's running costs are subject to separate Agency accounts and are consolidated in to the HM Treasury Group Accounts.

1.26 A framework document sets out the relationship between HM Treasury and the APA. HM Treasury determines the policy and financial framework within which the APA operates. While the APA takes operational decisions relating to the APS on a commercial basis informed by appropriate specialist knowledge and expertise, any decisions that could have particularly significant implications for the taxpayer or that carry wider sensitivities remain subject to ministerial approval.

1.27 An APS Steering Committee comprising of senior management in HM Treasury and the APA meets to discuss the progress and management of the APS. Members of HM Treasury's senior management sit on the APA board.

Activities

1.28 The APA's main function is to operate the APS on behalf of HM Treasury, who accounts for the scheme in these Accounts. The APA's overriding objective is to protect the taxpayer's interest. To this end, the APA has four principal responsibilities, which are set out in the APA's Framework Document:

- ensuring that each participating financial institution complies with the terms and conditions attaching to its participation in the Scheme, including through:

    proactive and timely exercise of HM Treasury's rights under the Scheme; and

    engagement with participating financial institutions to determine appropriate asset management strategies for Covered Assets.

- forecasting potential future payouts under the Scheme;
- valuing the guarantee; and
- verifying losses and recoveries on Covered Assets and advising HM Treasury on any payments to be made under the Scheme.

Results

1.29 It is the APA's current expectation that overall Net Losses on the Covered Assets will not exceed the £60bn First Loss Amount. Consequently, the central expectation remains that there will be a net benefit to the taxpayer of at least £5 billion from the APS reflecting the fees already received from Lloyds Banking Group (£2.5bn) and RBS as well as future fees due from RBS. RBS is obliged to pay at least £2.5bn in total fees prior to exiting the APS and has already paid fees of £1.4bn for 2009 and 2010. In addition to this, in accordance with the terms of the APS, RBS have paid an amount of £45m toward the expenses of HM Treasury/APA in the year to 31 March 2010.

1.30 A major focus for the APA since launch has been to build teams with the necessary skills and expertise to carry out the Agency's responsibilities. Concurrently with the drive to recruit staff, the APA has been working on designing and implementing the necessary technical infrastructure for running the APS.

1.31 One of the APA's main responsibilities is the forecasting of losses under the APS with a view to enabling HM Treasury to manage any future impact on the public finances. The APA Risk Team has developed a model – which will continue to be refined – to forecast APS losses under a wide range of possible economic scenarios. The APA is also responsible for calculating the value of the APS for inclusion in HM Treasury's accounts. The APS is a unique instrument and valuing it requires the use of a specific model.

1.32 The APA Investment Management Team has established working relationships with RBS and has designed and implemented processes for the interactions between RBS and the APA that are required by the terms of the APS.

1.33 Since the Accession Date, a number of breaches of the Scheme Documents have occurred, in part because of the complexity of the Scheme and the need for RBS to accommodate the requirements of the APS at an operational level. The APA has generally sought to address compliance issues through discussions with RBS and also the use of its investigative and reporting powers.

Events since 31 March 2010

1.34 In addition to the work outlined in paragraph 1.33 above, the Agency has more recently asked RBS to appoint a number of specialist advisers (Senior Oversight Committee Special Advisers) in relation to certain assets and business areas in order to provide additional support to the Senior Oversight Committee.

1.35 The APA has appointed PricewaterhouseCoopers to act as its independent verification agent.

The Future

1.36 The APA's key themes for 2010-11 include:

- continuing to work closely with RBS on the practical implementation of the scheme rules. The processes that have already been embedded will continue to be tested and refined with a view to making them more efficient. New processes will be developed in co-operation with RBS to implement those areas of the scheme which have not yet been operationalised.
- refining the simplification of the APA's loss forecast model and the model-based prediction of expected loss will, for some of the larger scheme assets, be superseded by more detailed case-by-case assessments of individual assets. The APA will continue to engage with RBS on loss forecasting to increase accuracy and robustness.
- continuing to influence asset management strategies for the primary asset classes: commercial real estate, corporate and leveraged finance, and structured products, which represent almost all of the larger Covered Assets. APA will continue engagement with RBS business managers responsible for all the Covered Asset Classes and review RBS's most significant business units.
- working with the verification agent to establish a strategy and develop processes to ensure adequate assurances over RBS's system of control and governance in relation to their reporting of claims.

UK Debt Management Office

Activities

1.37 The role of the DMO is to carry out the Government's debt management policy of minimising financial costs over the long term, taking account of risk and managing the aggregate cash needs of the Exchequer in the most cost effective way.

1.38 The operations of the Public Works Loan Board (PWLB) and the Commissioners for the Reduction of the National Debt (CRND) are integrated with the DMO, while each retains its separate legal entity. The principal activity of the PWLB is to lend to local authorities for capital purposes and collect repayments, while the CRND's principal function is to manage the investment portfolios of certain public funds.

1.39 The DMO plays a significant role in several of the schemes employed by HM Treasury and the Bank of England to stabilise financial and support the banking sector during the last two years, e.g. the Credit Guarantee Scheme, the Special Liquidity Scheme, the Discount Window Facility and the Asset Purchase Facility.

Results in 2009-10

1.40 The DMO has delivered substantially all of its 2009-10 key objectives and details of these are published with the DMO's Reports and Accounts for 2009-10 in July 2010.

1.41 During 2009-10, the DMO continued to operate in a financial market environment that posed significant operational challenges. Because of the deficit in the public finances, the DMO was required to raise record levels of financing, with gilt sales totalling almost £228 billion. This amount was over 50 per cent higher than in 2008-09 and almost four times that in 2007-08.

1.42 During 2009-10, the DMO conducted eight (2008-09: two) successful auctions of carbon emission allowances under the European Union Emissions Trading System on behalf of the Department of Energy and Climate Change

1.43 Throughout 2009-10, the PWLB, operated by the DMO, continued to provide local government capital finance and aimed to meet all local authorities' legitimate need for long-term borrowing. Another DMO operation, the CRND continued to provide an efficient, value for money service to its clients, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

Events since 31 March 2010

1.44 There have been no significant or unexpected events since 31 March 2010.

The Future

1.45 Whilst the SR10 will set spending plans for the period 2010-11 to 2013-14, and will set the DMO's priorities for that period, the DMO's key themes for 2010-11 include:

- The delivery of the debt management remit - which comprises a gilt financing requirement of £165.0 billion which is to be achieved through 66 gilt auctions, gilt mini tenders and syndicated offerings.
- The delivery of the cash management remit - which will require management of the cash consequences of the gilt and Treasury bill programme, along with other HMG cashflows, in as an efficient and cost-effective way as possible.
- Continuing to consult and liaise with key stakeholders in the financial markets in which the DMO has an interest; and to consider further developments, innovations and enhancements to facilitate the effective delivery of the debt and cash management remits.
- Continuing to minimise operational risk by ensuring the DMO's business operations are fully supported by resilient and efficient systems and processes, and are managed within the budget envelope agreed with HM Treasury.
- Continuing to work closely with HM Treasury and the Department of Energy and Climate Change ("DECC") on the ongoing delivery and development of phase II of the UK's auctions of EU Emission Trading System allowances.
- Continuing to manage the administration of the Credit Guarantee Scheme.
- Continuing to seek out operational process efficiencies with the intention of further reducing cost and operational risk
- More generally, we intend to continue to review and, where appropriate, to enhance the DMO's risk management framework and systems.
- We also intend to continue to monitor the resource and skills required to deliver the DMO's array of objectives and, in line with our commitment to Investors in People status, continue to develop staff to achieve their professional potential.

Office of Government Commerce

Activities

1.46 The OGC has worked with and through Government departments to deliver substantial advances and improvements in procurement and in programme and project management and management of the Government estate.

1.47 OGC's role is to help Government to get the best value from its spending through improving the way Government departments and other public sector organizations spend money on procurement, on major projects and on its estate.

Results in 2009-10

1.48 The OGC has completed Procurement Capability Reviews (PCR) of the major Government Departments, and is implementing a second wave of reviews based on a self-assessment process.

1.49 In 2009-10, savings from collaborative procurement of ICT, Fleet, Energy Office Solutions, Travel, Professional Services, Construction and Food were £2.5 billion.

Events since 31 March 2010

1.50 On 15 June 2010 and following a machinery of government change from the Treasury to the Cabinet Office the OGC became part of the Efficiency and Reform Group. OGC's trading fund, Buying Solutions, was also transferred at this time.

The Future

1.51 The OGC will work within the scope of the Efficiency and Reform Group and SR10 will set spending plans for the period 2010-11 to 2013-14, and will set the OGC's priorities for that period.

Financial position and results in outline

Financial Results

1.52 The table on page 14 sets out the Treasury group's audited outturn of operating costs for 2008-09 and 2009-10

1.53 The main variances between the two years are discussed below. Variances between the outturn for 2009-10 and the limits voted by Parliament in the 2009-10 Revised Spring Supplementary Estimate are analysed in note 3 to the accounts.

Outturn against Departmental Spending Limits

1.54 Treasury Group funding for the 2007 Comprehensive Spending Review (CSR) period, running from 2008-09 to 2010-11 inclusive, and adjusted for transfers, was £222 million, £216 million and £205 million respectively in terms of the Resource Departmental Expenditure Limit (DEL) (see Annex A).

1.55 Resource DEL outturn was £220 million in 2009-10 (2008-09 £196 million). The initial allocation for the year was £216 million, however this was increased by a drawdown of end year flexibility of £20.7 million. This resulted in an overall underspend of £16.7m, due to the department being able to recharge much of the cost of professional and consultancy costs to banks. There were also underspends on programme expenditure including coinage manufacturing costs. For further details please see operating cost statement on page 14.

Outturn against Estimate - In-year variance analysis

1.56 HM Treasury's Net Total Estimate for 2009-10 corresponds to funding allocated in the Comprehensive Spending Review 2007. There was an additional draw down of £20.7 million from End year Flexibility during the year. Outturn was (£22,025) million, down from £44,874 million in 2008-09, largely as a result of the reversal of provisions made in 2008-09 which were no longer required and written back during 2009-10, totalling £25,362 million. Further details can be found in Notes 3 and 19 to the accounts.

- Request for Resources 1 (RfR 1): Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

  Net Total Outturn was £318.1 million against a Net Total Estimate of £358.3 million, an underspend of £40.2 million. Underspends of £14.1 million on Core Treasury DEL, £22.2 million Investment in Bank of England AME costs and reversal of impairment charges of £3.1 million were the significant elements of this underspend. The Core Treasury DEL underspend was in part due to non cash and consultancy spending being lower than forecast in the Estimate.

- Request for Resources 2 (RfR 2): Cost effective management of the supply of coins and actions to protect the integrity of coinage.

  Net Total outturn was £28.1 million against a Net Total Estimate of £48.5 million, an underspend of £20.4 million. This related to a £3.5 million underspend on DEL UK Coinage manufacturing costs and a £16.6 million underspend on AME UK Coinage Metal costs due to a combination of lower production and overforecasting in the Estimate.

- Request for Resources 3 (RfR 3): Promoting stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

  Net Total Outturn was (£22,371.1) million against a Net Total Estimate of £2,004.9 million, an underspend of £24,375.9million. This was largely due to a reversal in provisions made in AME for assistance to financial institutions of £25,362 million and overspends on Cost of Capital £956 million and impairment charges of £109 million.

Group Operating Costs	2009-10 £m	2008-09 (Restated) £m
Core Treasury and Group Shared Services (GSS)	157	136
Net administration costs, including GSS	137	116
Financial Inclusion Fund (admin)	-	1
Banking and gilts registration	12	11
Other core Treasury programme costs	8	8
OGC	26	24
Net administration costs	25	23
Net programme costs	1	1
DMO	16	13
Net administration costs	12	10
Net programme costs	4	3
Coinage	13	15
Other functions	8	8
Civil List (net)	8	8
Departmental Unallocated Provision		
Total Resource Departmental Expenditure Limit (DEL)	**220**	**196**
Core Treasury: impairment charges/ credits	(3)	9
Coinage	12	23
Metal costs	13	24
Cost of capital	3	3
Royal Mint Dividend	(4)	(4)
Net cost of investment in the Bank of England	42	(290)
Cost of capital	139	127
Dividend receivable	(97)	(417)
Royal Household Pension Fund	3	2
Financial Stability:	(27,684)	42,364
Other	(5,426)	(2,750)
Cost of capital	2,956	809
Impairment charges	109	18,926
Provisions (net)	(25,323)	25,379
Total Resource Annually Managed Expenditure (AME)	**(27,630)**	**42,108**
Total Resource Budget	**(27,410)**	**42,304**

Reconciliation to Resource Accounts[20]	£ 000	£ 000
Total Resource Budget as above	**(27,412,598)**	**42,300,892**
Less non-Voted expenditure outside the resource accounts		
Civil List, net (DEL)	8,259	8,259
Royal Household Pension Fund, net (AME)	2,571	2,360
Less non-budgeted income not reported in the Annual Report		
Pool Re reinsurance premium income	38,973	92,112
Other non-budget income	6,490	3,828
Net Operating Cost per Resource Accounts	**(27,468,891)**	**42,194,333**

[20] The above reconciliation to the resource accounts is shown in thousands, in line with the primary statements in the resource accounts section of this document. However, the figures in the Group Operating Costs table have been taken from the Departmental Report and are shown in millions, in line with the financial data tables published in that document. Consequently, due to rounding a higher level, the totals in the Group Operating Costs table may differ from the sum of the individual line items.

Outturn 2009-10 against 2008-09

1.57 The year on year increase in Resource DEL outturn between 2008-09 and 2009-10 of £24 million is also attributable to higher net administration costs throughout Treasury Group in order to cope with the demands of implementing Financial Stability measures resulting from the global economic crisis.

1.58 The total Resource Budget outturn, including Annually Managed Expenditure (AME) was a credit of £27,410 million in 2009-10 (2008-09:£42,305 million cost). The movement is primarily due to Resource consequentials (non cash AME) of financial stability interventions covering cost of capital, impairment charges and provisions or reversal of provisions (2009-10: total credit £27,684 million, 2008-09: £42,364 million cost). This, coupled with programme income, fees for financial guarantees and other income of £5,426 million, offset by cost of capital and impairment charges led to the negative AME outturn of (£27,630) million in 2009-10. Further details can be found in Notes 8 and 9 to the 2009-10 accounts.

Core Treasury and Group Shared Services (GSS) - ***2009-10: £157m, 2008-09: £136m***

1.59 The net administration costs of £137 million for 2009-10 (2008-09:£116 million) relate to work across all the Group's objectives. The £21 million increase between 2008-09 and 2009-10 is as a result of higher spending on consultancy work and increased staffing costs in connection with wider Financial Stability measures.

1.60 The Financial Inclusion Fund was established as part of Spending Review 2004. The Treasury's allocation from it has covered the work of the Financial Inclusion Taskforce and the Treasury's Financial Inclusion team, which provides policy support and administers the distribution of the fund to other departments.

1.61 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 since 2004-05 have been contracted out to Computershare.

Coinage (DEL) ***- 2009-10: £13m, 2008-09: £15m***

Coinage (AME) - ***2009-10: £12m, 2008-09: £23m***

1.62 The total number of coins issued by the Treasury in 2009-10 was 1.1842 billion compared to 1.2970 billion coins in 2008-09. The Service Level Agreement between the Treasury and the Royal Mint provides that stock production will be in accordance with an agreed schedule, with an agreed stock buffer. The stock of finished coins awaiting issue stood at 268,848,500 coins (£6.674 million) as at the balance sheet date. The budgetary impact of the stock purchase of coins is reflected in the Treasury's DEL.

1.63 The manufacturing costs of coinage were £13 million in (2008-09: £15 million) as DEL spend, a decrease of £2 million over the previous year. Coinage metal costs (classified as AME) fell by £12 million to £12 million, due to lower production of coins and a reduction in stock levels that were not subsequently replenished in 2009-10 and after income of £1 million on sale of scrap metal is taken into account.

1.64 Cost of metal used to produce UK circulating coinage is included in the Treasury's DEL. Within AME, there is also a cost of capital charge on the Treasury's investment in the Royal Mint. The rate for the cost of capital charge was reduced in 2005-06 to 3.5 per cent while the Mint underwent restructuring but was raised to 7.2 per cent as the benefits of restructuring began to be realised and the Mint returned to surplus.

Core Treasury: impairment charges/credits and provisions - *2009-10: £(3)m, 2008-09: £9m*

1.65 Asset revaluations and impairments, on which further information can be found in the Resource Accounts include Financial Stability impairment charges of £109 million (2008-09:£18,926 million). These relate primarily to the impairments on the quoted investments held by HM Treasury which have been marked to market at year end. Note 24.4 in the Resource Accounts sets out the detail of these impairments;

- Reversal of provisions totalling £25,323 million made in 2008-09 and no longer required, largely comprising future expected losses on the Asset Protection Scheme. Further information on these provisions can be found in note 19 in the Resource Accounts; and
- A £3 million upward revaluation on 1 Horse Guards Road following a full valuation carried out by the Valuation Office in March 2010 (a £9 million impairment charge for 2008-09) as detailed in note 11.2.1 in the Resource Accounts.

Net cost of investment in the Bank of England - *2009-10: £42m, 2008-09: £(290)m*

1.66 Treasury is the sole shareholder in the Bank of England. The Bank pays the Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. This is credited as income to the central Treasury budget but is then surrendered to the Consolidated Fund. The Treasury's investment in the Bank is valued in the Treasury's accounts and for the purpose of the cost of capital charge at the Bank's net asset value per its own accounts. From 2005-06 onwards, the charge was based on a rate of 4.94 per cent, which was the post tax equivalent of the Bank's 6.0 per cent target rate of return. Prior to 2005-06 the gross target rate of return was used (7 per cent until 2003-04; 6 per cent in 2004-05). For 2009-10 the cost of capital charge was 3.5%.

1.67 The dividend for 2009-10 was £97 million (2008-09 £417 million). The 2008-09 dividend of £417 million reflected the increased activities of the Bank of England and the demands placed on the Bank by the continuing financial crisis and developments in the global economy. 2009-10 marked the end of US dollar reverse sale and repurchase (repo) operations funded by borrowing from the US Federal Reserve and consequently a lower level of activity by the Bank. The dividend received of £97 million resulted in a net cost of investment in the Bank of England of £42 million. Projections for 2010-11 onwards prudently assume a continuing upward trend in the net cost of investment. The investment in the Bank contributes to DSO1 as described in paragraph 2 above.

Financial Stability Interventions included in Capital AME - *2009-10: £(27,684)m, 2008-09: £42,364m*

1.68 In response to the financial instability of the global economy, HM Treasury has established or supported a number of interventions/schemes including the purchase of investments in the bank and building society sectors, the provision of funding to the Financial Services Compensation Scheme, the Asset Protection Scheme, the Credit Guarantee Scheme and supporting the Bank of England's Special Liquidity Scheme and Asset Purchase Facility Fund. Further information on all these schemes can be found in the Resource Accounts notes 27 to 36.

Non-voted expenditure outside the resource accounts - *2009-10: £8,259m, 2008-09: £8,259m and 2009-10: £2,571m, 2008-09: £2,360m*

1.69 The "Non-voted expenditure outside the resource accounts" section of the table includes costs borne by HM Treasury for historical reasons. The Civil List (together with the Royal Household Pension Scheme, which is within AME and is shown above) is a Standing Service of the Consolidated Fund i.e. without further year-by-year Parliamentary authority, which is included in HM Treasury's resource budget but not included in the resource accounts. The fixed annual amount for Her Majesty The Queen's Civil List is £7.9 million for the ten year period to 31 December 2010. Additionally, Parliamentary Annuities are paid to other members of the Royal Family amounting to £1,613,000, of which £1,254,000 is reimbursed to the Exchequer by The Queen. The overall Civil List net figure is therefore £8,259,000 as shown above.

Contingent liabilities

1.70 Contingent liabilities relating to guarantees and indemnities given by HM Treasury in connection with these schemes/interventions are required to be disclosed under financial reporting standards and are fully explained in note 25 to the Resource Accounts.

Managing Treasury Group

Ministers and senior managers

1.71 The Remuneration Report (section 4) identifies the Treasury's Ministers, those senior managers who are members of the Treasury Board and the Chief Executives of DMO and OGC for 2009-10.

Register of interests

1.72 Senior managers within the Treasury are required to complete a declaration of any interests. Details of any related party interests of members of the Board including Non Executives are shown in note 37 to the accounts.

Diversity and Equality

1.73 As an employer, the Treasury seeks to develop a diverse and talented workforce, which is representative of the society it serves. In line with the Treasury Values of being challenging, appreciative, open and collaborative, it aims to foster a culture of trust in which employees support and develop each other and feel valued for the contribution they make. In policy formulation the Treasury aims to ensure that the development of the strategies for economic growth and fiscal stability, takes account of all diversity impacts.

1.74 Diversity monitoring data is published on the external website The Treasury's Single Equality Scheme 2009-11 is also available on the website: http://www.hm-treasury.gov.uk/about_equality.htm.

1.75 In common with other government departments, the Treasury has targets to increase the proportion of women, BME employees and employees with disabilities in the Senior Civil Service (SCS) to 42 per cent, 5 per cent and 5 per cent respectively by April 2011. In addition, there are 2011 targets on the representation of women in top management posts (35 per cent) and for underrepresented groups in the feeder grades to the SCS. Further information can be found in Annex A.

Payment of suppliers

1.76 From November 2008, the government introduced a 10 day payment target for Small and Medium Enterprise (SME) suppliers to receive payment. For 2009-10, Treasury Group achieved 94 per cent for the 10 day payment against a target of 80% which the Group extended to all suppliers rather than restricting it to SMEs. Prior to November 2008, all government departments had a target to make all payments not in dispute within 30 days or less of acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. HM Treasury continues to monitor against a 30 day target and for 2009-10 Treasury Group achieved a performance of 99 per cent (2008-09: 95 per cent).

Communications

1.77 The Treasury shares information with Parliament and the public in a variety of ways including; publications and reports, through the media, online or by way of replies to parliamentary questions, correspondence and the obligations under the Freedom of Information Act.

1.78 The external website is one of the most valuable means of providing up to date information about the Treasury and its work. It provides the public with access to statements made by the Chancellor and other Treasury Ministers; information about consultations and the Treasury's wide ranging policy work, and access to documents published by the Treasury

1.79 In addition the Treasury uses YouTube and Twitter channels to provide footage of the Chancellor's public engagements and enable the public to receive direct and timely updates about the Treasury's work.

1.80 The Treasury has a long standing policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. These include email alerts, intranet pages, team briefings, and regular meetings and discussions with trades union representatives. The central communications channels are administered by a small internal communications branch, who also provide support to Treasury teams on communications issues.

Corporate Social Responsibility

1.81 As part of its corporate social responsibility agenda, the Treasury actively promotes employee volunteering, including providing special leave entitlements for the purpose of volunteering, holding regular events with voluntary sector organisations to raise awareness, supporting a staff-led volunteers group and providing related information on the internal website.

1.82 The Treasury is committed to the sustainable development agenda, and striving to reduce the impact of its operations on the environment. The Treasury's commitment to the low carbon agenda can be found on the Treasury's website[21]. More detailed information on progress towards improving energy consumption and related reductions in carbon emissions, water consumption and waste management and recycling can be found in Annex A.

Sickness absence

1.83 In 2009-10 there were 4.1 average working days lost per staff year within HM Treasury and its agencies (2008-09: 4.0 days). For Core Treasury the figure was 3.6 days (2008-09: 3.6 days). The proportion of staff with no sickness absence recorded by HM Treasury and its agencies was 59% (2008-09: 66%). For Core Treasury 64% of staff had no recorded sick absence during the year (2008-09: 70%).

Pension liabilities

1.84 The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but 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[22]. Note 6.2 to the resource accounts gives further details in relation to the Scheme.

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[21] http://www.hm-treasury.gov.uk/about_climate_change_plan.htm

[22] http://www.civilservice-pensions.gov.uk/

Personal data related incidents: 2009-10

1.85 Incidents deemed by the Data Controller not to fall within the criteria for the 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

Auditors

1.86 The Comptroller and Auditor General examines HM Treasury's resource accounts under the Government Resources and Accounts Act 2000 and reports his findings to the House of Commons.

1.87 The notional charges for statutory audit services (including the audit of IFRS transition accounts) for the year ended 31 March 2010 are

Core Treasury and GSS	£270,000
DMO	£ 45,000
APA	£ 15,000

1.88 The Comptroller and Auditor General also undertakes other statutory activities that are not related to the audit of the Treasury's financial statements.

1.89 So far as I am aware, there is no relevant audit information of which the Treasury's auditors are unaware. I have taken all necessary steps to ensure that I am aware of all relevant audit information and to ensure that the auditors are aware of the information.

Nicholas Macpherson
Permanent Secretary
19 July 2010

2 Statement of Treasury group compliance with corporate governance code of good practice

2.1 Corporate governance is the way in which organisations are directed and controlled. It defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation, determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance.[1] The Treasury Group has a corporate governance structure that seeks to support the department in delivering its objectives. The Treasury Board manages the Treasury in a manner which enables Directorates and their individual management boards to run the day-to-day business of the Treasury, with the Board providing strategic input, direction and leadership, as well as oversight of risk. The Treasury Board, and its Committees, their membership and their remits are described below.

2.2 The Treasury Group complies with the provisions in the Corporate Governance Code of Good Practice. The Treasury Group will continue to work to ensure it has the most effective and efficient corporate governance framework possible.

Ministerial Responsibilities

2.3 As at 31 March 2010, the Chancellor Rt Hon Alistair Darling, had overall responsibility for the work of the Treasury and was supported by:

The Chief Secretary to the Treasury, Rt Hon Liam Byrne, who was responsible for:

- Public expenditure including:

  Spending Reviews and strategic planning;

  In-year and medium –term control of departmental expenditure limits (DEL) and annually managed expenditure (AME);

  Public sector pay and pensions;

  Capital investment;

  Public service reform, delivery and performance; and

  Annually Managed Expenditure (AME) and welfare reform;

- Efficiency and value for money in public services, including the Public Value Programme; procurement and the Office of Government Commerce (OGC); and public asset management;
- Treasury interest in devolution and regional policy.
- Equitable Life.

[1] http://www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_governance_corporate.cfm

- Assisting the Chancellor where necessary on a wide range of economic, International and European issues

The Financial Secretary to the Treasury, Rt Hon Stephen Timms, who was responsible for:

- Strategic oversight of the UK tax system as a whole including direct, indirect, business and personal taxation.
- Tax credits and integration of the tax and benefit system, including welfare reform and child poverty.
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency.
- Lead Minister on European and international tax issues and assisting where necessary on broader European issues.
- Overall responsibility for the Finance Bill.
- The voluntary sector, charities, including Corporate Social Responsibility.
- Assisting the Chancellor on European and International issues

The Exchequer Secretary to the Treasury, Sarah McCarthy-Fry, who was responsible for:

- Personal savings and pensions policy, financial inclusion and capability.
- Urban regeneration and social exclusion including housing, planning and stamp duty land tax.
- Environmental issues including taxation of transport, international Climate Change
- issues including global carbon trading and EU ETS, and Energy Issues including taxation of oil.
- Excise duties and gambling, including excise fraud and law enforcement.
- Ministerial responsibility for the Royal Mint and Departmental Minister for HM Treasury Group.
- Assisting the Financial Services Secretary on financial services policy, including Parliamentary business, asset freezing and financial crime.
- Equitable Life.
- Working with the Financial Secretary on the Finance Bill.

The Economic Secretary to the Treasury, Ian Pearson, who was responsible for:

- Growth, enterprise and productivity including small business taxation, better regulation and support to the Chancellor on economic reform.
- Competition, science, innovation and skills policy.
- Industrial activism, including oversight of industrial and business support.
- Regional Economic Policy.
- EU Budget.
- Public/Private Partnerships including Private Finance Initiative, and Partnerships UK and working with the Chief Secretary on wider procurement policy.

- Working with the Financial Secretary on the Finance Bill.
- Government Actuary's Department

The Financial Services Secretary to the Treasury, Lord Myners, who was responsible for:

- Financial services policy including financial stability, city competitiveness, wholesale and retail markets in the UK, Europe and internationally and the Financial Services Authority (FSA).
- Assisting the Chancellor of the Exchequer in all business of the Tripartite Authorities (HM Treasury, Bank of England, FSA).
- Banking support, including responsibility for the Asset Protection Scheme, Recapitalisation Fund and other schemes, lending agreements and responsibility for UK Financial Investments (UKFI).
- Foreign exchange reserves and debt management policy, National Savings and Investment and UK Debt Management Office (DMO).

Minister of State with responsibility for Revenue Protection at the border, Phil Woolas[2], who was responsible for:

- The operational delivery of the UK Border Agency's (UKBA) revenue protection functions.
- Delivery of targets covering revenue protection and the examination of goods at the frontier.

2.4 The precise responsibilities of these roles have changed after the year end. Following the election in May 2010, the position of Commercial Secretary was created and the position of Financial Services Secretary, which had existed throughout the 2009-10 reporting period, ceased to exist along with the Minister of State with responsibility for Revenue Protection at the border. Details of the individual Ministers serving during 2009-10 can be found in the remuneration report. Further information on current roles and responsibilities can be found on the Treasury's website[3].

Treasury Board

2.5 The Treasury Board takes decisions on strategic matters that relate to the Treasury Group. Its aim is to lead a Treasury that delivers its objectives and targets now and in the future. In 2009-10 it met formally 10 times. The Board evaluates its remit and performance annually, it last did so at its meeting in September 2009.

2.6 Membership of the Board at 31 March 2010 was as follows:

Executive members:

- Nicholas Macpherson - Permanent Secretary
- Tom Scholar - Second Permanent Secretary, International and Finance
- Michael Ellam (from October 2009) - Managing Director, International and Finance
- Andrew Hudson – Managing Director, Public Services and Growth

[2] a joint Home Office appointment
[3] http://www.hm-treasury.gov.uk/minprofile_index.htm

- Emma Lindsell (from January 2010), Director of Corporate Services
- Dave Ramsden - Managing Director, Chief Economic Adviser to the Treasury and Managing Director, Macroeconomic and Fiscal Policy
- Jonathan Taylor (from January 2010) – Managing Director, International and Finance
- Edward Troup (from January 2010) – Managing Director, Budget Tax and Welfare
- Louise Tulett - Director of Finance and Procurement
- Ray Shostak – Head of Prime Minister's Delivery Unit and Performance Management
- Nigel Smith[4] - Chief Executive of the Office of Government Commerce

Independent members:

- Dame Deirdre Hutton – Chair of the Civil Aviation Authority
- Sir Callum McCarthy – Former Chairman of the Financial Services Authority
- Michael O'Higgins – Chairman of the Audit Commission
- Sir William Sargent - Chief Executive of Framestore

2.7 During 2009-10 the Board membership changed as some members stepped down from the Board, as detailed below:

Executive members:

- Mark Neale (until Dec 2009) – Managing Director, Budget Tax and Welfare
- Stephen Pickford (until Dec 2009) – Managing Director, International and Finance
- Chris Martin (from June 2009 – Jan 2010) – Acting Corporate Services Director

2.8 All Board members are required to notify the secretariat of any matters, including investment decisions, which might give rise to a conflict of interest. Non-executive members receive formal and informal induction on appointment. Individual Executive Board members meet Treasury Ministers on a regular basis.

2.9 The Board delegates decision making on some day-to-day issues to its supporting committees (detailed later in this section). A short summary of discussions at each Board meeting can be found on HM Treasury's website and minutes are available to staff on the Treasury intranet.

Board Committees

2.10 The Board's Committee was reconstituted during 2009-10 into a new structure. Until January 2010, the Treasury Board was supported by four group-wide sub-committees

- The Group Operations Committee was accountable to the Board for operational issues. It was chaired by Mark Neale, Managing Director Budget Tax and Welfare, and met 6 times until January 2010
- The Group Finance Committee was accountable to the Board for good financial management in the department. It was chaired by Dave Ramsden, Chief Economic

[4] On 25 June 2010, Nigel Smith announced that he would be leaving his post when his contract expires in September 2010

Adviser to the Treasury and Managing Director, Macroeconomic and Fiscal Policy, and met seven times until January 2010

- The Group Delivery Committee provided strategic oversight of Treasury's major operational projects. The Group Delivery Committee was chaired by the Permanent Secretary and met seven times until January 2010

- The Group Executive Committee provided a forum for decision-making on urgent Group-wide issues required Board meeting. The Committee was chaired by the Permanent Secretary, meeting on an ad-hoc basis, and did not meet in 2009-10.

2.11 These committees were replaced in January 2010 by a new structure:

- From January 2010, the Board's Investments and Projects Committee ensures Treasury successfully designs and delivers projects contributing to its strategic priorities, by managing its portfolio of programmes and projects relating to both its new delivery responsibilities and its corporate management; and taking investment decisions on behalf of the Treasury Board, relating to any spending not accounted for by "business as usual" within Directorates and Arms Length Bodies. The Committee met three times in 2009-10.

- From March 2010, the risk strategy group synthesises cross-cutting risks at a strategic level and reviews and challenges fundamental assumptions underlying the work of the department.

2.12 Until January 2010, the Treasury was supported by two Group-wide two audit committees.

2.13 The Group Resource Audit Committee supported the Permanent Secretary and the Treasury Additional Accounting Officers in their responsibilities for managing risk, internal control and governance, related to the Group's Resource Account. 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 presents a regular report to the Board. The membership of the Committee during 2009-10 was:

- Michael O'Higgins – Chair and independent member of the Treasury Board

- Michael Ashley (from July 2009) – Head of Risk and Compliance, KPMG Europe

- Zenna Atkins (from July 2009) – Chairman, OFSTED and Chair of Royal Navy Audit Committee

- Janet Baker (from July 2009) – Non-Executive Director & Chair of Audit Committee, Healthcare Purchasing Consortium

- Brad Fried (from July 2009) – Former CEO, Investec Bank UK Ltd

- Avinash Persaud (from July 2009) – Chairman, Intelligence Capital

2.14 During 2009-10, one GRAC member, Colin Thwaite stepped down. Colin Thwaite is former Finance Director and Chief Executive of Littlewoods Organisation plc, Leisure Division.

2.15 The Group Resource Audit Committee had the opportunity for pre-committee discussion with the National Audit Office and the Group Head of Internal Audit. The Group Resource Audit Committee met three times in 2009-10.

2.16 The Exchequer Funds Audit Committee supported the Permanent Secretary and the Agency and Treasury Additional Accounting Officers in their responsibilities in all matters relating to the: Debt Management Account, Public Works Loan Board, Commissioners for the Reduction of the

National Debt, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund. Members of the Committee were appointed by the Permanent Secretary for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reported directly to the Permanent Secretary. The membership of the Committee until January 2010 was:

- Dr Colin Price OBE – Committee Chair, non-executive Director of the DMO, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman – non-executive Director of the DMO and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and
- Mark Clarke – formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

2.17 Meetings of the Exchequer Funds Audit Committee were attended as relevant by the appropriate Accounting Officers. The Exchequer Funds Audit Committee met three times in 2009-10.

2.18 From January 2010, the Treasury was supported by one Principal Audit Committee, with additional audit committees to support the Accounting Officers for DMO and APA. Membership of the Principal Audit Committee was formed from all members of the Group Resource Audit Committee. The Principal Audit Committee held its first meeting in 2009-10.

2.19 The Group Head of Treasury Internal Audit is the nominated officer for HM Treasury's whistleblowing policy and he has direct access to the Chairs of both the Audit Committees. He was nominated by the Permanent Secretary under HM Treasury's fraud policy.

2.20 HM Treasury's Government Internal Audit Standards require each Internal Audit Unit to have undertaken an external quality assurance review at least every five years. The last external review of Treasury Internal audit was in 2005.

Other Groups

2.21 In 2009-10, the Treasury Group consisted of four organisations; HM Treasury; OGC, DMO and the APA (set up in summer 2009 and formally launched in December 2009). Following an announcement in June 2010, OGC is now part of the Efficiency and Reform Group within the Cabinet Office. Each Group member also has its own body responsible for making day-to-day decisions relating to matters within its organisation, consistently with the framework and remits agreed with Treasury Ministers and any Group-wide strategic decisions of the Treasury Board.

2.22 In HM Treasury, an Executive Management Group (chaired by the Permanent Secretary and consisting of the Managing Directors and the Group Director of Finance, Procurement and Operations) meets weekly to discuss current issues and makes decisions required between Board meetings on issues affecting HM Treasury.

2.23 OGC's Board (chaired by the OGC Chief Executive, Nigel Smith and comprising three Executive Directors, three Non-Executive Directors and the Chief Executive of Buying Solutions met six times in 2009-10. Nigel Smith also chaired the OGC's Operations Committee. The OGC Operations Committee is a sub-committee of the OGC Board with responsibility for tracking and managing OGC's performance against its targets and milestones. It met eight times during 2009-10.

2.24 DMO's Managing Board is responsible for strategic, operational and management issues. It is chaired by the Chief Executive of the DMO and comprises four Executive members (including the Chief Executive), two non-executive Directors and a non-executive Treasury representative. It met eight times in 2009-10. Further information is available in the DMO and DMA Annual Report and Accounts 2009-10.

2.25 An Advisory Board together with committees including an Audit and Risk Committee and a Credit Committee has been instituted to support the APA Chief Executive. Members include non-executive directors who have been appointed to bring an external perspective and to offer constructive criticism of the ideas and behaviour of APA management. The APA has also appointed Ernst & Young as internal auditors to analyse and test the ways of working that are being developed. A significant part of the APA's work during the reporting period has been the creation of internal governance and control systems to support strategic decision-making and to ensure risks are adequately identified and managed.

Arms-length bodies

Buying Solutions

2.26 Buying Solutions is a trading fund and an Executive Agency of the OGC, which was itself an Office of the Treasury. In June 2010, Buying Solutions transferred to the Cabinet Office, along with the OGC. Buying Solutions transferred to the Cabinet Office The Chief Executive and Accounting Officer of Buying Solutions is Alison Littley. The Chief Executive of OGC appoints the Chief Executive of Buying Solutions.

2.27 The relationship between the Treasury and Buying Solutions, much of which is conducted through OGC, is laid out in an Agency Framework document that is subject to periodic review. Each year, the OGC CEO sets key performance targets for Buying Solutions and signed off by the relevant Treasury minister; for 2009-10 this was the Exchequer Secretary and for 2010-11, responsibility had transferred to the Economic Secretary.

2.28 The Treasury Permanent Secretary is Principal Accounting Officer, but day-to-day running of OGC and Buying Solutions is delegated to the OGC CEO.

2.29 The management of Buying Solutions risks is the responsibility of its Accounting Officer. The Treasury's available input channels are via the OGC Chief Executive's membership of the Treasury Board, the Treasury Permanent Secretary's chairmanship of the OGC Commercial Delivery Board, meetings between the OGC Chief Executive and the Treasury Permanent Secretary, and close working relations between OGC and the Treasury's Public Services and Growth Directorate. More information on Buying Solutions can be found on its website[5].

UK Financial Investments

2.30 UK Financial Investments Limited (UKFI) is a registered Company, wholly owned by the Government. It was established to manage the Government's shareholdings in UK financial institutions, acquired through recapitalisation and other financial stability interventions in 2008 and 2009. UKFI is responsible for managing Government's shares in Royal Bank of Scotland, Lloyds Banking Group, Northern Rock plc, Northern Rock Asset Management and Bradford and Bingley.

2.31 UKFI's objective is to:

- Develop and execute an investment strategy for disposing of the Government's shareholdings in an orderly and active way through share sale, redemption or buy-back or other means; and

[5]http://www.buyingsolutions.gov.uk/

- Manage the Government's shareholdings to protect and create value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

2.32 HM Treasury's shareholder relationship with UKFI is set out in more detail in the UKFI Framework Document and Investment Mandate[6].

2.33 Throughout 2009-10, UKFI managed the Government's shareholdings in Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG). The Government currently holds 68.4 per cent of the total ordinary share capital of RBS and has 83.2 per cent economic ownership as at 31 March 2010 and the enhanced dividend access share issues in connection with RBS' participation in the Asset Protection Scheme. The Government currently holds 41.3 per cent of the total ordinary share capital of LBG.

2.34 Responsibility for management of the banks wholly owned by Government was transferred to UKFI during the year. Management of Government's holdings in Bradford and Bingley was transferred to UKFI in July 2009. Management of Government's holdings in Northern Rock transferred to UKFI in January 2010, upon its split into Northern Rock plc and Northern Rock Asset Management.

2.35 The Treasury is both a shareholder and a creditor for both wholly owned banks (the FSCS is also a creditor for Bradford & Bingley). During the period of the Treasury's responsibility for managing these banks, Framework Documents[7,8] agreed between both companies and HM Treasury set out the shareholder relationships. Following the transfer of management responsibility to UKFI, new framework documents were drawn up[6].

2.36 More details on Government's holdings in financial institutions and of UKFI's activities over the last year are provided in UKFI's Annual Report and Accounts 2009-10[6].

The Bank of England

2.37 The Bank of England is the UK's central bank and is responsible for: maintaining stable prices and confidence in the currency; and detecting and reducing threats to the financial system as a whole.

2.38 The relationship between the Treasury and the Bank of England is governed by the Bank of England Act (1998)[9]. Part 1 of the Act sets out the constitution, regulation and financial arrangements for the Bank, including the requirements for the Bank to report annually to the Chancellor on its activities and its accounts. The Act provides for a Court of Directors and a Committee of Non-executive Directors ('NedCo') within Court. Court is responsible for managing the Bank's affairs, other than in the formulation of monetary policy. This includes determining the Bank's objectives and strategy, and aiming to ensure the most efficient use of the Bank's resources. NedCo has responsibility for reviewing the Bank's performance in relation to its objectives and strategy, monitoring the extent to which the Bank's financial management objectives are met, and reviewing the Bank's internal controls. The Court consists of the Governor, two Deputy Governors and up to nine Non-executive Directors. All are appointed by the Crown on a recommendation of the Prime Minister, as advised by the Chancellor. The Governor and Deputy Governors are appointed for a period of five years and the Directors for three years. The Chancellor appoints the non-executive chairman of Court and NedCo.

6 http://www.ukfi.co.uk

7 http://www.hm-treasury.gov.uk/d/nr_shareholder_framework_310308.pdf

8 http://www.hm-treasury.gov.uk/d/bradford_bingley_shareholder_framework.pdf

9 http://www.bankofengland.co.uk/about/legislation/1998act.pdf

2.39 Part 2 of the Act sets out Monetary Policy arrangements. The Act establishes a Monetary Policy Committee (MPC), and sets a framework for its operations. The Treasury's role is limited to the specification of the price stability target and articulating the economic policy of the Government. The Bank's MPC is made up of nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. The appointment of external members is designed to ensure that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England.

2.40 The Banking Act 2009 introduced a number of important reforms to the governance of the Bank of England. These included: giving the Bank of England a statutory objective to contribute to protecting and enhancing the stability of the financial systems of the United Kingdom; changing the governance structures to support these new responsibilities, including the creation of a new Financial Stability Committee; and modernising the operations of Court, reducing the maximum size from 19 down to 12 members. The Banking Act received Royal Assent on 12 February 2009 and these reforms were implemented on 1 June 2009.

2.41 The statutory provisions are supplemented at an operational level with several written memoranda of understanding and service level agreements setting out definitions of how the relationship functions across different areas, and the duties and responsibilities of key players. More information on the Treasury's relationship with the Bank of England as part of the Tripartite arrangements between the Treasury, the Bank of England and the Financial Services Authority can be found in section 2 of this report. More details of the work of the Bank of England can be found on its website.[10]

Royal Mint

2.42 The Royal Mint's primary purpose is the provision and maintenance of UK coinage. It also provides coinage services to overseas central banks and mints. It also manufactures official medals and collectables for both the UK and overseas retail and wholesale markets.

2.43 The Royal Mint is a Government-owned company that was vested in December 2009 and is the subsidiary of a non-ministerial department and trading fund. The Treasury has both a shareholding and a customer relationship with the Royal Mint. The Chancellor of the Exchequer is Master of the Mint. The Chancellor has delegated responsibility for coinage policy to the Economic Secretary; the day-today shareholding responsibilities are delegated to the Shareholder Executive.

2.44 The Treasury takes advice on the operation of its shareholder interest from the Shareholder Executive. The exact nature of this arrangement and the relative involvement of Shareholder Executive officials with the Royal Mint and with the Treasury is set out in the Delegated Remit. The Shareholder Executive provides full information to the Exchequer Secretary on the Royal Mint's financial performance - both achieved and prospective - twice each year. The Chancellor appoints the Deputy Master of the Mint (CEO) and non-executive members of the board, the Deputy Master appoints executive members who sets performance and financial targets; the day-to-day shareholding responsibilities are delegated to the Shareholder Executive.

2.45 As of 1 January 2010, the customer relationship is governed by the UK Coin Contract, which sets out the arrangements for the supply of UK coinage (a Service Level Agreement was in place prior to this date). More information on the Royal Mint can be found on its website[11.]

[10] http://www.bankofengland.co.uk

[11] http://www.royalmint.com

Royal Mint Advisory Committee

2.46 The Royal Mint Advisory Committee is an NDPB. HM Treasury became its parent department in January 2010 under arrangements for vesting the Royal Mint. The Committee has around a dozen members and usually meets two or three times a year to make recommendations to the Chancellor on the design of new coins.

Royal Mint Museum

2.47 On 31 December 2009, the Royal Mint Museum was established as a company limited by guarantee, wholly owned by HM Treasury. The Museum's purposes are: to manage, safeguard, conserve and provide access to the national coin collection and archive; to restore and preserve objects associated with the history of coinage and the Royal Mint; and to protect and enhance the numismatic heritage of the United Kingdom. The Museum is governed by an interim Board, including directors from the Royal Mint and HM Treasury. The Museum will apply for charitable status, in order to further its aims, in the public interest.

Partnerships UK

2.48 Partnerships UK (PUK) is the successor body of the Treasury Taskforce, which was created in 2000 as a central support body for the UK's Private Finance Initiative.

2.49 It is a public/private partnership that assists governments and other public bodies in the UK and elsewhere in the development, procurement, financing, implementation and management of private finance and public/private partnership projects. It does this by entering into joint ventures, participating in public/private partnership projects with private persons or by acting as an investor, financier, consultant, or otherwise. It also promotes the development and use of public/private partnerships generally.

2.50 The private sector has a 51 per cent majority shareholding in the company, and the public sector has a 49 per cent investment (HM Treasury 45 per cent, Scottish Executive 4 per cent).

2.51 The Treasury has two relations with PUK, as a major shareholder and as a customer of PUK services. The Treasury's two functions are separately administered.

2.52 The Shareholder Executive (ShEX) advises Treasury in fulfilling its shareholder function in relation to PUK. A Memorandum of Understanding establishes the responsibility delegated to ShEX in supporting the Treasury's financial interests and governance aspects in relation to PUK. The Treasury retains the lead on policy and client related issues.

2.53 A five-year Framework Agreement, last agreed in 2005, governs the Treasury's client relationship with PUK under which an annual budget for PUK services over each of the years of the contract term is established.

2.54 The Treasury's obligations in relation to risk management are covered through two arrangements; firstly through its shareholder rights, and secondly through the Advisory Council. The Treasury's shares in PUK give the Treasury the right to nominate two Non-executive Directors to sit on the PUK Board which meets monthly (with separate meetings of the Investment, Audit and Remuneration Committees). The Non-executive Directors ensure that the Treasury can monitor and influence strategic direction as well as the delivery of financial objectives and value for money.

2.55 The Treasury also coordinates the Advisory Council, which is currently chaired by the Treasury's Permanent Secretary, and consists of representatives from Government Departments, including: the Treasury; the Devolved Administrations; local authorities; and other public bodies. The role of the Advisory Council is to advise the Treasury on whether PUK is achieving its public sector mission. The Advisory Council meets twice a year and produces a report on PUK's activities which is published by the Treasury and available on the PUK website[12].

2.56 The Government has set up Infrastructure UK to provide a new strategic focus across a range of sectors. Infrastructure UK comprises HM Treasury's PPP policy team and Infrastructure Finance Unit and the capabilities within Partnerships UK that support the delivery of major projects and programmes.

Infrastructure Finance Unit

2.57 Infrastructure Finance Unit Limited was established in April 2010 to act as the lender of record for all transactions supported by The Infrastructure Finance Unit. In the 2009 Pre-Budget Report the then Government announced that it had commenced discussions with Partnerships UK's board with a view to HM Treasury acquiring, as part of the creation of Infrastructure UK, the capabilities within PUK that support the delivery of major projects and programmes.

Pool Re and Pool Re (Nuclear)

2.58 Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. More information on Pool Re can be found on its website[13.]

2.59 Pool Re and Pool Re Nuclear are mutual companies, limited by guarantee. The Treasury is responsible for appointing one Director to the Boards of Pool Re and Pool Re (Nuclear), who is, in addition to statutory responsibilities as a Director, responsible for considering the public interest.

Nicholas Macpherson
Permanent Secretary
19 July 2010

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[12] http://www.partnershipsuk.org.uk
[13] http://www.poolre.co.uk

3 Statement of accounting officer responsibilities

3.1 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.

3.2 The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, changes in taxpayer's equity, operating costs by departmental strategic objectives and cashflows for the financial year.

3.3 In preparing the 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.

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

3.5 Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the UK Debt Management Office and the Office of Government Commerce. The additional Accounting Officers are responsible for use of resources and associated assets, liabilities and cash flows under their control. The Chief Executive of the UK Debt Management Office (Robert Stheeman) is Accounting Officer for the UK Debt Management Office and the Chief Executive of the Office of Government Commerce (Nigel Smith) is Accounting Officer for the Office of Government Commerce. These appointments do not detract from my overall responsibility for HM Treasury's accounts.

3.6 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 (MPM), published by the HM Treasury.

3.7 I confirm that in connection with the audit of the Resource Accounts that I have taken steps to ensure that the auditors are aware of all relevant information.

4 Statement on internal control 2009-10

This statement:

(a) Scope of responsibility

4.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Treasury Group[1] policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

4.2 For the period covered by this report, immediate responsibility for the systems of internal control in the Office of Government Commerce (OGC), UK Debt Management Office (DMO) and Asset Protection Agency[2] (APA) lay with their Chief Executives as Additional Accounting Officer and Agency Accounting Officers respectively. The role of Accounting Officer is defined by Managing Public Money[3] and the division of responsibility between HM Treasury and the Accounting Officers of its other bodies is set out in a separate Memorandum. In their Accounting Officer capacities, the Chief Executives of the OGC, DMO and APA have provided me with separate assurances on the effectiveness of their systems of internal control upon which I place reliance when signing this statement.

(b) The purpose of the system of internal control

4.3 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

4.4 The system of internal control has been in place in the Treasury Group for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk:

4.5 Over 2009-10, the risk environment in which the Treasury was operating was constantly evolving, reflecting the continuing uncertainty in the global economy. The following issues in particular shaped much of the work of the Treasury, and consequently its approach to risk:

- Global economic uncertainty: The financial crisis of late 2008 precipitated a steep and synchronised global downturn. The global economy is now growing again, but the recovery is uneven, Global imbalances remain, and there remains uncertainty around prospects for growth.

1 Comprising HM Treasury, the Office of Government Commerce and the United Kingdom Debt Management Office.
2 The Asset Protection Agency was formally launched in December 2009
3 Annex 4.1 http://www.hm-treasury.gov.uk/d/mpm_whole.pdf

- The deterioration of the public finances: The crisis has led to deterioration in the fiscal positions of countries all over the world, but it has been particularly marked in the UK, making fiscal consolidation the main priority of HM Treasury, to maintain low interest rates and macroeconomic stability.
- Financial services sector stability and state support: The UK financial sector is recovering from the global crisis in 2008, but fragilities remain and the sector is still dependent on substantial state support. This continued to increase directly managed delivery and commercial risks as well as impose significant stewardship responsibilities as demonstrated in HM Treasury's balance sheet.
- The international situation and policy context, including financial regulation and the consolidation of public finance positions – particularly in the Eurozone.
- Political events: Toward the end of 2009-10, the proximity of a General Election had obvious implications for forward planning and the ability to guarantee stability in policy positions.

4.6 This statement sets out the annual assessment of the control framework in place that supported and underpinned that risk management. The Accounts provides a narrative of the main changes to HM Treasury's stewardship responsibilities through this period.

The risk and control framework:

4.7 This section provides a brief overview of the control framework in place at the Treasury during 2009-10. This section also briefly highlights the changes or additions made to the control framework in response to the changing external risk environment outlined above.

(a) The Treasury control framework

4.8 As Principal Accounting Officer (PAO), I am responsible for the control framework of the Treasury Group. I received support and assurance on the management of the Group and the risks it faced in several ways, forming a framework based upon the principle that risks should be managed at the appropriate level through a set of delegated authorities and accountabilities:

- Treasury Board and Committees: The Treasury Board had group wide responsibilities and advised the PAO. It met ten times during 2009-10 to discuss and review the strategic issues and risks impacting on the department's agenda. This was supported by weekly meetings of the Executive Members of the Board. These two groups have focused a significant amount of time to planning and responding to the changing risk environment and stewardship functions as outlined above. The Board was supported by a set of sub-committees and groups on investment, risk and audit. The Board and sub-committees had appropriate and skilled non-executive representation. Full details of Board membership and Audit Committee is given in the Statement of Corporate Governance in these Accounts.
- Arms Length Bodies: Each of the ALBs that was part of the Treasury Group had a dedicated Chief Executive Officer. These CEOs acted as Additional or Agency Accounting Officers and were directly responsible for their organisation, and answerable to the Principal Accounting Officer. The Treasury had several sponsor teams that worked closely with the ALBs and manage the relationship between the organisations (see Statement of Corporate Governance).
- Business units: The core department of the Treasury itself was divided into six discrete business units (directorates). Each business unit was the responsibility of an executive member of the Treasury Board (usually a Managing Director). These

individuals were responsible for management of their directorates, their resources, delivery and risk management. They were supported by their senior management teams within each business unit. I reviewed and assessed their performance in executing corporate objectives within their directorates every six months alongside a non-executive director. The personal performance of executive members of the Board was assessed annually under the SCS wide framework.

- Senior Responsible Owners: Nominated Senior Responsible Owners (SROs) were been identified to lead work on the department's strategic objectives[4]. These individuals were responsible for performance and risks to delivery in key areas of business. A similar approach was taken to the most important major projects – such as the delivery of the Budget, or the delivery of the Fast Forward programme of IT reform. These individuals were usually at Director level.
- Key corporate functions: There were also nominated senior executives who are responsible for the key corporate functions of strategy, finance, communications and operations. All were accountable to the Board and the Executive Management Group. In addition, the department had a Senior Information Asset Owner and a Senior Information Owner in accordance with Cabinet Office requirements.

4.9 This control framework formed a chain of assurance back to me as the Principal Accounting Officer. It was supported by targeted monthly reporting to the Board of key data on corporate metrics and quarterly reporting of key data on performance against and risks to strategic objectives.

4.10 Risk awareness is embedded in Treasury training courses where relevant. This includes risk management, investment appraisal and economic and financial appraisal techniques for assessing capital projects.

(b) Changes made during 2009-10

4.11 The Treasury reviewed its governance framework during the year, and made a number of reforms. This was to ensure the framework remained effective and fit for purpose in managing the demands placed upon the department by the changing external environment and stewardship responsibilities. The demands included meeting both the specific needs described in section 2 and, more broadly, delivering on a wide range of responsibilities with declining resources and strengthening assurance over Treasury's new remit.

- Strategic priorities refreshed: The Board agreed a refresh of the strategic priorities to reflect changing priorities and pressures. The priorities agreed were consolidating the public finances; strengthening the supply side of the economy and the financial and banking systems and public services; and managing a successful pre-and post-election period. It agreed that to deliver these, the department would focus on a revised People Strategy, rolling out updated IT systems; and delivering a clear efficiency plan for the department.
- The priorities translated into a revised forward agenda of strategic stocktakes for the remaining six months of the year to drive forward major priorities, and a focus on improving further still the management and agility of the department's workforce.

[4] Treasury's Departmental Strategic Objectives for the reporting period can be found at http://www.hm-treasury.gov.uk/about_strategic_objectives.htm. Following the General Election in May 2010, the Treasury performance reporting framework will now be updated as part of the 2010 Comprehensive Spending Review.

- **Clearer audit committee and assurance:** The Treasury Audit Committee was strengthened in December 2009 by merging the two existing committees into one, mapping remit directly onto Accounting Officer responsibilities and providing a single focus for assurance where Exchequer funds are used to deliver Treasury's financial services responsibilities. This was largely to respond to the increased need under the new stewardship responsibilities to manage risks within the group end to end, and within organisational boundaries. The ALBs each have their own audit committee, with non-executive representation on each. The chain of assurance across the group of organisations, accounts, and accounting officer responsibilities has been fully mapped and clarified. This means the Treasury has absolute clarity on the assurance and responsibilities relating to the various interventions made in the financial markets.

- **New non-executive directors:** Five new non-executive members were recruited to the Treasury Audit Committee and were invited to their first meeting in July 2009, with a particularly strong mix of accounting, financial services and delivery skills and experience to provide strong assurance to management of financial risks and new financial services responsibilities. Details of the non-executives can be found in the Statement of Corporate Governance section of the Accounts. Their expertise has been deployed on a range of important projects, committees and issues across the department that could benefit from their skills on managing down the risks faced – for example on the Asset Protection Scheme and the Infrastructure Financing Unit – as well as on key sub-Committees.

- **Reconstituted sub-committees:** The Treasury Group's three original sub-committees (operations, finance, and delivery) have been reconstituted into a new structure from January 1st 2010 The Group now has an Investment and Projects Committee and a Risk Strategy Group. Other decisions on key operational decisions are now taken by Treasury's Executive Management Group or by operational leads or by Management Boards at Agency level.

- This has helped to improve financial management in the department, improved the link between resourcing and delivery – so decisions are consistently made in the context of available resourcing, and increased capacity to synthesise risks that cut across the department. It has also minimised the potential for issues to fall between the gaps in committee responsibilities. This has been particularly important given the extent to which managing the risks facing the Treasury frequently needs joint consideration by many parts of the Group.

- **Strengthened leadership team:** The executive leadership team has been further strengthened, filling the vacant positions on financial services and on the international and EU agenda, and adding a further permanent executive position in a dedicated Director of Corporate Services. The department has also recruited a dedicated Head of Commercial function at SCS level, recognising the increased complexity of supply chains and to help maximise benefit realisation from supplier arrangements.

- **Risk framework strengthened:** The risk framework was fundamentally reviewed and analysed, and discussed by the Board and Audit Committee in March 2010. A Risk Strategy Group has been established and first met in March 2010 [to provide a mechanism for synthesising cross-cutting risk, and reviewing and challenging fundamental assumptions underlying the work of the department. An Executive Member of the Board has been nominated as Chief Risk Officer, and chairs that group. Greater emphasis has been placed on ensuring risks are managed at the right level with escalation up to Board level as necessary.

(c) Additions made during 2009-10

4.12 The Government made significant interventions to stabilise the financial markets in the each of the years since 2007-08. These were dealt with rapidly and appropriately at the time by adapting existing governance structures of operations, and by then reviewing the ongoing level of activity and designing sustainable revised models. As part of this, Treasury established dedicated longer term operations to manage these interventions. This has included setting-up new Arms Length Bodies (ALBs) with dedicated resource and control arrangements.

4.13 Having established the Asset Protection Scheme, Treasury established a new Executive Agency from 7 December 2009 – the Asset Protection Agency (APA) – to operate the Asset Protection Scheme on an ongoing basis for its duration, to:

- Monitor the management of the RBS assets in the scheme and, where necessary, intervening in the management of those assets
- Review and approving significant decisions, such as disposals and restructurings in relation to APS assets
- Verify the losses on covered assets to enable the APS to make appropriate payments
- Forecast future losses under the APS to enable HM Treasury to predict any fiscal impact.

4.14 The APA has recruited a mix of civil servants, secondees and contractors to carry out its role, reflecting the short-term nature of the agency and specialist skills base required. The relationship between APA and the Treasury, including the overarching set of controls, is set out in a Framework Document. The Chief Executive of APA is an Agency Accounting Officer and is responsible for the agency's use of resources and operation of the scheme, advising and reporting to Treasury as necessary.

4.15 UKFI's scope was expanded to include responsibility for managing the government's wholly owned banks: Northern Rock plc and Northern Rock Asset Management plc in January 2010 and Bradford and Bingley in July 2009].

4.16 Treasury has strengthened controls over UKFI's stewardship of Royal Bank of Scotland and Lloyds Banking Group by agreeing UKFI's Investment Mandate, the final step in establishing its remit. This sets out the division of responsibilities between UKFI and the Treasury, with UKFI having responsibility for managing the investments and any sales programme, but with Treasury retaining approval rights for any disposals.

Control issues identified during 2009-10:

(a) Significant internal control weaknesses

4.17 No significant internal control weaknesses in the Treasury Group were identified in 2009-10.

(b) Internal control issues under review

4.18 Over 2009-10, Treasury has identified a number of control issues it has kept under review. These are those areas where the department may need to amend its control framework to reflect chancing circumstances:

- COINS (Combined Online Information System): COINS collects financial data from across Government to support management of the public finances. The system continues to meet its objectives but to meet future demands, its reliability and performance need to be improved. Options for addressing this are under exploration, including a potential replacement system.

- Business Continuity: Following an earlier internal audit review of HM Treasury's business continuity management, the Treasury used preparations for managing a potential outbreak of Swine Flu to test and improve its planning and resilience under the direct leadership of EMG.
- Financial risks: The Treasury's financial exposure to risks carried on its balance sheet are detailed in the annual accounts section this report. Exposure to overspending against Parliamentary control totals was also keenly monitored during the year, with EMG and the Board supporting the Principal Accounting Officer in holding responsible officials to account for their use of funds.
- Insider trading risks: The expansion of Treasury's financial services responsibilities has increased the information available to staff or contractors which could be used for insider trading. In response, Treasury has increased the engagement of its senior staff in ensuring compliance with its insider trading policy and will be reviewing and further developing its approach in 2010-11.
- Treasury continues to manage its staff retention and sourcing policies to ensure they properly balance the demand for skills and knowledge against the need for corporate memory. We continue to prioritise sound knowledge disciplines and capacity to support this aim.

4.19 Following identification of compliance with recruitment policies as a control issue in 2008-09, the department processes have been tightened significantly.

Assurance in making this judgement:

4.20 As Principal Accounting Officer, my review of the effectiveness of the system of internal control for 2009-10 was informed by assurances and feedback from executive managers across the group through the system of internal accountability and escalation that is in place to support the scheme of delegation. This is further supported by independent assurances through the work of the non-executive directors, internal audit and external audit and other bodies such as the Office of the Civil Service Commissioners. In addition, a number of Select and other parliamentary committees have cross-examined a number of witnesses from across the Treasury Group. Particular assurances have been provided by:

- The Chief Executives of the OGC, DMO and APA, who as Additional and Agency Accounting Officers, have provided me with separate assurances;
- Treasury's Executive Management Group, including the Group Finance Director, who have collectively reviewed this SIC;
- The Head of Treasury Legal Advisors, who has advised on outstanding legal and regulatory issues affecting the SIC; and

4.21 The Head of Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the Treasury Group to the Audit Committees throughout the period. Treasury's Audit Committees approved the Internal Audit work programme at the start of the year and followed up on management action to address audit recommendations.

4.22 Alongside these assurances, I have placed reliance upon the Head of Internal Audit's view that assurance could be given over the risk management, control and governance arrangements relevant to the accounts, and that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

Nicholas Macpherson
Permanent Secretary
19 July 2010

5 Ministers’ and senior managers’ remuneration report

Remuneration Policy

5.1 For the Permanent Secretary, Second Permanent Secretary and Chief Executive of the OGC, 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).

5.2 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.

5.3 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 on the at the Office of Manpower Economics website[1].

Service Contracts

5.4 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 on their website[2]. The Permanent Secretary, Second Permanent Secretary and Chief Executive of the OGC 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.

[1] http://www.ome.uk.com/

[2] http://www.civilservicecommissioners.gov.uk/

5.5 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.

5.6 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

5.7 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 5.A: Salaries and Pensions of Ministers[1]

NAME	2009-10		2008-09		Total accrued pension at age 65 at 31/03/10 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/10 or end date (nearest £000)	CETV at 31/03/09 or start date (nearest £000)	Real increase in CETV (nearest £000)
	Salary and full year equivalent (FYE[2]) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent[3] (FYE) (£)	Benefits in kind (nearest £100)					
Alistair Darling Chancellor of the Exchequer	78,356	7,800	79,180	7,900	20 - 25	0 - 2.5	443	377	36
Yvette Cooper Chief Secretary to HM Treasury (from 24/01/08 to 05/06/09)	14,130 (FYE 78,356)	-	78,995	-	5 - 10	0 - 2.5	77	73	1
Liam Byrne Chief Secretary to HM Treasury (from 06/06/09)	64,012 (FYE 78,356)	-	-	-	5 - 10	0 - 2.5	47	34	6
Jane Kennedy Financial Secretary to HM Treasury (from 30/06/07 to 05/10/2008)	-	-	24,136 (FYE 40,646)	-	-	-	-	-	-
Stephen Timms Financial Secretary to HM Treasury (from 06/10/2008)	40,646	-	16,936 (FYE 40,646)	-	10 - 15	0 – 2.5	186	148	22
Angela Eagle Exchequer Secretary to HM Treasury (from 30/06/07 to 08/06/09)	5,732 (FYE 30,851)	-	31,174	-	5 - 10	0 - 2.5	69	62	6

[2] FYE – Full Year Equivalent

[3] Included within Ministers' salaries (for those employed by HM Treasury in August 2008) is an amount relating to arrears paid in September 2008. These were paid following an Order in Council under the Ministerial and other Salaries Act 1975 in July 2008, revising ministerial salaries effective 1 April 2007

Table 5.B: Salaries and Pensions of Ministers continued

Name	2009-10 Salary and full year equivalent (FYE) (£)	2009-10 Benefits in kind (nearest £100)	2008-09 Salary and full year equivalent (FYE) (£)	2008-09 Benefits in kind (nearest £100)	Total accrued pension at age 65 at 31/03/10 (£000)	Real increase in pension at age 65 (£000)	CETV at 31/03/10 or end date (nearest £000)	CETV at 31/03/09 or start date (nearest £000)	Real increase in CETV (nearest £000)
Sarah McCarthy-Fry									
Exchequer Secretary to HM Treasury (from 18/06/09)	24,781 (FYE 30,851)	-	-	-	0 - 5	0 – 2.5	17	7	6
Kitty Ussher									
Economic Secretary to HM Treasury (from 30/06/07 to 05/10/08)	-	-	18,319 (FYE 30,851)	-	0 - 5	0 - 2.5	13	13	-
Exchequer Secretary to HM Treasury (from 09/06/09 to 17/6/09)	-	-							
Ian Pearson[4]									
Economic Secretary to HM Treasury (from 05/10/08)	30,851	-	15,094 (FYE 30,851)	-	5 - 10	0 - 2.5	104	84	10
Paul Myners[5]									
Financial Services Secretary to HM Treasury (from 05/10/08)	-	-	-	-	-	-	-	-	-
Phil Woolas[6]									
Joint Minister of State to HM Treasury and to the Home Office (from 05/10/08)	-	-	-	-	-	-	-	-	-

4 Ian Pearson's time was shared equally between Treasury and the Department for Business, Innovation and Skills (BIS). However, his salary and pension arrangements were the responsibility of HM Treasury and are shown above, in full.

5 For performing his duties as Financial Services Secretary to HM Treasury Paul Myners did not draw a salary.

6 Phil Woolas' salary and pension arrangements remained the responsibility of Home Office and the relevant disclosures can be found in their resource accounts, accordingly.

Table 5.C: Salaries and Pensions of Senior Management

Name	2009-10 Salary range and full year equivalent (FYE) (£000)	2009-10 Benefits in kind (nearest £100)	2008-09 Salary range and full year equivalent (FYE) (£000)	2008-09 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/10 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/10 or end date (nearest £000)	CETV at 31/03/09 or start date (nearest £000)	Real increase in CETV (nearest £000)
Sir Nicholas Macpherson									
Permanent Secretary	175 – 180	2,100	180 - 185	11,700	55- 60 plus lump sum 165 - 170	2.5 - 5 plus lump sum 5 - 10	1,018	902	57
Tom Scholar									
Second Permanent Secretary (from 23/03/09)	165 – 170	-	0 - 5 (FYE 145 - 150)	-	30 - 35 plus lump sum 90 - 95	2.5 - 5 plus lump sum 5 - 10	417	354	38
Managing Director (from 11/02/08)	-		135 - 140 (FYE 135 - 140)						
John Kingman									
Second Permanent Secretary (from 22/10/07 to 03/11/08)	-	-	100 - 105 (FYE 155 - 160)	-	-	-	-	-	-
Nigel Smith[1]									
Chief Executive OGC	185 – 190	-	180 - 185	-	NA	NA	NA	NA	NA
Robert Stheeman									
Chief Executive DMO	155 – 160	-	140 - 145		10 - 15	2.5 - 5	229	177	37
Stephan Wilcke[2]	70-75								
Chief Executive APA (from 28/09/09)	(FYE 145 – 150)	-	-	-	NA	NA	NA	NA	NA
Andrew Hudson									
Managing Director (from 30/03/09)	130 – 135	-	0 – 5 (FYE 130 – 135)	-	55 - 60	2.5 - 5	956	826	74
Mark Neale									
Managing Director	120 – 125	-	115 – 120	-	40 - 45 plus lump sum 130 - 135	0 - 2.5 plus lump sum 5 - 10	859	770	35

[1] Nigel Smith has opted out of the civil service pension scheme arrangements and no employer contributions are made to an alternative scheme on his behalf.

[2] Stephan Wilcke has opted to have employer pension contributions at 20 percent of pensionable pay paid into a private pension outside the civil service pension scheme

Table 5.D: Salaries and Pensions of Senior Management continued

Name	2009-10 Salary range and full year equivalent (FYE) (£000)	2009-10 Benefits in kind (nearest £100)	2008-09 Salary range and full year equivalent (FYE) (£000)	2008-09 Benefits in kind (nearest £100)	Total accrued pension at age 60 at 31/03/10 (Range £000)	Real increase in pension at age 60 (Range £000)	CETV at 31/03/10 or end date (nearest £000)	CETV at 31/03/09 or start date (nearest £000)	Real increase in CETV (nearest £000)
Stephen Pickford Managing Director (to 31/03/10)	125 – 130	-	115 - 120	-	50 – 55 plus lump sum 160 – 165	2.5 - 5 plus lump sum 5 - 10	1,296	1,158	77
Dave Ramsden Managing Director	125 – 130	-	125 - 130	-	30 - 35 plus lump sum 95 - 100	2.5 - 5 plus lump sum 5 – 10	515	442	43
Edward Troup Managing Director (from 25/01/10)	20 - 25 (FYE 130 – 135)	-	-	-	10 - 15	2.5 - 5	207	154	41
Michael Ellam Managing Director (from 01/09/09)	50 - 55 (FYE 100-105)	-	-	-	20 – 25 plus lump sum 60 - 65	0 – 2.5 plus lump sum 2.5 - 5	285	260	14
Jonathan Taylor Managing Director (from 11/01/10)	35 - 40 (FYE 155 – 160)	-	-	-	0 - 5	0 – 2.5	11	0	11
Louise Tulett Group Director of Finance and Procurement	105 – 110	-	100 - 105	-	10 - 15 plus lump sum 30 - 35	0 – 2.5 plus lump sum 2.5 – 5	200	163	25
Emma Lindsell Corporate Services Director (from 04/01/10)	15 - 20 (FYE 80 – 85)	-	-	-	10 – 15 plus lump sum 30 - 35	5 – 10 plus lump sum 2.5 - 5	127	119	9
Ray Shostak Head of Prime Minister's Delivery Unit and Performance Management (Board Member from 03/11/08)	170 – 175	-	115 – 120 (FYE 165 - 170)	-	60 - 65	50 - 55	1,300	204	60

CETV stands for Cash Equivalent Transfer Value, explained in paragraph 20 below. The opening CETV figure may differ from the closing CETV figure in last year's accounts. This is due to the AMC Rate used in the calculation of transfer values being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. 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 2009-10 financial year, are not yet known and will, therefore, be disclosed in next year's accounts

Salary

5.8 'Salary' includes gross salary; performance pay or bonuses paid during the year, as detailed below; 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. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are shown. 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 5.E: Performance related pay of Senior Management (These disclosures have been subject to audit).

Name	2009-10 Range (£000)	2008-09 Range (£000)
Sir Nicholas Macpherson	-	10 - 15
Tom Scholar	10 - 15	N/A
John Kingman	N/A	15 - 20
Nigel Smith	-	-
Robert Stheeman	10 - 15	10 - 15
Andrew Hudson	N/A	N/A
Mark Neale	0 - 5	0 - 5
Stephen Pickford	10 - 15	10 - 15
Dave Ramsden	10 - 15	15 - 20
Edward Troup	N/A	N/A
Louise Tulett	10 - 15	10 - 15
Emma Lindsell	N/A	N/A
Ray Shostak	0 - 5	N/A
Jonathan Taylor	N/A	N/A
Michael Ellam	N/A	N/A
Sam Beckett (Director of Policy and Planning from 25/06/07 to 14/01/08)	N/A	5 - 10

5.9 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 (£64,766 from 1 April 2009) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in note 6.5 to the accounts.

Benefits in Kind

5.10 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 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

5.11 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).

5.12 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. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that choose to backdate the change) but ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and the lower rate of employee contribution.

5.13 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. Members pay contributions of 6 per cent of their ministerial salary if they have opted for the 1/50th accrual rate or 10 per cent of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8 per cent of the ministerial salary.

5.14 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

5.15 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 Retail Prices Index (RPI). 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).

5.16 Employee contributions are 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 RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

5.17 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).

5.18 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.

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

Cash Equivalent Transfer Values

5.20 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

5.21 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.

Fees of Non-Executives

Name	2009-10 Fees range (£000)	2009-10 Benefits in kind (rounded to nearest £100)	2008-09 Fees range (£000)	2008-09 Benefits in kind (rounded to nearest £100)
Sir William Sargent	5-10	-	10 – 15	-
Michael O'Higgins (from 01/10/08)	10-15	-	5 – 10 (FYE 10 – 15)	-
Sir Callum McCarthy (from 01/10/08)	5-10	-	0 – 5 (FYE 5 – 10)	-
Dame Deirdre Hutton (from 01/10/08)	5-10	-	0 – 5 (FYE 5 – 10)	-

5.22 In addition to being a non-executive member of HM Treasury Board, Sir William Sargent was also chairman of the Group Resource Audit Committee until 30 September 2008, for which he received remuneration of £0 - £5k.

5.23 Michael O'Higgins is Chairman of the Audit Commission in addition to being a Treasury non-executive director. He was appointed chairman of the Group Audit Committee on 1 October 2009, for which he received remuneration of £0 - 5k.

5.24 Prior to becoming a non-executive member of HM Treasury Board, Sir Callum McCarthy was Chairman of the FSA and a member of the Court of the Bank of England.

Fees of Independent Members of HM Treasury Audit Committees

5.25 Colin Thwaite was an independent member of the Group Resource Audit Committee until December 2009, for which he received remuneration of £5-10k. Zenna Atkins, Janet Baker and Brad Fried were independent members of the Treasury Group Audit Committee until December 2009 and then Treasury Audit Committee from January 2010 for which they received £5-10k, £5-10k and £5-10k respectively.

5.26 Colin Price, Brian Larkman and Mark Clarke were independent members of the Exchequer Funds Audit Committee, for which they received remuneration of £20-25k, £20-25k and £5 - 10k respectively.

Nicholas Macpherson
Permanent Secretary
19 July 2010

6 Audit opinion

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of HM Treasury for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Consolidated Operating Cost Statement, the Core and Consolidated Statements of Financial Position, the Core and Consolidated Statements of Cash Flows, the Core and Consolidated Statements of Changes in Taxpayer's Equity, the Consolidated Statement of Net Operating Costs by Departmental Strategic Objectives 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 Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and 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 HM Treasury's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the HM Treasury; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of HM Treasury's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows 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 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 Management Commentary (except for the table on pages 14 and 15), and the Statement of Treasury Group Compliance with Corporate Governance Code of Good Practice, 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
26 July 2010

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

7 Annual accounts

Statement of Parliamentary Supply

for the year ended 31 March 2010

								2009-10	2008-09
			Estimate			Outturn		Net Total Outturn compared with Estimate	Outturn
	Note	Gross expenditure	A-in-A	Net total	Gross expenditure	A-in-A	Net total	saving/ (excess)	Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	3	450,253	(91,925)	358,328	394,815	(76,729)	318,086	40,242	44,808,175
Request for Resources 2	3	48,500	-	48,500	28,053	-	28,053	20,447	42,094
Request for Resources 3	3	2,016,580	(11,729)	2,004,851	(22,367,255)	(3,817)	(22,371,072)	24,375,923	23,511
Total Resources	3	2,515,333	(103,654)	2,411,679	(21,944,387)	(80,546)	(22,024,933)	24,436,612	44,873,780
Non-Operating Cost A-in-A		-	(7,068,700)	(7,068,700)	-	(6,737,546)	(6,737,546)	(331,154)	-
Net Cash Requirement	5			53,051,894			45,447,736	7,604,158	88,309,709

Summary of Income Payable to the Consolidated Fund

In addition to Appropriations in Aid (A-in-A), the following income relates to the Department and is payable to the Consolidated Fund:

	Forecast 2009-10		Outturn 2009-10	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Total (note 9.2)	10,415,591	*10,938,591*	11,147,587	*11,753,647*

Key to Requests for Resources

Request for Resources 1: Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

Request for Resources 2: Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Request for Resources 3: Promoting a stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

Explanations of variances between Estimate and outturn are given in note 3 and in the management commentary.

Up until 2009-10 RfR 3 related to OGC, from 2009-10 onwards it relates to financial stability interventions. In accordance with financial reporting requirements the comparatives within the Statement of Parliamentary Supply have not been restated. However, the following reconciliation provides an analysis of the restatements that would be made to ensure year on year results are comparable. Further details are also provided in note 3 to these accounts.

The notes on pages 69 to 168 form part of these accounts.

Reconciliation of Request for Resources between 2008-09 and 2009-10: 2008-09 Resource Outturn

	2009-10 Restructure of 2008-09 RfRs £000	2008-09 RfRs structure £000
Request for Resources 1 – HM Treasury		
Departmental Expenditure Limit (DEL)		
Core Treasury	136,942	136,942
DMO	13,095	13,095
OGC	23,511	-
Annually Managed Expenditure (AME)		
Investment in Bank of England	125,768	125,768
Northern Rock Loan	-	-
Assistance to other financial institutions	-	24,788,611
Cost of capital on financial investments	-	808,878
Impairment [1]	-	18,934,881
Impairment of non current assets [1]	9,001	-
	308,317	**44,808,175**
Request for Resources 2 – UK Coinage		
Departmental Expenditure Limit (DEL)		
Manufacturing	15,172	15,172
Cost of capital on Stocks	96	96
Annually Managed Expenditure (AME)		
Metal costs	24,161	24,161
Cost of capital on Stocks	144	144
UK Cost of Capital: Investment in Royal Mint	2,521	2,521
	42,094	**42,094**
Request for Resources 3 - Financial Stability (2009-10), OGC (2008-09)		
Departmental Expenditure Limit (DEL)		
OGC	-	23,511
Annually Managed Expenditure (AME)		
Northern Rock Loan	-	-
Assistance to Financial Institutions	24,788,611	-
Cost of capital on Financial Investments	808,878	-
Impairment of investments (non cash) [1]	18,925,880	-
	44,523,369	**23,511**
Total Resource Outturn in 2008-09	**44,873,780**	**44,873,780**

[1] Impairment of £18,934,881k in RfR1 2008-09 has been restructured in 2009-10 with £9,001k of the impairment remaining in RfR1and the rest, £18,925,880k moving into RfR3

Consolidated Operating Cost Statement

for the year ended 31 March 2010

		2009-10		2008-09 (Restated)	
	Note	Core Treasury	Group Total	Core Treasury	Group Total
		£000	£000	£000	£000
Administration costs					
Staff costs	6.1	79,323	109,280	64,942	90,450
Other administration costs	7	118,390	140,917	96,209	116,197
Gross administration costs		**197,713**	**250,197**	**161,151**	**206,647**
Operating income	9	(60,663)	(77,177)	(45,293)	(59,063)
Net administration costs		**137,050**	**173,020**	**115,858**	**147,584**
Programme costs					
Request for Resources 1: HM Treasury Group					
Expenditure	8	146,553	155,764	134,484	141,868
Exceptional item – building	8	(3,123)	(3,123)	9,001	9,001
Less: income	8 & 9	(142,102)	(145,678)	(512,655)	(516,755)
		1,328	**6,963**	**(369,170)**	**(365,886)**
Request for Resources 2: UK Coinage					
Expenditure	8	28,053	28,053	42,094	42,094
Less: income	8 & 9	(5,137)	(5,137)	(4,588)	(4,588)
		22,916	**22,916**	**37,506**	**37,506**
Request for Resources 3: Financial Stability					
Expenditure	8	2,515,315	2,515,315	689,805	689,805
Exceptional item – creation/(reversal) of APS provision	8	(25,000,000)	(25,000,000)	25,000,000	25,000,000
Exceptional item – impairment of financial assets	8	109,407	109,407	18,925,880	18,925,880
Less: income	8 & 9	(5,308,504)	(5,308,504)	(2,251,861)	(2,251,861)
		(27,683,782)	**(27,683,782)**	**42,363,824**	**42,363,824**
Expenditure outside Supply process					
Banking and gilts registration services	3.3 & 8	11,992	11,992	11,305	11,305
Net programme costs/(income)		**(27,647,546)**	**(27,641,911)**	**42,043,465**	**42,046,749**
Total net operating costs/(income)		**(27,510,496)**	**(27,468,891)**	**42,159,323**	**42,194,333**

The notes on pages 69 to 168 form part of these accounts.

Core Statement of Financial Position

as at 31 March 2010

Core Treasury

	Note	2009-10 £000	2008-09 (Restated) £000	2007-08 (Restated) £000
Non-current assets				
Property, plant and equipment	11	103,860	101,463	113,378
Intangible assets	12	1,776	2,266	1,838
Financial Assets:				
Available-for-Sale	13a	65,326,304	23,050,172	2,306,365
Derivative financial assets expiring after more than one year	13b	167,806	18,594	-
Loans and receivables				
Loans and advance to financial institutions	14.1	57,498,732	47,059,020	19,315,594
Trade and other receivables due after more than one year	14.2	1,523,460	2,690,707	3
Total non-current assets		**124,621,938**	**72,922,222**	**21,737,178**
Current assets				
Derivative financial assets expiring within one year	13b	363,809	1,027,213	-
Trade and other receivables due within one year	14.2	2,052,112	2,030,686	105,001
Inventories	15	6,778	5,883	8,045
Cash and cash equivalents	16	1,243	3,152	1,555
Total current assets		**2,423,942**	**3,066,934**	**114,601**
Total assets		**127,045,880**	**75,989,156**	**21,851,779**
Current liabilities				
Trade and other payables falling due within one year	17.1	(1,400,900)	(1,961,691)	(129,815)
Provisions due within one year	19	(40,271)	(379,889)	(19,300,854)
Derivative financial liabilities expiring within one year	13c	(393,063)	(445,081)	-
Total current liabilities		**(1,834,234)**	**(2,786,661)**	**(19,430,669)**
Non-current assets plus/less net current assets/(liabilities)		**125,211,646**	**73,202,495**	**2,421,110**
Non-current liabilities				
Financial guarantees	17.3	(2,799,366)	(3,224,736)	-
Derivative financial liabilities expiring after more than one year	13c	(1,426,001)	(21,721)	-
Other payables: amounts falling due after more than one year	17.1	(134,137)	(132,209)	(133,657)
Provisions due after more than one year	19	(946)	(25,001,253)	(1,484)
Total non-current liabilities		**(4,360,450)**	**(28,379,919)**	**(135,141)**
Assets less liabilities		**120,851,196**	**44,822,576**	**2,285,969**
Taxpayers' equity				
General fund		107,402,703	42,762,218	1,277,048
Available-for-Sale reserve		13,445,021	2,065,563	1,007,409
Hedging reserve		1,441	(6,717)	-
Revaluation reserve		2,031	1,512	1,512
Total taxpayers' equity		**120,851,196**	**44,822,576**	**2,285,969**

The notes on pages 69 to 168 form part of these accounts.

Sir Nicholas Macpherson
Permanent Secretary
19 July 2010

Consolidated Statement of Financial Position

as at 31 March 2010

Group

	Note	2009-10 £000	2008-09 (Restated) £000	2007-08 (Restated) £000
Non-current assets				
Property, plant and equipment	11	104,451	101,934	113,958
Intangible assets	12	5,332	2,968	2,743
Financial Assets				
Available-for-Sale	13a	65,326,654	23,050,522	2,306,715
Derivative financial assets expiring after more than one year	13b	167,806	18,594	-
Loans and receivables				
Loans and advance to financial institutions	14.1	57,498,732	47,059,020	19,315,594
Trade and other receivables due after more than one year	14.2	1,523,467	2,690,716	12
Total non-current assets		**124,626,442**	**72,923,754**	**21,739,022**
Current assets				
Derivative financial assets expiring within one year	13b	363,809	1,027,213	-
Trade and other receivables due within one year	14.2	2,055,988	2,034,692	110,074
Inventories	15	6,778	5,883	8,045
Cash and cash equivalents	16	1,956	4,975	3,504
Total current assets		**2,428,531**	**3,072,763**	**121,623**
Total assets		**127,054,973**	**75,996,517**	**21,860,645**
Current liabilities				
Trade and other payables falling due within one year	17.1	(1,413,931)	(1,972,331)	(139,521)
Provisions due within one year	19	(41,773)	(382,449)	(19,305,494)
Derivative financial liabilities expiring within one year	13c	(393,063)	(445,081)	-
Total current liabilities		**(1,848,767)**	**(2,799,861)**	**(19,445,015)**
Non-current assets plus/less net current assets/(liabilities)		**125,206,206**	**73,196,656**	**2,415,630**
Non-current liabilities				
Financial guarantees	17.3	(2,799,366)	(3,224,736)	-
Derivative financial liabilities expiring after more than one year	13c	(1,426,001)	(21,721)	-
Other payables: amounts falling due after more than one year	17.1	(137,296)	(132,209)	(133,824)
Provisions due after more than one year	19	(9,995)	(25,011,211)	(12,513)
Total non-current liabilities		**(4,372,658)**	**(28,389,877)**	**(146,337)**
Assets less liabilities		**120,833,548**	**44,806,779**	**2,269,293**
Taxpayers' equity				
General fund		107,385,010	42,746,333	1,260,284
Available-for-Sale reserve		13,445,021	2,065,604	1,007,450
Hedging reserve		1,441	(6,717)	-
Revaluation reserve		2,076	1,559	1,559
Total taxpayers' equity		**120,833,548**	**44,806,779**	**2,269,293**

The notes on pages 69 to 168 form part of these accounts.

Sir Nicholas Macpherson
Permanent Secretary
19 July 2010

Core Statement of Cash Flows

for the year ended 31 March 2010

Core Treasury

	Note	2009-10 £000	2008-09 (Restated) £000
Cash flows from operating activities			
Net operating cost/(income)		(27,510,496)	42,159,323
Financial guarantee adjustment (IAS 39)		-	(98,940)
Adjustment for non-supply costs	3.3 & 8	(11,992)	(11,305)
Adjustment for non-cash transactions	8.1	22,234,907	(44,664,651)
Changes in working capital other than cash	18	(955,003)	1,373,512
Inter departmental transfer		11,819	11,462
Movements in financial instruments passing through OCS		170,118	124,537
Use of provisions	19	17,735	18,782,432
Of which non-cash	19	(17,165)	
Net cash outflow/(inflow) from operating activities		**(6,060,077)**	**17,676,370**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	1,516	1,047
Purchase of intangible assets	12	602	1,555
Donated assets	11	-	(1)
Proceeds of disposals of property, plant and equipment	9.3	-	(22)
Purchase of financial assets	13a & 14.1	52,134,177	70,863,704
Cash received from derivative financial instruments	13c	(1,400,000)	-
Disposal from sales of shares held in financial institutions	13a	(9,097,131)	-
(Repayments) from financial institutions and other bodies	14.1	(1,912,246)	(4,547,657)
Net cash outflow / (inflow) from investing		**39,726,918**	**66,318,626**
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		(45,425,959)	(88,890,715)
Surrender of current year supply		-	612,000
Cash received from Consolidated Fund (non supply)		-	(1,555,162)
Capital element of payments in respect of on balance sheet PFI contracts		1,447	1,344
Advance from the Contingencies Fund		-	(8,409,742)
Repayment to the Contingencies Fund		-	8,409,742
Net financing		**(45,424,512)**	**(89,832,533)**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**11,757,671**	**5,837,537**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		(11,759,580)	(5,835,940)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	**16**	**(1,909)**	**1,597**
Cash and cash equivalents at the beginning of the period	**16**	**3,152**	**1,555**
Cash and cash equivalents at the end of the period	**16**	**1,243**	**3,152**

The notes on pages 69 to 168 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2010

Group

	Note	2009-10 £000	2008-09 (Restated) £000
Cash flows from operating activities			
Net operating cost/(income)		(27,468,891)	42,194,333
Financial guarantee adjustment (IAS 39)		-	(98,940)
Adjustment for non-supply costs	3.3 & 8	(11,992)	(11,305)
Adjustment for non-cash transactions	8.1	22,231,131	(44,667,987)
Changes in working capital other than cash	18	(961,498)	1,372,591
Inter departmental transfer		(20)	34
Movements in financial instruments passing through OCS		170,118	124,534
Use of provisions	19	20,714	18,786,381
Of which non-cash	19	(17,165)	
Net cash outflow/(inflow) from operating activities		**(6,037,603)**	**17,699,641**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	2,119	1,141
Purchase of intangible assets	12	3,334	2,067
Donated assets	11	-	(1)
Proceeds of disposals of property, plant and equipment	9.3	(7)	(36)
Purchase of financial assets	13a & 14.1	52,134,177	70,863,704
Cash received from derivative financial instruments	13c	(1,400,000)	-
Disposal from sales of shares held in financial institutions	13a	(9,097,131)	-
Repayments from financial institutions and other bodies	14.1	(1,912,246)	(4,547,657)
Net cash outflow / (inflow) from investing activities		**39,730,246**	**66,319,218**
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		(45,451,856)	(88,916,520)
Surrender of current year supply		-	612,000
Cash received from Consolidated Fund (non supply)		-	(1,555,162)
Capital element of payments in respect of on balance sheet PFI contracts		1,447	1,344
Advance from the Contingencies Fund		-	(8,409,742)
Repayment to the Contingencies Fund		-	8,409,742
Net financing		**(45,450,409)**	**(89,858,338)**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**11,757,766**	**5,839,479**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		(11,760,785)	(5,838,008)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	**16**	**(3,019)**	**1,471**
Cash and cash equivalents at the beginning of the period	**16**	**4,975**	**3,504**
Cash and cash equivalents at the end of the period	**16**	**1,956**	**4,975**

The notes on pages 69 to 168 form part of these accounts.

Core Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	Core Treasury	Core Treasury	Core Treasury	Core Treasury	Core Treasury
	£000	£000	£000	£000	£000
Balance at 31 March 2009 (Restated)	**42,762,218**	**2,065,563**	**(6,717)**	**1,512**	**44,822,576**
Changes in accounting policy	-	-	-	-	-
Balance at 1 April 2009	**42,762,218**	**2,065,563**	**(6,717)**	**1,512**	**44,822,576**
Changes in taxpayers' equity for 2009-10					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	519	**519**
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-
Net gain/(loss) on revaluation of investments	-	11,349,304	-	-	**11,349,304**
Gain/(loss) foreign currency forward contracts	-	-	8,158	-	**8,158**
Receipt of donated assets	-	-	-	-	-
Release of reserves to the operating cost statement	-	30,154	-	-	**30,154**
Non-cash charges - cost of capital	3,095,661	-	-	-	**3,095,661**
Non-cash charges - auditor's remuneration	270	-	-	-	**270**
Banking and gilts registration services	11,992	-	-	-	**11,992**
Transfers between reserves	-	-	-	-	-
Inter departmental transfers	(11,819)	-	-	-	**(11,819)**
IAS 39 financial guarantee adjustment	-	-	-	-	-
Net operating (cost)/income for the year	27,510,496	-	-	-	**27,510,496**
Total recognised income and expense for 2009-10	**30,606,600**	**11,379,458**	**8,158**	**519**	**41,994,735**
Net Parliamentary Funding - drawn down	45,425,959	-	-	-	**45,425,959**
Net Parliamentary Funding - deemed	-	-	-	-	-
Consolidated Fund standing services	-	-	-	-	-
Contingencies Fund advance	-	-	-	-	-
Repayment to Contingencies Fund	-	-	-	-	-
Current year Supply surrendered	-	-	-	-	-
Consolidated Fund payable for cash unspent	803	-	-	-	**803**
Consolidated Fund receivable for cash not drawn down	(5,513)	-	-	-	**(5,513)**
Prepayment of CFER's to Consolidated Fund	(240,000)	-	-	-	**(240,000)**
CFERs payable to the Consolidated Fund	(11,147,364)	-	-	-	**(11,147,364)**
Balance at 31 March 2010	**107,402,703**	**13,445,021**	**1,441**	**2,031**	**120,851,196**

The notes on pages 69 to 168 form part of these accounts.

Core Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2009

Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	Core Treasury	Core Treasury	Core Treasury	Core Treasury	Core Treasury
	£000	£000	£000	£000	£000
Balance at 31 March 2008	1,254,044	1,007,409	-	1,512	2,262,965
IFRS changes:					
Accrued employee benefits	(1,846)	-	-	-	**(1,846)**
Change in discount rate of provisions	12	-	-	-	**12**
Change in PFI creditor	24,838	-	-	-	**24,838**
Restated balance at 1 April 2008	1,277,048	1,007,409	-	1,512	2,285,969
Changes in taxpayers' equity for 2008-09					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	-	**-**
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	**-**
Net gain/(loss) on revaluation of investments	-	1,058,154	-	-	**1,058,154**
Gain/(loss) foreign currency forward contracts	-	-	(6,717)	-	**(6,717)**
Receipt of donated assets	1	-	-	-	**1**
Release of reserves to the operating cost statement	-	-	-	-	**-**
Non-cash charges - cost of capital	935,900	-	-	-	**935,900**
Non-cash charges - auditor's remuneration	165	-	-	-	**165**
Banking and gilts registration services	11,305	-	-	-	**11,305**
Transfers between reserves	-	-	-	-	**-**
Inter departmental transfers	(11,462)	-	-	-	**(11,462)**
IAS 39 financial guarantee adjustment	98,940	-	-	-	**98,940**
Net operating (cost)/income for the year	(42,159,323)	-	-	-	**(42,159,323)**
Total recognised income and expense for 2008-09	(41,124,474)	1,058,154	(6,717)	-	(40,073,037)
Net Parliamentary Funding - drawn down	88,890,715	-	-	-	**88,890,715**
Net Parliamentary Funding - deemed	901	-	-	-	**901**
Consolidated Fund standing services	1,555,162	-	-	-	**1,555,162**
Contingencies Fund advance	8,409,742	-	-	-	**8,409,742**
Repayment to Contingencies Fund	(8,409,742)	-	-	-	**(8,409,742)**
Current year Supply surrendered	(612,000)	-	-	-	**(612,000)**
Consolidated Fund receivable for cash not drawn down	5,513	-	-	-	**5,513**
CFERs payable to the Consolidated Fund	(7,230,647)	-	-	-	**(7,230,647)**
Balance at 31 March 2009	42,762,218	2,065,563	(6,717)	1,512	44,822,576

The notes on pages 69 to 168 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

Group

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Total Reserves
	Group	Group	Group	Group	Group
	£000	£000	£000	£000	£000
Balance at 31 March 2009 (Restated)	**42,746,333**	**2,065,604**	**(6,717)**	**1,559**	**44,806,779**
Reclassification of reserves	-	(41)	-	41	-
Balance at 1 April 2009	**42,746,333**	**2,065,563**	**(6,717)**	**1,600**	**44,806,779**
Changes in taxpayers' equity for 2009-10					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	519	**519**
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	-
Net gain/(loss) on revaluation of investments	-	11,349,304	-	-	**11,349,304**
Gain/(loss) foreign currency forward contracts	-	-	8,158	-	**8,158**
Receipt of donated assets	-	-	-	-	-
Release of reserves to the operating cost statement	-	30,154	-	-	**30,154**
Non-cash charges - cost of capital	3,097,250	-	-	-	**3,097,250**
Non-cash charges - auditor's remuneration	330	-	-	-	**330**
Banking and gilts registration services	11,992	-	-	-	**11,992**
Consolidated Fund standing services	-	-	-	-	-
Transfers between reserves	43	-	-	(43)	-
Inter departmental transfers	20	-	-	-	**20**
Prior year adjustments	-	-	-	-	-
IAS 39 financial guarantee adjustment	-	-	-	-	-
Net operating (cost)/income for the year	27,468,891	-	-	-	**27,468,891**
Total recognised income and expense for 2009-10	**30,578,526**	**11,379,458**	**8,158**	**476**	**41,966,618**
Net Parliamentary Funding - drawn down	45,451,856	-	-	-	**45,451,856**
Net Parliamentary Funding - deemed	-	-	-	-	-
Consolidated Fund standing services	-	-	-	-	-
Contingencies Fund advance	-	-	-	-	-
Repayment to Contingencies Fund	-	-	-	-	-
Current year Supply surrendered	-	-	-	-	-
Consolidated Fund payable for cash unspent	106	-	-	-	**106**
Consolidated Fund receivable for cash not drawn down	(4,224)	-	-	-	**(4,224)**
Prepayment of CFER's to Consolidated Fund	(240,000)	-	-	-	**(240,000)**
CFERs payable to the Consolidated Fund	(11,147,587)	-	-	-	**(11,147,587)**
Balance at 31 March 2010	**107,385,010**	**13,445,021**	**1,441**	**2,076**	**120,833,548**

The notes on pages 69 to 168 form part of these accounts.

For the year ended 31 March 2009
Group

	General Fund Group £000	Available-for-Sale Reserve Group £000	Hedging Reserve Group £000	Revaluation Reserve Group £000	Total Reserves Group £000
Balance at 31 March 2008	**1,237,587**	**1,007,450**	**-**	**1,559**	**2,246,596**
IFRS changes:					
Accrued employee benefits	(2,196)	-	-	-	**(2,196)**
Change in discount rate of provisions	55	-	-	-	**55**
Change in PFI creditor	24,838	-	-	-	**24,838**
Restated balance at 1 April 2008	**1,260,284**	**1,007,450**	**-**	**1,559**	**2,269,293**
Changes in taxpayers' equity for 2008-09					
Net gain/(loss) on revaluation of property, plant and equipment	-	-	-	-	**-**
Net gain/(loss) on revaluation of intangible assets	-	-	-	-	**-**
Net gain/(loss) on revaluation of investments	-	1,058,154	-	-	**1,058,154**
Gain/(loss) foreign currency forward contracts	-	-	(6,717)	-	**(6,717)**
Receipt of donated assets	1	-	-	-	**1**
Reclassification of reserves	-	-	-	-	**-**
Release of reserves to the operating cost statement	-	-	-	-	**-**
Non-cash charges - cost of capital	937,439	-	-	-	**937,439**
Non-cash charges - auditor's remuneration	205	-	-	-	**205**
Banking and gilts registration services	11,305	-	-	-	**11,305**
Transfers between reserves	-	-	-	-	**-**
Inter departmental transfers	(34)	-	-	-	**(34)**
IAS 39 financial guarantee adjustment	98,940	-	-	-	**98,940**
Net operating (cost)/income for the year	(42,194,333)	-	-	-	**(42,194,333)**
Total recognised income and expense for 2008-09	**(41,146,477)**	**1,058,154**	**(6,717)**	**-**	**(40,095,040)**
Net Parliamentary Funding - drawn down	88,916,520	-	-	-	**88,916,520**
Net Parliamentary Funding - deemed	965	-	-	-	**965**
Consolidated Fund standing services	1,555,162	-	-	-	**1,555,162**
National Insurance Fund	-	-	-	-	**-**
Supply payable/(receivable) adjustment	-	-	-	-	**-**
Excess vote - Prior Year	-	-	-	-	**-**
Contingencies Fund advance	8,409,742	-	-	-	**8,409,742**
Repayment to Contingencies Fund	(8,409,742)	-	-	-	**(8,409,742)**
Current year Supply surrendered	(612,000)	-	-	-	**(612,000)**
Consolidated Fund receivable for cash not drawn down	4,224	-	-	-	**4,224**
CFERs payable to the Consolidated Fund	(7,232,345)	-	-	-	**(7,232,345)**
Balance at 31 March 2009	**42,746,333**	**2,065,604**	**(6,717)**	**1,559**	**44,806,779**

The notes on pages 69 to 168 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Strategic Objective

for the year ended 31 March 2010

			2009-10			2008-09 (Restated)
Objectives:	**Gross Expenditure £000**	**Income £000**	**Net £000**	**Gross Expenditure £000**	**Income £000**	**Net £000**
1a	4,456	(155)	**4,301**	3,195	(178)	**3,017**
1b	7,379	(147)	**7,232**	7,358	(563)	**6,795**
1c	18,532	(35)	**18,497**	19,920	(332)	**19,588**
1d	48,779	(11,125)	**37,654**	44,583	(12,636)	**31,947**
1e	66,546	(6,271)	**60,275**	76,971	(6,270)	**70,701**
Total DSO 1	**145,692**	**(17,733)**	**127,959**	**152,027**	**(19,979)**	**132,048**
2a	70,747	(46,607)	**24,140**	65,160	(210,494)	**(145,334)**
2b	5,674	(140)	**5,534**	5,675	(470)	**5,205**
2c	3,446	(131)	**3,315**	3,406	(327)	**3,079**
2d	15,794	(7,900)	**7,894**	14,397	(1,386)	**13,011**
2e	2,758,483	(5,451,918)	**(2,693,435)**	832,557	(2,593,205)	**(1,760,648)**
2f	3,949	(338)	**3,611**	2,236	(145)	**2,091**
2g	2,017	(6)	**2,011**	2,336	(57)	**2,279**
2h	9,691	(8,277)	**1,414**	12,379	(514)	**11,865**
Total DSO 2	**2,869,801**	**(5,515,317)**	**(2,645,516)**	**938,146**	**(2,806,598)**	**(1,868,452)**
Other costs (DCO)	(54,172)	(3,446)	**(57,618)**	1,546	(5,690)	**(4,144)**
Exceptional items	(24,893,716)	-	**(24,893,716)**	43,934,881	-	**43,934,881**
Net operating cost/(income)	**(21,932,395)**	**(5,536,496)**	**(27,468,891)**	**45,026,600**	**(2,832,267)**	**42,194,333**
Reconciliation to Resource Budget outturn						
Net operating cost/(income), as above			**(27,468,891)**			**42,194,333**
Add non-budget income:						
Pool Re			38,973			92,112
Other			6,490			3,828
Add non-voted expenditure:						
Civil List, net (other)			8,259			8,259
Royal Household Pensions (other)			2,571			2,360
Resource Budget outturn			**(27,412,598)**			**42,300,892**

The Department's Strategic Objectives for 2009-10 are as follows:

DSO 1	Maintain sound public finances
1a	Meeting the obligations of the Fiscal Responsibility Bill;
1b	Ensuring the tax yield is sustainable and risks managed;
1c	Managing public spending;
1d	Professionalising and modernising the finance and procurement functions in government;
1e	Managing government cash, debt & reserves efficiently and effectively.
DSO 2	Ensure high and sustainable levels of economic growth, well-being and prosperity for all
2a	Supporting low inflation;
2b	Promoting efficiency and fairness of the tax system;
2c	Improving incentives and means to work; supporting children and pensioners; and helping people plan and save for the future;
2d	Improving the quality and value for money of the public services;
2e	Supporting fair, stable and efficient financial markets;
2f	Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst performing regions;
2g	Protecting the environment in an economically efficient and sustainable way;
2h	Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.

The Department's Corporate Objectives for 2009-10 are:

DCO: deliver effectively and efficiently, and remain a strong, respected and professional economics and finance ministry.	
1	Managing our work, performance and risk;
2	Managing our people;
3	Managing our finances;
4	Managing our knowledge and information systems;
5	Managing our relationship with Ministers and Parliament;
6	Managing our stakeholders and communication;
7	Managing our infrastructure and estate securely and sustainably.

For the purpose of administration costs and income, allocation to DSOs is in accordance with estimates made by relevant managers within the Department.

Programme costs and income are allocated at account code level to either a single or multiple DSOs, whichever is relevant.

Where costs and income are not specific to individual DSOs e.g. corporate overheads, they are allocated based on the proportion of directly attributed costs or income to each DSO. For example administration corporate overhead costs are apportioned according to the allocation of direct administration costs to DSOs.

Items not falling under one of the DSOs include the salary of the Prime Minister and the Government Whips.

DSO 2a includes 50 per cent of the dividend received by Treasury for its investment in the Bank of England which has greatly reduced in 2009-10, contributing £139m towards the increase of DSO 2a. The remaining 50 per cent of the dividend from the Bank is allocated to DSO 2e.

HM Treasury has continued its role to reinforce financial stability and increase confidence in the markets with these services being allocated against DSO 2e, hence the increase.

The direct costs of the DMO (£13.2m in 2009-10 and £9.8m in 2008-09) and OGC (£20.4m in 2009-10 and £16.5m in 2008-09) are attributable to DSOs 1e and 1d respectively.

The notes on pages 69 to 168 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate to the public sector. Details of 2009-10 FReM can be found on www.hm-treasury.gov.uk/frem_index.htm.

HM Treasury is adopting IFRS as interpreted by the FReM for the first time in these accounts. As part of this process, IFRS 1 – *First time Adoption of International Financial Reporting Standards* (modified by FReM) has been applied in arriving at the opening IFRS statement of financial position as at 1 April 2008. Please see note 2 for reconciliation between 2008-09 published HM Treasury Accounts under UK GAAP and 2008-09 Accounts under IFRS.

Where the FReM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare two additional primary statements, the Statement of Parliamentary Supply and supporting notes and the consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes. The Statement of Parliamentary Supply shows outturn against Estimate in terms of the net resource requirement and the Net Cash Requirement. The consolidated Statement of Operating Cost by Departmental Aim and Objectives shows the Department's income and expenditure by the objectives agreed with ministers.

HM Treasury has been issued a special accounts direction, allowing it to account on a fair value basis, the interests in public bodies outside the departmental boundary where there is observable market data. The accounts direction also allows HM Treasury's investment in the Bank of England to be valued at the net assets value as set out in the Bank of England's audited financial statements. This overrides the requirement in the FReM (paragraph 9.2.7 part c) to report interest in public bodies outside the departmental boundary at historical cost.

IFRSs in issue but not yet effective

The 2009-2010 FReM is silent on the cut-off point for application of EU adopted IFRS in preparation of financial statements. These accounts apply all EU adopted IFRS and Interpretations that have an effective date of application of 1 April 2009, or earlier. As a result, the following EU approved accounting standards and interpretations have not been adopted in these accounts:

- Amendment to IAS 32 Financial Instruments: Presentation (effective from 1 February 2010): Classification of Rights Issues - Current practice requires rights issues offered for a fixed amount of foreign currency to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment is not applicable to these financial statements.

- Amendments to IFRIC 9 and IAS 39 Embedded Derivatives (effective from 30 June 2009): – This amendment clarifies that a reassessment of embedded derivatives is required whenever a financial asset has been reclassified out of the fair value through profit or loss category. This amendment is not applicable to these financial statement.

- IFRIC 18 Transfers of Assets from Customers (effective from 1 July 2009) - is aimed at the utilities industry, clarifying the requirements to recognise an asset (at fair value) when there is an agreement in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use to provide the customer with a supply of goods or services. Irrespective of ownership, recognition is dependent on control of the asset. This standard is not applicable to these financial statements.

- IFRIC 17 Distributions of Non-Cash Assets to Owners (effective from 1 July 2009) – This applies to the entity making the distribution, not to the recipient. It provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. This standard is not applicable to these financial statements.
- Revised First Time adoption of IFRS (effective from 1 July 2009) – On 28 January 2010, the IASB amended IFRS 1 to exempt first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*. The amendment gives first-time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers. The IFRS 7 amendment introduced in March 2009 has already been adopted in these financial statements.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective from 1 July 2009) – This amendment provides clarification on two issues in relation to hedge accounting - identifying inflation as a hedged risk or portion; and hedging with options. This amendment is not applicable to these financial statements.
- Revised IFRS 3 Business Combinations (effective from 1 July 2009) – This amendment is based around greater emphasis on fair value, notably at the point control is transferred, and giving emphasis to what is transferred as consideration (contract value), not acquisition costs, e.g. expensing transaction costs. This amendment is not applicable to these financial statements.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective date 1 July 2009) – This interpretation provides guidance on accounting for hedges of net investments in foreign operations in an entity's consolidated financial statements. This amendment is not applicable to these financial statements.

1.1 Accounting convention

These accounts have been prepared 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

These accounts comprise a consolidation of:

- Core department (core Treasury) which also includes Infrastructure Finance Unit Limited (IFUL)
- Debt Management Office (DMO)
- Asset Protection Agency (APA)
- The Office of Government Commerce (OGC)

APA, IFUL and DMO also produce and publish their own accounts. Material transactions between entities included in the consolidation are eliminated.

IFUL is included in core Treasury as it is not an arms length body and is only created as a vehicle for the government to lend to private sector. All functions (staff, office accommodation, etc) of IFUL are within core HM Treasury.

The following entities are not consolidated as they fall outside of the departmental boundary as defined by the FReM. Financial information about them may be obtained from their separately published annual reports and accounts and extracts from their accounts are shown in note 13.

- The Royal Mint and Buying Solutions (Trading Funds)
- Bank of England
- Northern Rock Plc
- Northern Rock (Asset Management) Plc
- Bradford and Bingley Plc
- Lloyds Banking Group Plc
- Royal Bank of Scotland Group Plc
- Deposits Management (Heritable) Limited
- UK Financial Investments Limited
- Partnership UK 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 the Department's Resource 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 and the Contingencies Fund.

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

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

In line with 2009-10 FReM, assets are carried at fair value, using depreciated historical cost as a proxy for assets that have short useful lives or low values. This includes assets held as leasehold improvements, fixtures and fittings, IT equipment and intangibles.

Cost of assets in furniture and equipment, IT equipment and software and licenses procured before 1 April 2006 has been indexed to current cost up to this date.

For land and buildings, the 2009-10 FReM requires departments to hold land and buildings at valuation. Accordingly, they are professionally valued, at existing use, every five years or when material changes are known to have arisen and are subject to an interim professional review three years after each full valuation, and an annual review by the Valuation Office Agency.

Antiques are professionally valued once every five years and are stated at market value as at 31 March 2010, based upon a valuation performed by Bonhams in May 2005.

For land and buildings and antiques, any upward revaluation is posted to the revaluation reserve unless deemed to reverse a previous impairment, in which case it is charged to the OCS. Any subsequent decrease in carrying value is charged to the OCS unless deemed to be temporary (reversing within three years) then it is charged to the revaluation reserve. On sale of the asset any remaining balance in the revaluation reserve is released to the OCS.

Assets under construction are shown at accumulated cost. Depreciation does not commence until the asset is completed and brought into service. They are professionally valued, at existing use, every five years or when material changes are known to have arisen.

The accounting for the flex contract has been assessed under IFRC 12 and IFRIC 4. The purchase of exclusive assets (HM Treasury's as per IFRIC 4) required to run the service are included on HM Treasury's Statement of Financial Position and depreciated across their useful econimc life. Assets purchased but not controlled by HM Treasury are to be charged to the OCS across the life of the contact. The cost of the IT service is charged direct to the OCS

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	5 to 10 years
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	10 to 15 years

Asset Protection Agency's assets are depreciated over 3 years which is in line with the estimated life of the agency.

Depreciation is charged in the month following acquisition up to the month prior to disposal. Freehold land and antiques are not depreciated.

1.5 Development expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the 2009-10 FReM, which has been adapted from IAS 38 Intangible Assets to take account of the considerations relevant for not-for-profit entities. Expenditure incurred on the development of the release of version 1.1 of TAPS software by the APA has been capitalised. Release of version 1.2 is included under Assets Under Construction and will be capitalised as software when finally brought into use.

1.6 Inventories

HM Treasury holds undistributed, finished coins as inventory in its balance sheet. The inventory is controlled by the Mint and held at their site in Llantrisant, Wales. Inventory is held at the lower of cost and net realisable value (NRV). Method of valuation is first in, first out (FIFO). Inventory cost is considered to be production cost, based on direct materials, labour and production overheads. Returned scrap and obsolete coinage continues to belong to HM Treasury and is shown in the balance sheet at NRV as scrap metal, prior to being sold on (see notes 15 and 23.1).

1.7 Revenue recognition and operating income

Operating income relates directly to the operating activities of the Department. It includes recharges at full cost for services provided, costs recoverable from other bodies, fees from financial interventions and investment income. It includes budgeted and non-budgeted income arising from the activities of HM Treasury, some of which is used to offset operational costs ("appropriated-in-aid") and some of which is payable to the Consolidated Fund ("not appropriated-in-aid"). Income from Pool Re is payable to HM Treasury out of surplus funds recognised after a lapsed period.

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

1.8 Administration and programme expenditure

The Operating Cost Statement (OCS) is analysed between administration and programme costs. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in Public Expenditure System paper (PES(2004)10). Net administration costs reflect the costs of running the Department. Programme costs reflect non-administration costs, including disbursements by the Department in support of financial services sector interventions and policies.

1.9 Capital charge

A non-cash charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent (2008-09: 3.5 per cent) on the average carrying amount of all assets less liabilities except for:

- where individual rates of return have been set for investments in the Royal Mint (5.1 per cent, 2008-09: 5.1 per cent) and Buying Solutions (6.5 per cent, 2008-09: 6.5 per cent) which are applied to the underlying net assets of each body;
- loan investments with a higher coupon rate of return such as the Partnership UK loan stock (6.0 per cent, 2008-09: 6.0 per cent);
- donated assets, assets financed by grants and cash balances with the Office of HM Paymaster General where the charge is nil;
- assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund, where the charge is nil.

From 2010-11 the requirement to include a charge to reflect the cost of capital has been removed from the FReM. If this had been applied in 2009-10 this would have resulted in a £3.1 billion increase in Group net operating income.

1.10 Foreign exchange

Transactions, which are denominated in foreign currencies, are translated into sterling at the rates of exchange ruling at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the OCS, except when deferred in equity as qualifying cash flow hedges, for example, the foreign currency discounted fees receivable on the Credit Guarantee Scheme.

Foreign currency gains and losses on monetary assets classified as Available-for-Sale are recognised in the OCS.

1.11 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in note 6, cover the majority of past and present employees. The defined benefit schemes are unfunded and are contributory. The Department recognises the expected cost of these elements on 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 PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

1.12 Early departure costs

The Department is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides for the costs when the early retirement is agreed and binding on the Department, effectively charging the full cost at the time of the decision and holding this in a provision. A provision has been established for the total liability falling on the Department for all agreed early retirement cases gross of any advanced funding made. The Early Retirement provision is discounted using the pension's discount rate (as per the PES guidance (2010) 03). The liability shown in the balance sheet has been discounted using a discount rate of 1.8 per cent (2008-09: 3.2 per cent).

1.13 Surplus property for disposal

Leases on vacant leasehold properties are regarded as onerous contracts under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. Therefore, future liabilities on leaseholds leases are provided for, and subsequently payments under the leases are charged against the provision. These liabilities are assessed on the basis of the net present value of the future cash flows associated with the lease, discounted at 2.2 per cent (2008-09: 2.2 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 International Financial Reporting Interpretations Committee (IFRIC 12) – "Service Concession Arrangements principles". 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.

As specified under IFRIC 12, the service concession arrangement obliges the private sector operator to provide the services related to the infrastructure on behalf of HM Treasury. In addition, HM Treasury controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

HM Treasury has recognised the infrastructure (which is a building – One Horse Guards Road) as part of its Property, plant and equipment and valued it at market value, consistent with the requirements of FReM. The associated payable for the infrastructure asset is being 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. The service charge includes an annual indexation adjustment that is treated as a contingent rent in accordance with IAS 17 and is charged to the operating cost statement as it is incurred.

The PFI contract is assessed under IAS 39 - *Financial Instruments Recognition and Measurement* to determine whether there are any embedded derivatives in the contract, and if so, whether these embedded derivatives are closely related and do not require separate fair valued and disclosed. No embedded derivatives have been identified which need to be separately accounted for in the financial statements.

1.15 Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.16 Value Added Tax

Many activities of the Department 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 balance sheet date.

The discount rate applied to general provisions is 2.2 per cent (with the exception of Early Retirement Provision which is discounted at 1.8 per cent), which is in line with the guidance issued by PES(2004) 04. The year on year changes to the discount rate are charged to the OCS.

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

Provisions include surplus leasehold property, financial stability, early departure and pension commitment, onerous contracts, legal costs and indemnity to the Debt Management Account (DMA) – HM Treasury has indemnified the DMA against any losses it suffers on the difference between the rates at which the funds are raised for the Asset Purchase Facility to deposit with the Bank and the rate received by the DMO on its deposit with the Bank (which is the Bank Rate). Although the nature of the guarantee is similar to a derivative, this is not an arms length market-based, commercial contract. The guarantee is an intra-governmental assurance between two public bodies, HM Treasury and DMA, whereby the former promises the latter that they will not be adversely affected by a central government scheme which is outside the latter's control. Therefore, the actual cost incurred till 31 March 2010 has been provided for. This amount will fluctuate based on the future cashflows.

Generally, contingent liabilities and contingent assets are not recognised as liabilities or assets in the statement of financial position 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 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 measured. 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 the entity. Where the time value of money is material, the contingent liabilities and assets are stated at discounted amounts.

Contingent liabilities under IAS 37 include:

- RBS Contingent capital - HM Treasury has issued a contingent capital commitment to RBS for subscribing up to £8 billion of B-shares if RBS's capital adequacy ratio (CAR) falls below 5 per cent. HM Treasury also receives a commitment fee equal to 4 per cent of the un-utilised commitment.

- Indemnities to directors of Infrastructure Finance Unit Limited, Northern Rock Plc, Northern Rock (Asset Management) Plc, Deposits Management (Heritable) Limited, Bank of England Asset Purchase Fund Facility and United Kingdom Financial Investments. These existed in the previous financial year and have not materialised.

- Guarantees and indemnities provided to Royal Mint, Northern Rock, Bradford & Bingley, Dunfermline, Royal Bank of Scotland, Heritable, Equitable Life, Pool Re and Pool Re (Nuclear), Barlow Clowes and Special Liquidity Scheme. These existed in the previous financial year and have not materialised.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department 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 the Department entering into the arrangement.

1.18 Financial instruments

The department recognises, measures and discloses financial instruments following guidance in the FReM and IFRS.

1.18.1 Definition of 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.

A financial asset is any asset that is: cash; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity; or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is: a contractual obligation to deliver cash or another financial asset to another entity; or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.18.2 Categories of financial instruments

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

- Derivatives at Fair Value through OCS;
- Loans and Receivables;
- Available-for-Sale financial assets.

(a) Derivatives at fair value through OCS

A derivative is a financial instrument or other contract within the scope of IAS 39 with all three of the following characteristics:

(a) its value changes in response to the change in an underlying variable (e.g., interest rates, equity share prices, exchange rates etc.);

(b) 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

(c) it is settled at a future date.

These include:

- Forward contracts to sell currency, used as a hedge to match the exposure due to changes in foreign exchange, which will impact the amounts to be received under the Credit Guarantee Scheme (CGS).
- Forward contract to purchase ordinary shares. In 2008-09, HM Treasury had forward contracts to purchase RBS and LBG ordinary shares in 2009-10. These shares were purchased in 2009-10.
- The Asset Purchase Facility guarantee - HM Treasury has indemnified the Bank of England against any losses it suffers on the purchase and subsequent sale of eligible assets, as well as any costs incurred to run and maintain the scheme. HM Treasury considers that this is similar in nature to a total return swap and has therefore accounted for it as a derivative.

- Asset Protection Scheme (APS) financial instrument - under the APS, HM Treasury provides protection in return for a fee against a proportion of future credit losses on a defined pool of assets to the extent that credit losses exceed a "first loss" amount, to be borne by the participating institution. See note 1.23.3 for critical accounting judgements around accounting for APS as a derivative.

(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, other than those that upon initial recognition designates as Available-for-Sale.

These include:

- The loans to Northern Rock (Asset Management) plc, Bradford & Bingley Plc, Partnership UK, the loans given by IFUL and the FSCS;
- The statutory debt with certain financial institutions and other receivables in respect of the depositor payouts; and
- Debtors arising within the normal course of departmental operations.

(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 changes in interest rates, exchange rates or equity prices.

These include:

- Equity investments which HM Treasury holds in Partnerships UK, Northern Rock plc, Northern Rock (Asset Management) plc, Bradford & Bingley plc, Lloyds Banking Group plc, Royal Bank of Scotland Group plc (ordinary listed shares), UK Financial Investments Limited and Deposits Management (Heritable) Limited;
- The investment in the Bank of England; and
- Public dividend capital held within the Royal Mint and Buying Solutions.

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 (FIFO) basis when they are eventually disposed off.

As part of the Asset Protection Scheme agreed with RBS on 26 November 2009, HM Treasury subscribed to £25.5 billion of B-shares on 22 December 2009. The B shares are a special class of shares and are perpetual, irredeemable securities that form part of Core Tier 1 capital for RBS. They have the following key terms:

- Ranking: Loss absorbing on a pari passu basis with other ordinary shares and rank equally with ordinary shares in liquidation.
- Conversion rights: Convertible into ordinary shares at the 's option at a specified conversion ratio of B shares to ordinary shares.

In addition to the B-shares, HM Treasury subscribed to a Dividend Access Share carrying a right to a preferential coupon that is discretionary but is payable if a dividend on RBS's ordinary shares is paid. This effectively means that if RBS should pay a dividend before its share prices reaches 65p for a set period then the Government will receive a preferential dividend which is the greater of 250 per cent of the ordinary dividend and 7 per cent of the technical issue price of the B shares. This will be due to HM Treasury irrespective of whether or not HM Treasury holds the underlying B-shares.

1.18.3 Initial measurement of financial instruments

Derivatives are initially accounted for and 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 OCS.

Loans and receivables and Available-for-Sale financial assets are initially recognised at fair value plus transaction costs.

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.

1.18.4 Subsequent measurement of financial instruments

Derivatives are subsequently measured at fair value. The gain or loss on re-measurement is taken to the OCS except where the derivative is a designated hedging instrument.

In accordance with the FReM, loans and receivables and Available-for-Sale financial assets with public bodies are carried at historical cost less any impairment recognised. For these purposes, public bodies include public dividend stock held in the Royal Mint and Buying Solutions, Northern Rock Plc, Northern Rock Asset Management Plc, Bradford & Bingley Plc and ordinary shares in UK Financial Investments Limited and Deposits Management (Heritable) Limited.

The investment in Bank of England is re-measured to HM Treasury's share of net assets per the IFRS published accounts, as a proxy to fair value. This is in line with the special accounts direction. Gains and losses arising on re-measurement are recognised directly in the AFS Reserve.

The investment in PUK is re-measured to be equivalent to HM Treasury's share of net assets as per the March 2010 management accounts as a proxy for fair value. HM Treasury's management has assessed the level of impairment following the announcement to sell part of PUK. Gains and losses arising on re-measurement are recognised directly in the AFS Reserve.

Loans and Receivables, except those with public bodies, are carried at amortised cost using the effective interest method.

Available-for-Sale financial assets (other than public bodies), for which there is observable market data, are subsequently carried at fair value. Where no observable market exists, the fair value has been determined using valuation techniques, with the help of valuation experts. Further description of the valuation models and techniques is provided in note 24.

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

The following investments have been carried at fair value:

- Royal Bank of Scotland – Ordinary shares, measured at quoted prices in an active market
- Royal Bank of Scotland – Dividend Access Share, carried at a level 3 valuation, using an options-based model with market observable and non-observable data and
- Royal Bank of Scotland – B shares, carried at a level 2 valuation using the corresponding quoted price for RBS ordinary shares
- Lloyds Banking Group – Ordinary shares, measured at quoted prices in an active market

assumptions

1.18.5 Fair value estimation

The fair value of loans and financial liabilities with a maturity of less than one year is judged to be approximate to their book values.

The fair value of loans, receivables and financial liabilities with a maturity of greater than one year are estimated by discounting the future determinable cash flows at the higher of the HM Treasury cost of capital of 3.5 per cent and the intrinsic rate in the underlying financial instrument in accordance with the FReM.

The fair value of Available-for-Sale investments and derivatives is estimated using observable market data. Where no observable market exists, the fair value has been determined using valuation techniques, with the help of valuation experts. See note 24 for further details on the valuation techniques.

The fair value of forward contracts has been determined based on market forward exchange rates at the balance sheet date for currency contracts and known market rates for other forward contracts.

1.18.6 Impairment of financial assets

(a) Assets carried at amortised cost

HM Treasury assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and 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 (for example, equity ratio, net income percentage of sales);
- breach of loan covenants or conditions; and
- deterioration in the value of collateral.

The amount of the loss is measured as the difference between the 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 original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account in the balance sheet and the amount of the loss is recognised in the OCS. 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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 by adjusting the allowance account in the balance sheet and the amount of the reversal is recognised in the OCS.

(b) Assets classified as Available-for-Sale

HM Treasury assesses at each balance sheet 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 also considered in determining whether the assets are 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. 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 OCS – is removed from equity and recognised in the OCS. Impairment losses recognised in the OCS are not subsequently reversed until the related financial asset is de-recognised.

1.18.7 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. This is applied to forward contracts and other derivatives.

1.19 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.

1.20 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. They are classified under financial instruments as either current or non-current.

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 currently only have 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 OCS.

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

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

The Credit Guarantee Scheme fee income foreign currency receivable is the cash flow hedge item and the associated forward currency contract derivative is the cash flow hedge instrument, together forming the cash flow hedge relationship.

1.21 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.

These include:

- Financial guarantees issued to certain depositors in Bradford & Bingley plc, Northern Rock plc and Northern Rock (Asset Management) plc; and,
- Financial guarantees under the Credit Guarantee Scheme.

Other commitments given during the year have been accounted for as indemnities.

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 will be re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantee will be 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.

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

- the initial measurement, less amortisation calculated to recognise in the OCS the fee income earned as the service is provided; and
- the best estimate of the probable expenditure required to settle any financial obligation arising at the balance sheet 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 OCS.

1.22 Employee benefits

The department 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. This accrual is monitored on a yearly basis.

1.23 Critical accounting estimates and judgements

1.23.1 Impairment losses on loans and advances

The HM Treasury's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.18.6. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the balance sheet date. All loans are individually assessed for impairment. In determining whether impairment has occurred at the balance sheet date HM Treasury considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. This observable data includes indications from the administrators on the current estimates of repayments (e.g – Reports from the Administrators of KSF, Heritable, Icesave, LSB, Dunfermline), negotiations with the banks or other governments (DIGF) and business plans provided by the banks (Northern Rock, Bradford & Bingley). Impairments are also recognised to reflect interest free loans. HM Treasury has provided Bradford & Bingley, Icesave, Heritable, KSF and Dunfermline with interest free loans to fund retail deposits above £50,000 (above £35,000 for

Bradford & Bingley). The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest 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 will be revisited at each reporting date.

As at 31 March 2010 loan and advances to the financial institutions totalled £57.5 billion (2008-09: £47.1 billion) against which net impairments (including reversals) were £0.3 billion (2008-09: £1.6 billion) (see note 14.1 for 2009-10 losses and note 13a in 2008-09 Resource Accounts for losses incurred in 2008-09).

1.23.2 Impairment of Available-for-Sale financial assets

The HM Treasury's accounting policy for losses arising on Available-for-Sale financial assets is described in note 1.18.6. HM Treasury assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In determining whether an impairment loss has been incurred in respect of a traded Available-for-Sale equity asset, a significant decline in its market value below its cost price or if the market value has been below cost price for a considerable period of time is considered in determining whether the assets are impaired. For non quoted equity shares, the fair value has been determined using valuation techniques, with the help of valuation experts.

As at 31 March 2010 the Available-for-Sale assets totalled £65.3 billion (2008-09: £23.1 billion) against which impairment losses charged to the Operating Cost Statement are £0.5 billion (2008-09: £17.3 billion) (see note 13 for 2009-10 losses and note 13a in 2008-09 Resource Accounts for losses incurred in 2008-09).

1.23.3 APS valuation

The APS is accounted for as a derivative. HM Treasury considered alternative options under IFRS; in particular whether the APS could be accounted for as an insurance contract or a financial guarantee. The APS is not considered an insurance contract primarily because it relates to a financial risk[1]. Furthermore, because certain "limited recourse assets" in the pool are only obligated to pay if funds are available, they cannot technically default, and so HM Treasury do not consider the APS a financial guarantee. HM Treasury assessed whether the APS meets the requirements to be defined as a derivative. The standard requires a derivative to have all three of the following characteristics:

1 Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

2 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,

3 It is settled at a future date.

HM Treasury is of the opinion that the APS meets all of these requirements for the following reasons:

1 The value of the APS is driven by the underlying credit risk of the assets in the Scheme, very much like a synthetic collateralised debt obligation (CDO), the credit risk of those underlying assets is therefore the 'underlying' in the APS.

[1] Credit insurance can be accounted for under IFRS 4 only if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts. As HM Treasury has not previously made any such assertion, IFRS 4 cannot be applied to this transaction.

2 In order for HM Treasury to get exposure to that underlying risk without using a derivative it would have had to purchase the underlying assets / risk in a funded transaction, i.e. an asset purchase scheme, clearly when compared to that alternative the APS requires no such initial net investment.

3 The APS is settled at a future date, potential payouts will occur at future dates should the first loss be exceeded and has a contractual maturity of 2099.

While the best assessment of both RBS and HM Treasury is that the APS was agreed at fair value, this conclusion did involve management judgement, and it is possible that the fair value was not zero. If this is the case, the fair value at 31 March 2010 will also differ from the figure reported in note 13. The balance sheet 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);
- Expected Loss on Triggered Assets: +/- £1bn;
- recovery uncertainty factor for non-Triggered Assets: +/- 10 per cent (absolute);
- mapped credit spreads: +/- 10 bp (absolute);
- expected loss given default: +/-10 per cent (relative).

Using these reasonably possible alternative assumptions, the fair value of the APS at 31 March 2010 could be higher by £2.1bn or lower by £2.3bn. However, this would have only a limited effect on income in the operating cost statement, 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.

The expectation is also that despite these uncertainties, the current assumptions will remain unchanged. However, they will be reviewed periodically and changed if there is sufficient evidence that such action is appropriate. The uncertainty due to these assumptions is likely to exist throughout the life of the APS. The magnitude will tend to reduce over time as APS cover expires and the asset pool runs down; however, it will also tend to increase as future valuations are performed further from the initial calibration, as it is unlikely that any future calibration points will be available.

An additional source of uncertainty is the quality of the portfolio data underlying the valuation, e.g. assets that are the subject of rule interpretation discussions, rating information that may be out of date, cover termination dates may be subject to change, and proxies being used to estimate Covered Amount for some asset classes. The potential impact of known or suspected data issues is in the order of +/- £250m, 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 currently unknown.

Valuation results are subject to numerical uncertainty arising from the simulation-based approach to valuation. The uncertainty is in the order of +/-£25m for balance sheet figures.

The model incorporates several simplifications:

- Amortisation and prepayments are not recognised.
- FX volatility is not modelled.
- A single asset correlation is used for all asset pairs.
- Generic credit curves based on geography and rating have been used for most assets in the portfolio.

- Triggered Assets are treated as having a deterministic recovery rate rather than the random recovery applied to non-Triggered Assets.

The first four simplifications are not expected to have a significant impact on the valuation as they would in general be absorbed by a change in the initial calibration, and the impact on subsequent changes in valuation would likely be trivial.

The impact of the fifth will not be fully absorbed by a similar change in the initial calibration. As the amount of Triggered Assets increases over time the impact will increase and as recoveries are realised the impact will tend to shrink. As the amount of Triggered Assets increased in the period to 31 March the impact will have been greater at 31 March 2010 than it was at 22 December 2009 (the day on which RBS acceded to the APS). The difference in the impact at these two dates is not considered to be significant.

1.23.4 RBS contingent capital

HM Treasury has issued a contingent capital commitment to RBS for subscribing up to £8 billion of B-shares if RBS's capital adequacy ratio (CAR) falls below 5 per cent. HM Treasury also receives a commitment fee equal to 4 per cent of the un-utilised commitment. In accounting for this instrument, HM Treasury has applied the guidance in IFRS in determining whether it fulfils the criteria for recognition as a derivative, which is that the variables changing the value of the contract must be financial variables and any non-financial variable must not be specific to one party to the contract. HM Treasury, in exercising its judgement HM Treasury has determined that CAR is a non-financial variable specific to one party to the contract and therefore the contingent capital does not meet the definition of a derivative. It has been classified as a contingent liability, which will be assessed at every reporting date as to whether a provision for any payout to RBS needs to be made. The income stream relating to this guarantee is accounted under IAS 18.

1.23.5 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 DAS is valued by assessing the cash flows received on the Share by way of 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 24.2 for further details on key assumptions used. These assumptions will be revisited at each reporting date.

1.23.6 Equitable Life

HM Treasury considers that a provision is not required at 31 March 2010 in respect of expected compensation to be paid to policyholders of Equitable Life. Although losses incurred by policyholders as a result of maladministration in the regulation of Equitable Life have now been estimated, the determination of compensation has yet to be made, and so there is insufficient evidence over the value of ex-gratia payments at this stage. The Government does not have a legal liability to pay compensation, but has committed to establishing a scheme for providing ex-gratia payments to those policyholders. The Financial Secretary to the Treasury announced on 22 July 2010 the publication of Sir John Chadwick's report, which has provided a basis for estimating the losses incurred by policyholders. These losses have been estimated to be between £0.4 billion and £4.8 billion. However, whilst the Government will consider Sir John's report, the accompanying estimate loss figures provided by Towers Watson, and representations by interested parties, the total value of those payments will be determined by Parliament as part of the autumn 2010 Spending Review. There is therefore no reliable estimate of how much compensation will be paid to policyholders.

2. First time adoption of IFRS

HM Treasury has adopted IFRS for the first time in these accounts. In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

The tables below lists the impact of the move to the IFRS on the financial position, operating cost statement and the cashflow and reconciles the closing balance published in 2008-09 HM Treasury Annual Accounts under UK GAAP to the opening balance in the 2009-10 Accounts under IFRS.

2a Taxpayers' Equity

Group	General fund £000	Available-for-Sale reserve £000	Hedging reserve £000	Revaluation reserve £000
Taxpayers' equity at 31 March 2009 under UK GAAP	42,717,536	2,065,604	(6,717)	1,559
Adjustment for:				
Accrued employee benefits (note 6)	(1,753)	-	-	-
Reclassification from property, plant and equipment to intangible assets	(75)	-	-	-
Reclassification from property, plant and equipment to intangible assets	75	-	-	-
Change in discount rate of provisions	140	-	-	-
Change in PFI payable	24,838	-	-	-
Change in PFI costs	5,572	-	-	-
Taxpayers' equity at 1 April 2009 under IFRS	**42,746,333**	**2,065,604**	**(6,717)**	**1,559**

2b Net Operating Cost

Group	£000
Net operating cost for 2008-09 under UK GAAP	42,200,433
Adjustment for:	
Accrued 2008-09 employee benefits (note 6)	1,753
Release of 2007-08 accrued employee benefits (note 6)	(2,196)
Reclassification from property, plant and equipment to intangible assets	(75)
Reclassification from property, plant and equipment to intangible assets	75
Change in the discount rate of provisions	(85)
Change in PFI costs	(5,572)
Net operating cost for 2008-09 under IFRS	**42,194,333**

2c Cash Flows

Group	£000
Cash flow for 2008-09 under UK GAAP	1,471
Adjustment for:	
Net operating cost	
- Accrued employee benefits (note 6)	(1,753)
- Release of 2007/08 accrued employee benefits (note 6)	2,196
- Change in the discount rate of provisions	85
- Change in PFI costs	5,572
Indexation of PFI payable	(6,021)
Change in non-cash transactions	
- Change in the discount rate of provisions	(85)
Changes in working capital other than cash	
- Accrued employee benefits	(443)
Purchase of Property, Plant and Equipment	(224)
Purchase of Intangible assets	224
Capital element of PFI contract	449
Cash flow for 2008-09 under IFRS	**1,471**

3. Analysis of net resource outturn by section[1]

	Admin	Programme	Gross Resource expenditure	Appropriations in Aid (note 9)	Net Total Outturn	Net total Estimate	2009-10 Net Total Outturn compared with Estimate	2008-09 (Restated) Net Total Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1								
Departmental Expenditure Limit								
Core Treasury	192,289	8,771	201,060	(60,671)	140,389	154,466	14,077[2]	136,942
DMO	15,116	5,721	20,837	(4,971)	15,866	16,378	512	13,095
OGC	33,422	3,490	36,912	(11,087)	25,825	26,624	799	23,511
Employee Benefits (IFRS)	1,347	-	1,347	-	1,347	860	(487)[2]	-
Annually Managed Expenditure								
Investment in Bank of England	-	137,782	137,782	-	137,782	160,000	22,218	125,768
Impairment of fixed assets	-	(3,123)	(3,123)	-	(3,123)	-	3,123	9,001
	242,174	**152,641**	**394,815**	**(76,729)**	**318,086**	**358,328**	**40,242**	**308,317**
Request for Resources 2								
Departmental Expenditure Limit								
UK Coinage: Manufacturing	-	12,500	12,500	-	12,500	16,000	3,500	15,172
UK Coinage: COC inventory	-	108	108	-	108	125	17	96
Annually Managed Expenditure								
UK Coinage: Metal	-	12,757	12,757	-	12,757	29,400	16,643	24,161
UK Coinage: Cost of Capital Charge	-	110	110	-	110	175	65	144
UK Coinage: Investment in Royal Mint	-	2,578	2,578	-	2,578	2,800	222	2,521
	-	**28,053**	**28,053**	**-**	**28,053**	**48,500**	**20,447**	**42,094**
Request for Resources 3								
Departmental Expenditure Limit								
United Kingdom Financial Investments Limited	4,207	-	4,207	-	4,207	4,850	643	-
Asset Protection Agency	3,816		3,816	(3,817)	(1)	1	2	-
Annually Managed Expenditure								
Assistance to other financial institutions	-	(25,441,077)	(25,441,077)	-	(25,441,077)	-	25,441,077[3]	24,788,611
Cost of Capital Charge on financial investments and loans	-	2,956,392	2,956,392	-	2,956,392	2,000,000	(956,392)[3]	808,878
Impairment	-	109,407	109,407		109,407	-	(109,407) [3]	18,925,880
	8,023	**(22,375,278)**	**(22,367,255)**	**(3,817)**	**(22,371,072)**	**2,004,851**	**24,375,923**	**44,523,369**
Resource Outturn	**250,197**	**(22,194,584)**	**(21,944,387)**	**(80,546)**	**(22,024,933)**	**2,411,679**	**24,436,612**	**44,873,780**
Bank of England Services					11,992			11,305
Operating income payable to the Consolidated Fund (note 9)					(5,455,950)			(2,684,652)
IFRS adjustments					-			(6,100)
Net Operating Cost/(income)					**(27,468,891)**			42,194,333

[1] 2008-09 figures have been restated for the change in Request for Resources structure. Reconciliation provided in "Reconciliation of Request for Resources between 2008-09 and 2009-10: 2008-09 Resource Outturn".

[2] Within RfR1 the overspend in 'Employee Benefits' is covered by the underspend in 'Core Treasury'.

[3] Within RfR3 the underspend in 'Assistance to other financial institutions' covers the overspends in 'Cost of Capital Charge on financial investments and loans' and 'impairment'.

3.1 Key to Requests for Resources

Request for Resources 1: Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

Request for Resources 2: Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Request for Resources 3: Promoting stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

3.2 Explanation of Variances Between Estimate and Outturn

HM Treasury's Net Total Estimate for 2009-10 corresponds to funding allocated in the Comprehensive Spending Review 2007. There was an additional draw down of £20.7 million from End year Flexibility during the year. Outturn was (£22,025) million, down from £44,874 million in 2008-09, largely as a result of the reversal of provisions made in 2008-09 which were no longer required and written back during 2009-10, totalling £25,362 million. Further information can be found in the Management Commentary to the accounts.

Request for Resources 1 (RfR 1): Maintain sound public finances and ensure high and sustainable growth, well being and prosperity for all.

Net Total Outturn was £318.1 million against a Net Total Estimate of £358.3 million, an underspend of £40.2 million. Underspends of £14.1 million on Core Treasury DEL, £22.2 million Investment in Bank of England AME costs (due to uncertainties inherent in forecasting AME) and reversal of impairment charges of £3.1 million were the significant elements of this underspend. The Core Treasury DEL underspend was in part due to non-cash and consultancy spending being lower than forecast in the Estimate. A small overspend in Section F 'Employee Benefits (IFRS)' of £0.5 million has been covered by virement of part of the underspend in Section A 'Core Treasury'.

Request for Resources 2 (RfR 2): Cost effective management of the supply of coins and actions to protect the integrity of coinage.

Net Total outturn was £28.1 million against a Net Total Estimate of £48.5 million, an underspend of £20.4 million. This related to a £3.5 million underspend on DEL UK Coinage manufacturing costs and a £16.6 million underspend on AME UK Coinage Metal costs due to a combination of lower production and overforecasting in the Estimate.

Request for Resources 3(RfR 3): Promoting stable financial system and offering protection to ordinary savers, depositors, businesses and borrowers.

Net Total Outturn was (£22,371.1) million against a Net Total Estimate of £2,004.9 million, an underspend of £24,375.9 million. This was due to a reversal in provisions made in AME for assistance to financial institutions of £25,441.1 million, an underspend of £0.6 million on United Kingdom Financial Investments Ltd (UKFI) and overspends on Cost of Capital of £956.4 million and impairment charges of £109.4 million. The overspends in RFR3 have been covered by virement from the underspend arising from the reversal of provisions for 'Assistance to other financial institutions'.

3.3 Expenditure Outside Supply Process

This relates to payments to Computershare Investor Services plc for management of the gilts register, which are paid from the National Loans Fund (NLF), and to the Bank of England for managing the Exchange Equalisation Account (EEA), which are paid from the EEA. These costs are also included within the NLF accounts and EEA accounts, respectively, for 2009-10.

4. Reconciliation of outturn to net operating costs and against administration budget

4.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	Outturn	Supply Estimate	2009-10 Outturn compared with Estimate	2008-09 (Restated) Outturn
		£000	£000	£000	£000
Net Resource Outturn	3	(22,024,933)	2,411,679	**24,436,612**	44,873,780
Non-supply income (CFERs)	9	(5,455,950)	(6,814,250)	**(1,358,300)**	(2,684,652)
Non-supply Expenditure	3	11,992	14,645	**2,653**	11,305
IFRS adjustments		-	-	-	(6,100)
Net Operating Cost/(income)		**(27,468,891)**	**(4,387,926)**	**23,080,965**	**42,194,333**

4.2 Outturn Against Final Administration Budget

	Note	Outturn	2009-10 Budget	2008-09 Outturn
		£000	£000	£000
Gross Administration Budget / Outturn	3	250,197	285,560	212,690
Income allowable against the Administration Budget /Outturn	9	(76,977)	(98,984)	(59,063)
Net outturn against final Administration Budget		**173,220**	**186,576**	**153,627**

5. Reconciliation of resources to net cash requirement

	Note	Estimate	Outturn	Net Total Outturn compared with Estimate saving/ (excess)
		£000	£000	£000
Resource Outturn	**3**	2,411,679	(22,024,933)	**24,436,612**
Capital:				
Acquisition of non-current assets – resources	11 & 12	-	6,309	**(6,309)**
Acquisition of financial assets	13a & 14.1	59,346,500	51,708,724	**7,637,776**
Investments funded via interest capitalised (non-cash)		-	(150,737)	**150,737**
Non-operating costs A-in-A				
Investments funded via sale of preference shares	9.3	(7,068,700)	(6,737,546)	**(331,154)**
Accrual adjustments				
Non-cash items	8.1	(2,172,660)	22,231,131	**(24,403,791)**
Changes in working capital other than cash	18	-	409,812	**(409,812)**
Change in PFI payables	22.2	-	1,447	**(1,447)**
Inter departmental transfers		-	(20)	**20**
Use of provision	19	535,075	20,714	**514,361**
Of which non-cash	19	-	(17,165)	**17,165**
Net Cash Requirement		**53,051,894**	**45,447,736**	**7,604,158**

6. Staff numbers and costs

6.1 Analysis of Total Costs Over Categories

	Ministers[1]	Special Advisors	Permanent staff	Others[2]	2009-10 Total	2008-09 (Restated) Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,676	495	71,388	15,341	**88,900**	71,800
Social Security costs	142	52	6,444	37	**6,675**	5,721
Other pension costs	-	99	13,560	46	**13,705**	12,929
Total costs	**1,818**	**646**	**91,392**	**15,424**	**109,280**	**90,450**
Less recoveries (income) in respect of outward secondments	-	-	(1,904)	-	**(1,904)**	(2,250)
Total net costs	**1,818**	**646**	**89,488**	**15,424**	**107,376**	**88,200**
Of which: Core Treasury						
Total costs	1,818	646	67,820	9,039	**79,323**	64,942
Less recoveries (income) in respect of outward secondments	-	-	(1,486)	-	**(1,486)**	(1,883)
Total net costs	**1,818**	**646**	**66,334**	**9,039**	**77,837**	**63,059**

As a result of IFRS adoption, staff total costs include an accrual for untaken annual leave.

Further staff costs of £339,667 are classified as programme and are included in note 8 (current year).

In addition to the above, nil staff costs (2008-09: £533k) have been charged to capital projects. Total staff costs have increased by 21 per cent compared to 2008-09. This primarily relates to an increase in permanent staff and secondees (others) to respond to the banking crisis.

6.2 Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but 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 www.civilservice-pensions.gov.uk.

For 2009-10, employers' contributions of £13,412k were payable to the PCSPS (2008-09: £12,490k) at one of four rates in the range 16.7 to 24.3 per cent (2008-09: 17.1 to 25.5 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 2009-10 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 £109k (2008-09: £89k) 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 £8k (2008-09: £7k), 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.

Contributions due to the partnership pension providers at the balance sheet date were £2k (2008-09: £2k). Contributions prepaid at that date were nil.

[1] Ministers include Chancellor of the Exchequer - Rt Hon Alistair Darling MP, Chief Secretary to the Treasury - Rt Hon. Liam Byrne MP, Financial Secretary to the Treasury - Rt Hon Stephen Timms MP, Exchequer Secretary to the Treasury - Sarah McCarthy-Fry MP, Economic Secretary - Ian Pearson MP, Financial Services Secretary - Lord Myners and Minister for State with responsibility for Revenue Protection at the border - Phil Woolas (jointly with Home Office).

[2] Others include agency/contractor staff, temps and secondees in.

6.3 Ill Health Retirement

During 2009-10 one person (2008-09: nil) retired early on ill-health grounds, resulting in additional accrued pension liabilities of £17k (2008-09: nil). The costs of such retirements are funded by normal contributions to the PCSPS.

6.4 Average Number of Persons Employed

The average number of whole-time equivalent persons employed during the year was as follows:

					2009-10	2008-09
					Number	Number
Departmental Strategic Objective	**Ministers[1]**	**Special Advisers**	**Officials**	**Others**	**Total**	**Total**
1a	0.2	0.3	66.1	0.8	**67.4**	48.2
1b	0.4	0.4	105.8	1.5	**108.1**	107.5
1c	0.9	1.0	247.0	5.9	**254.8**	276.5
1d	1.3	1.4	342.6	28.5	**373.8**	305.6
1e	0.5	0.6	138.4	32.4	**171.9**	137.4
Total DSO 1	**3.3**	**3.7**	**899.9**	**69.1**	**976.0**	**875.2**
2a	0.1	0.1	22.5	0.3	**23.0**	29.3
2b	0.3	0.3	80.6	1.2	**82.4**	82.1
2c	0.2	0.2	47.9	0.7	**49.0**	48.2
2d	0.7	0.7	181.0	4.0	**186.4**	182.7
2e	1.2	1.5	344.6	23.0	**370.3**	188.9
2f	0.2	0.2	47.2	1.1	**48.7**	29.9
2g	0.1	0.1	26.8	0.6	**27.6**	32.5
2h	0.4	0.4	106.4	3.4	**110.6**	124.4
Total DSO 2	**3.2**	**3.5**	**857**	**34.3**	**898**	**718.0**
Staff engaged on Capital Projects	-	-	-	-	-	7.3
Total	**6.5**	**7.2**	**1,756.9**	**103.4**	**1,874.0**	**1,600.5**
Of which:						
Core Treasury	**6.5**	**7.2**	**1,365.5**	**53.5**	**1,432.7**	**1,252.2**

Staff numbers have increased in 2009-10 due to the additional demands on HM Treasury as a result of its role in the financial market crisis.

[1] Ministers include Chancellor of the Exchequer - Rt Hon Alistair Darling MP, Chief Secretary to the Treasury - Rt Hon. Liam Byrne MP, Financial Secretary to the Treasury - Rt Hon Stephen Timms MP, Exchequer Secretary to the Treasury - Sarah McCarthy-Fry MP, Economic Secretary - Ian Pearson MP, Financial Services Secretary - Lord Myners and Minister for State with responsibility for Revenue Protection at the border - Phil Woolas (jointly with Home Office).

6.5 Additional Ministerial Salaries Borne by HM Treasury

In addition, HM Treasury bears the ministerial salaries of the following:

Official title	Name	2009-10 Salaries £000	2008-09 Salaries £000
Prime Minister	Gordon Brown (from June 2007)	115 – 120	130 - 135
Chief Whip (Commons)	Nicholas Brown (from Oct 08)	75 – 80	35 - 40
	Geoff Hoon (from June 2007 till Oct 08)		45 - 50
Deputy Chief Whip (Commons)	Thomas McAvoy (from Oct 2008)	40 – 45	-
	Nicholas Brown (from June 2007 till Oct 08)		20 - 25
Chief Whip (Lords)	Lord Bassam (from Oct 08)	125 – 130	55 - 60
	Baroness Royall of Blaisdon (from June 2007 till Oct 08)		70 - 75
Deputy Chief Whip (Lords)	Lord Davies of Oldham	115 – 120	110 - 115
Lords in waiting (7 posts, 2 unpaid)		560-565	560 - 565
Government and Assistant Government Whips (17 posts, 3 unpaid)		375-380	390 - 395

This does not apply to those ministers who are unpaid nor to parliamentary private secretaries.

The Prime Minister's salary from the 1 April 2009 was 132,923 and he waived it to £130,594. On 11 December 2009 he further waived his salary to £86,709.

6.6 Compensation payments post year end

Following the General Election on 6 May 2010 and resignation of the Prime Minister of 11 May 2010, the above salary payments ceased. Compensation payments of £170,146 were made on 2 June 2010 to a number of Departmental Ministers and to a number of those ministers in note 6.5 above.

Compensation payments to the Special Advisors listed in note 6.4 totalled £187,069.

7. Other administration costs

		2009-10		2008-09 (Restated)
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Staff-related costs, including training and travel	8,119	11,139	8,324	11,198
Accommodation costs:				
Interest element of on-balance sheet PFI contract	9,828	9,828	9,931	9,931
Service element of on-balance sheet PFI contract	3,693	3,693	3,651	3,651
Contingent rent on PFI contract	3,147	3,147	3,240	3,240
Other accommodation costs	6,488	8,712	5,661	7,706
Office services	10,209	16,495	10,781	15,965
Consultancy	61,861	69,491	48,032	54,664
Other admin professional services	12,180	14,382	3,999	5,940
Other	(37)	(41)	49	62
Non cash items				
Depreciation and amortisation of non-current assets	3,911	5,026	4,655	5,609
Loss/(gain) on disposal of non-current assets	36	34	2	6
Auditor's remuneration	270	330	165	205
Cost of capital	(2,283)	(2,461)	(2,717)	(2,862)
Change in provision due to change in discount rate	46	74	(28)	(52)
Unwinding of discount on provision	40	80	37	83
Provision provided in year	882	988	427	851
Total non cash items	**2,902**	**4,071**	**2,541**	**3,840**
Total	**118,390**	**140,917**	**96,209**	**116,197**

7.2 Other administration costs include:

		2009-10		2008-09
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Hire of plant and machinery	-	37	441	478
Other operating leases	(2)	1,280	137	1,387
Research and development expenditure	432	546	128	251

No payments were made to the auditors in respect of non-audit services. A notional charge of £17,000 (2008-09: £15,000) was made in respect of audit work in preparation for the introduction of International Financial Reporting Standards.

7.3 Costs incurred and related recoveries on financial stability interventions

Other administration costs also includes 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 in the table below.

Costs incurred and related recoveries		2009-10 £000	2008-09 £000
Professional fees incurred*: -	Legal advice	14,753	16,454
	Financing advice	24,789	15,422
	Other advice	15,929	8,412
Other cost*		11,004	925
Total		**66,475**	**41,213**
Related recoveries**		58,331	38,742

* These are included in Note 7 under Consultancy and Other admin professional services.
** Included in Note 9 under Appropriated in Aid

8. Net programme costs

	2009-10		2008-09 (Restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Request for Resources 1				
Current grants	-	-	-	-
Cost of capital (non cash)	138,759	140,525	126,978	128,663
Exceptional item – building revaluation (non cash)	(3,123)	(3,123)	9,001	9,001
Other current expenditure	7,794	14,403	7,506	12,851
Transfer to/(from) leasehold property provision (non cash)	-	466	-	546
Transfer to/(from) specific dilapidations & legal provision (non cash)	-	(8)	-	(250)
Transfer to/(from) early retirement provision (non cash)	-	31	-	(83)
Change in provision due to change in discount rate (non cash)		124		(74)
Unwinding of discount on provisions (non cash)	-	223	-	214
	143,430	**152,641**	**143,485**	**150,868**
Request for Resources 2				
Cost of capital (non cash)	2,796	2,796	2,761	2,761
Other current expenditure	25,257	25,257	39,333	39,333
	28,053	**28,053**	**42,094**	**42,094**
Request for Resources 3				
Derivative fair value movements in OCS (non cash)	(118,880)	(118,880)	(590,735)	(590,735)
Exceptional item – impairment of financial assets (non cash)	109,407	109,407	18,925,880	18,925,880
Exceptional item - provisions: APS (non cash)	(25,000,000)	(25,000,000)	25,000,000	25,000,000
Other Provisions: Provided in year (non cash)	39,021	39,021	379,345	379,345
Release of surplus provision	(362,180)	(362,180)	-	-
Other current expenditure	962	962	92,317	92,317
Cost of Capital (Non-cash)	2,956,392	2,956,392	808,878	808,878
	(22,375,278)	**(22,375,278)**	**44,615,685**	**44,615,685**
Non-supply- Banking and gilts registration services (note 3.3)	11,992	11,992	11,305	11,305
Sub total programme costs	**(22,191,803)**	**(22,182,592)**	**44,812,569**	**44,819,952**
Less programme income				
Request for Resources 1 - HM Treasury (note 9)	(142,102)	(145,678)	(512,655)	(516,755)
Request for Resources 2 - UK Coinage (note 9)	(5,137)	(5,137)	(4,588)	(4,588)
Request for Resources 3 - Financial stability (note 9)	(5,308,504)	(5,308,504)	(2,251,861)	(2,251,861)
	(5,455,743)	**(5,459,319)**	**(2,769,104)**	**(2,773,204)**
Net Programme Costs	**(27,647,546)**	**(27,641,911)**	**42,043,465**	**42,046,748**

8.1 Summary of Non Cash Transactions

	2009-10		2008-09 (Restated)	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Administration costs non cash items (note 7)	2,902	4,071	2,541	3,840
Programme costs non cash items (note 8)	(22,237,809)	(22,235,202)	44,662,110	44,664,147
Total non-cash transactions (cash flow statement and note 5)	**(22,234,907)**	**(22,231,131)**	**44,664,651**	**44,667,987**

9. Income and appropriations in aid

Operating income analysed by activities:

	2009-10			2008-09 (Restated)
	Appropriated in Aid	Payable to Consolidated Fund	Income included in OCS	Income included in OCS
	£000	£000	£000	£000
Administration income				
Request for Resources 1				
Core Treasury	60,663	-	**60,663**	45,292
DMO	3,516	200	**3,716**	3,828
OGC	8,981	-	**8,981**	9,943
	73,160	**200**	**73,360**	**59,063**
Request for Resources 3				
APA	3,817	-	**3,817**	-
	3,817	-	**3,817**	-
Programme income				
Request for Resources 1				
Pool Re insurance premiums (note 9.1)	-	38,973	**38,973**	92,112
Bank of England dividend	-	96,639	**96,639**	416,718
Other dividends and interest	-	2,719	**2,719**	936
Other current programme income	8	3,763	**3,771**	2,892
DMO	1,455	-	**1,455**	1,750
OGC	2,106	15	**2,121**	2,347
	3,569	**142,109**	**145,678**	**516,755**
Request for Resources 2				
Sale of coinage scrap metal	-	883	**883**	448
Royal Mint dividend	-	4,000	**4,000**	4,040
Other current income	-	254	**254**	100
	-	**5,137**	**5,137**	**4,588**
Request for Resources 3				
Fees for financial guarantees	-	1,355,152	**1,355,152**	726,018
Fees for contingent capital	-	80,000	**80,000**	-
Foreign exchange gains	-	19,971	**19,971**	67,072
Amortisation of loans	-	136,646	**136,646**	62,571
Other dividends and interest	-	950,158	**950,158**	976,906
Exit fees and interest from Lloyds Banking Group for the Asset Protection Scheme	-	2,500,377	**2,500,377**	-
Other current programme income	-	266,200	**266,200**	419,294
	-	**5,308,504**	**5,308,504**	**2,251,861**
Department total operating income included in the OCS	**80,546**	**5,455,950**	**5,536,496**	**2,832,267**
Income not passing through OCS in 2009-10	-	148,494	**148,494**	-
Department total operating income	**80,546**	**5,604,444**	**5,684,990**	**2,832,267**

9.1 Pool Re and Pool Re Nuclear

Income from Pool Re and Pool Re Nuclear arises under The Reinsurance (Acts of Terrorism) Act 1993, under which HM Treasury provides reinsurance for terrorist attacks on commercial or industrial property. Pool Re and Pool Re Nuclear pay a premium to HM Treasury, subject to a threshold level of funds.

9.2 Analysis of Income Payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

		Forecast 2009-10		Outturn 2009-10
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A-in-A	-	-		
Other operating income and receipts not classified as A-in-A	6,814,250	*7,337,250*	5,604,444	*6,210,504*
Sub total	**6,814,250**	***7,337,250***	**5,604,444**	***6,210,504***
Non-operating income and receipts – excess A-in-A				
Other non-operating income and receipts not classified as A-in-A	3,600,000	*3,600,000*	5,543,143	*5,543,143*
Other amounts collectable on behalf of the Consolidated Fund	1,341	*1,341*	-	-
Total income payable to the Consolidated Fund	**10,415,591**	***10,938,591***	**11,147,587**	***11,753,647***

`Other operating income and receipts not classified as A-in-A' greatly decreased during 2009-10. Income classified in this category includes loan interest received from Northern Rock, Bradford & Bingley and the Financial Services Compensation Scheme; dividend interest accrued in respect of preference shares in RBS and Lloyds Banking Group; underwriting income received on the recapitalisation of RBS and Lloyds Banking Group; fee received from RBS for contingent capital; fee income in respect of guarantees issued under the Credit Guarantee Scheme and in respect of guarantees issued to Northern Rock and Bradford & Bingley.

The forecast of `Other operating income and receipts not classified as A-in-A' included £1.4 billion of fees from the Asset Protection Scheme which was subsequently reclassified to `Other non-operating income and receipts not classified as A-in-A' based on the confirmation of its accounting treatment. This primarily contributed to the decrease of outturn income partly offset by receipt of underwriting commission from RBS and LBG.

Apart from the £1.4 billion APS fees, the `Other non-operating receipts not classified as A-in-A' relate to loan repayments received, primarily from Kaupthing Singer and Friedlander, Bradford & Bingley, Northern Rock and Heritable; disposal of RBS and LBG preference shares and purchase of ordinary share capital.

9.3 Non-Operating Income

	2009-10	2008-09
	£000	£000
Core Treasury:		
Repayments of loan principal and disposal of equity investments	11,009,377	4,547,657
Purchase of ordinary shares	(6,737,546)	-
Cash received from RBS for APS	1,400,000	-
Unwinding of discount included in operating income	(31,564)	-
Operating income included in disposal of equity investments	(97,131)	-
Proceeds on disposal of non-current assets	-	22
OGC:		
Proceeds on disposal of non-current assets	7	14
Group Total	**5,543,143**	**4,547,693**

10. Analysis of net operating cost

10.1 Analysis by spending body:

		2009-10	2008-09 (Restated)
	Estimate	Outturn	Outturn
	£000	£000	£000
Spending Body			
Core Treasury	(4,435,779)	(27,514,709)	42,159,323
IFUL	-	6	-
APA	1	-	-
OGC	26,624	25,912	22,919
DMO	16,378	15,693	12,091
UKFI	4,850	4,207	-
Net Operating Cost/(income)	**(4,387,926)**	**(27,468,891)**	**42,194,333**

10.2 Fees and charges analysis:

For information on DMO's fees and charges, please see the DMO Annual Accounts 2009-10 on www.dmo.gov.uk.

Details on total cost for financial stability schemes and interventions have been included in note 7 and details on total income have been included under individual notes on each intervention where applicable. HM Treasury receives fees and incurs charges in relation to these financial stability schemes and interventions.

Please see note 27 to 36 for details on financial stability schemes and interventions.

11. Property, Plant and Equipment

11.1 Group Property, Plant and Equipment 2009-10

	Land £000	Buildings £000	Leasehold Improvement £000	Plant & Machinery £000	Furniture & Equipment £000	IT Equipment £000	Antiques £000	Assets under construction £000	Total £000
Cost/valuation									
At 1 April 2009 (Restated)	24,300	77,599	5,022	353	1,178	9,141	1,649	-	**119,242**
Revaluation adjustment	-	(4,699)	-	-	-	-	-	-	**(4,699)**
Additions	-	-	59	353	184	1,379	-	-	**1,975**
Impairments	-	-	-	-	-	-	-	-	**-**
Disposals	-	-	-	(17)	-	(777)	(7)	-	**(801)**
Revaluation	512		-	-	-	-	7	-	**519**
Gain/(Loss) on revaluation charged to OCS	-	1,538	-	-	-	-	-	-	**1,538**
At 31 March 2010	**24,812**	**74,438**	**5,081**	**689**	**1,362**	**9,743**	**1,649**	**-**	**117,774**
Accumulated depreciation									
At 1 April 2009	-	4,698	4,091	194	717	7,608	-	-	**17,308**
Revaluation adjustment	-	(4,698)	-	-	-	-	-	-	**(4,698)**
Charge in year	-	1,585	344	37	138	982	-	-	**3,086**
Impairments	-	-	-	-	-	-	-	-	**-**
Released on disposal	-	-	-	(11)	-	(777)	-	-	**(788)**
Revaluation	-	-	-	-	-	-	-	-	**-**
Gain/(Loss) on revaluation charged to OCS	-	(1,585)	-	-	-	-	-	-	**(1,585)**
At 31 March 2010	**-**	**-**	**4,435**	**220**	**855**	**7,813**	**-**	**-**	**13,323**
Net book value 1 April 2009	24,300	72,901	931	159	461	1,533	1,649	-	**101,934**
Net book value 31 March 2010	**24,812**	**74,438**	**646**	**469**	**507**	**1,930**	**1,649**	**-**	**104,451**

Included in property, plant and equipment additions is £52k (2008-09: £196k) of capital expenditure accruals.

Group Property, Plant and Equipment 2008-09

	Land £000	Buildings £000	Leasehold Improvement £000	Plant & Machinery £000	Furniture & Equipment £000	IT Equipment £000	Antiques £000	Assets under construction £000	Total £000
Cost/valuation									
At 1 April 2008 (Restated)	27,725	83,175	4,944	302	1,201	8,454	1,648	155	**127,604**
Transfers	-	-	-	-	-	-	-	(155)	**(155)**
Additions	-	-	81	130	19	688	1	-	**919**
Impairments	(3,425)	(5,576)	-	-	-	-	-	-	**(9,001)**
Disposals	-	-	(3)	(79)	(42)	(1)	-	-	**(125)**
At 31 March 2009	**24,300**	**77,599**	**5,022**	**353**	**1,178**	**9,141**	**1,649**	**-**	**119,242**
Accumulated depreciation									
At 1 April 2008	-	7,533	(1,339)	205	638	6,609	-	-	**13,646**
Transfers	-	(4,541)	4,541	-	-	-	-	-	**-**
Charge in year	-	1,706	889	32	120	999	-	-	**3,746**
Impairments	-	-	-	-	-	-	-	-	**-**
Released on disposal	-	-	-	(43)	(41)	-	-	-	**(84)**
At 31 March 2009	**-**	**4,698**	**4,091**	**194**	**717**	**7,608**	**-**	**-**	**17,308**
Net book value 1 April 2008	27,725	75,642	6,283	97	563	1,845	1,648	155	**113,958**
Net book value 31 March 2009	**24,300**	**72,901**	**931**	**159**	**461**	**1,533**	**1,649**	**-**	**101,934**

Included in 2007-08 property, plant and equipment additions is £419k of capital expenditure accruals.

The net book value of property, plant and equipment comprises:

	Core Treasury £000	APA £000	DMO £000	OGC £000	Group £000
1 April 2008	113,378	-	548	32	**113,958**
31 March 2009 (Restated)	101,463	-	461	10	**101,934**
31 March 2010	**103,860**	**309**	**282**	-	**104,451**

11.2 Land and Buildings

11.2.1 1 Horse Guards Road

The accounting treatment adopted by HM Treasury is consistent with that of HM Revenue and Customs in respect of the joint arrangement for the land and building on site. 1 Horse Guards Road is financed via a PFI contract. In line with our accounting policy a full valuation was carried out by the Valuation Office Agency (VOA) in March 2010 resulting in an upward revaluation of £2,050k (note 11) of which £512k is attributable to land and £1,538k to the building. In accordance with IAS16 the revaluation of the building has been charged to the OCS as it reverses a previous downward revaluation. The accumulated depreciation has been eliminated against the gross carrying amount of the asset with the net amount restated to equal the revalued amount. The revaluation of the land has been credited to the revaluation reserve.

12. Intangible assets – software licences and externally generated software, assets under construction and internally generated software

Group

	2009-10				2008-09 (Restated)			
	Software licenses/ externally generated software £000	Assets under construction £000	Internally generated software £000	Total £000	Software licenses £000	Assets under construction £000	Internally generated software £000	Total £000
Cost/valuation								
At 1 April	11,761	-	3,289	**15,050**	10,018	-	2,996	**13,014**
Transfers	(220)	220	-	-	155	-	-	**155**
Additions	2,399	1,280	655	**4,334**	1,643	-	293	**1,936**
Impairments	-	-	-	-	-	-	-	-
Disposals	(2,610)	-	(248)	**(2,858)**	(55)	-	-	**(55)**
Revaluation	-	-	-	-	-	-	-	-
Gain/(Loss) on revaluation charged to OCS	-	-	-	-	-	-	-	-
At 31 March	**11,330**	**1,500**	**3,696**	**16,526**	**11,761**	**-**	**3,289**	**15,050**
Accumulated depreciation								
At 1 April	9,089	-	2,993	**12,082**	7,557	-	2,714	**10,271**
Charge in year	1,537	-	405	**1,942**	-	-	-	-
Impairments	-	-	-	-	1,587	-	279	**1,866**
Disposals	(2,582)	-	(248)	**(2,830)**	-	-	-	-
Revaluation	-	-	-	-	(55)	-	-	**(55)**
Gain/(Loss) on revaluation charged to OCS	-	-	-	-	-	-	-	-
At 31 March	**8,044**	**-**	**3,150**	**11,194**	**9,089**	**-**	**2,993**	**12,082**
Net book value 1 April	2,672	-	296	**2,968**	2,461	-	282	**2,743**
Net book value 31 March	**3,286**	**1,500**	**546**	**5,332**	**2,672**	**-**	**296**	**2,968**

Included in intangible asset additions is £1,077k (2008-09: £76k and 2007-08: £208k) of capital expenditure accruals.

The net book value of intangible assets comprises:

	Core Treasury £000	APA £000	DMO £000	OGC £000	Group £000
1 April 2008	1,838	-	905	-	**2,743**
31 March 2009 (Restated)	2,266	-	702	-	**2,968**
31 March 2010	**1,776**	**2,540**	**1,016**	**-**	**5,332**

13. Available-for-Sale and Derivative Financial Assets and Liabilities

13a The Department holds the following Available-for-Sale assets to facilitate delivering its aims and objectives

	At 1 April 2008	At 1 April 2009 £000	Additions £000	Transfers £000	Repayments £000	Fair Value Adjustment £000	Amortisation £000	Impairments £000	At 31 March 2010 £000
Core Treasury									
Available-for-Sale Assets (AFS)[1]									
Bank of England	2,293,000	3,321,000	-	-	-	903,000	-	-	**4,224,000**
Partnerships UK Ordinary Shares	7,865	7,865	-	-	-	-	-	-	**7,865**
Royal Mint Public Dividend Capital	5,500	5,500	-	-	-	-	-	-	**5,500**
Northern Rock Plc Shares	-	-	1,400,000	-	-	-	-	-	**1,400,000**
Northern Rock Asset Management Shares	-	-	-	-	-	-	-	-	**-**
Bradford & Bingley Ordinary Shares	-	-	-	-	-	-	-	-	**-**
RBS Preference Shares	-	5,052,647	-	-	(5,052,647)	-	-	-	**-**
RBS Ordinary Shares (13a.1)	-	5,599,180	5,331,154	-	-	6,513,393	-	-	**17,443,727**
RBS B Shares	-		25,500,000	-		(3,060,000)	-	-	**22,440,000**
RBS Dividend Access Shares	-	-	-	-	-	2,475,297	-	-	**2,475,297**
Lloyds Banking Group Preference Shares	-	4,044,484	-	-	(4,044,484)	-	-	-	**-**
Lloyds Banking Group Ordinary Shares (13a.1)	-	5,019,496	7,587,258	-	-	5,174,736	-	(451,575)	**17,329,915**
UKFI Ordinary Shares	-	-	-	-	-	-	-	-	**-**
Deposits Management (Heritable) Ltd.	-	-	-	-	-	-	-	-	**-**
Core Treasury AFS Assets Sub total	**2,306,365**	**23,050,172**	**39,818,412**	**-**	**(9,097,131)**	**12,006,426**	**-**	**(451,575)**	**65,326,304**
Others									
Buying Solutions Public Dividend Capital	350	350	-	-	-	-	-	-	**350**
Others AFS Assets Sub total	**350**	**350**	**-**	**-**	**-**	**-**	**-**	**-**	**350**
Group total	**2,306,715**	**23,050,522**	**39,818,412**	**-**	**(9,097,131)**	**12,006,426**	**-**	**(451,575)**	**65,326,654**

[1] The category "Available-for-Sale" is consistent with terminology defined under IFRS. For a more detailed definition of "Available-for-Sale" see note 1.18.

13a.1 Additional disclosure relating to the Available-for-Sale investments managed on a tranche by tranche basis

	At 1 April 2008	At 1 April 2009 £000	Additions £000	Transfers £000	Repayments £000	Fair Value Adjustment £000	Amortisation £000	Impairments £000	At 31 March 2010 £000
Royal Bank of Scotland (Ordinary shares)									
Purchase of shares in October 2008	-	5,599,180	-	-	-	4,456,492	-	-	**10,055,672**
Participation in rights issue in April 2009	-	-	5,331,154	-	-	2,056,901	-	-	**7,388,055**
Total for Royal Bank of Scotland	-	**5,599,180**	**5,331,154**	-	-	**6,513,393**	-	-	**17,443,727**
Lloyds Banking Group (Ordinary shares)									
Purchase of shares in October 2008	-	1,826,582	-	-	-	-	-	(164,327)	**1,662,255**
Conversion of HBOS shares into Lloyds ordinary shares in January 2009	-	3,192,914	-	-	-	-	-	(287,248)	**2,905,666**
Participation in rights issue in June 2009	-	-	1,737,546	-	-	1,100,491	-	-	**2,838,037**
Participation in rights issue in December 2009	-	-	5,849,712	-	-	4,074,245	-	-	**9,923,957**
Total for Lloyds Banking Group	-	**5,019,496**	**7,587,258**	-	-	**5,174,736**	-	**(451,575)**	**17,329,915**

The weighted average price for RBS shares is £0.50 and LBG shares is £0.74 as at 31 March 2010.

13b The department holds the following derivatives financial assets

	At 1 April 2008 £000	At 1 April 2009 £000	Transfers £000	Cash Movements £000	Fair Value Adjustment £000	At 31 March 2010 £000
Core Treasury						
Ordinary share forward contract	-	1,018,341	-	-	(1,018,341)	-
Forward currency contracts expiring within one year	-	8,872	-	-	354,937	**363,809**
Forward currency contracts due after more than one year	-	18,594	-	-	149,212	**167,806**
Total	-	**1,045,807**	-	-	**(514,192)**	**531,615**

13c The department holds the following derivatives financial liabilities

	At 1 April 2008 £000	At 1 April 2009 £000	Transfers £000	Cash Movements £000	Fair Value Adjustment £000	At 31 March 2010 £000
Core Treasury						
Ordinary share forward contract	-	427,607	-	-	(427,607)	-
BEAPFF	-	-	-	-	87,199	87,199
APS derivative	-	-	-	1,400,000	(200,000)	1,200,000
Forward currency contracts expiring within one year	-	17,474	-	-	288,390	305,864
Forward currency contracts expiring after more than one year	-	21,721	-	-	204,280	226,001
Total	-	466,802	-	1,400,000	(47,738)	1,819,064

13.1 Bank of England

The Bank of England was set up as a corporate body under the Bank of England Act 1946 as the central bank of the United Kingdom. Its two core purposes are to ensure monetary and financial stability. The Bank Charter Act 1844 requires that the Bank's note issue function be separated from its other activities. Accordingly, for accounting purposes, the Bank is divided into Issue Department and Banking Department, which are accounting designations and reporting entities. The Issue Department is solely concerned with the note issue and the assets backing the issue. The Banking Department comprises all other activities of the Bank.

HM Treasury wholly owns the capital stock in the Bank of England. It is required to pay HM Treasury in lieu of dividend a sum equal to 50 per cent of the Bank of England's net profit for its previous financial year, or such other sum as HM Treasury and the Bank of England may agree. A dividend of £97 million (2008-09: £417 million) is payable. As at 31 March 2010, the equity interest has been revalued to the net asset value. The associated cost of capital is £137.8 million (2008-09: £125.7 million). For details on the calculation of the cost of capital see note 1.9.

In accordance with the special accounts direction, the investment in Bank of England is valued as per the net asset value set out in their published accounts.

13.1.1 Extracts from the Banking Department's Accounts for the Year Ended 28 February 2010

	2010 £ million	2009 £ million
Extracts from the income statement		
Profit before tax	231	995
Corporation tax net of tax relief on payment to HM Treasury	(37)	(162)
Profit for the year attributable to shareholder	**194**	**833**
Payment to HM Treasury (see note 9)	(97)	(417)
Profit retained for the year	**97**	**416**
Extracts from the balance sheet		
Assets		
Loans and advances to banks and other financial institutions	12,510	136,829
Other loans and advances	199,935	815
Financial assets at fair value through profit and loss	4,085	3,334
Available-for-Sale securities	4,390	3,937
Other assets	2,184	3,013
Total assets	**223,104**	**147,928**
Liabilities		
Money market instruments in issue	-	42,212
Deposits from central banks and other financial institutions	181,349	66,542
Foreign Currency bonds in issue	4,126	2,965
Derivative Financial instruments	263	81
Other liabilities	33,142	32,807
Total liabilities	**218,880**	**144,607**
Total equity attributable to shareholders'	**4,224**	**3,321**

For further information, refer to the full Bank of England Report and Accounts, which can be viewed on the following website: www.bankofengland.co.uk

As per the Issue Department, notes in circulation at 28 February 2010 totalled £50.22 billion (2009: £48.61 billion). The notes are a liability of the Bank of England, which must be backed by an equivalent value of securities. Total securities and other assets held by the Issue Department at 28 February 2010 were £50.22 billion (2009: £48.61 billion), which included the Ways and Means Advance to the National Loans Fund of £0.37 billion (2009: £4.14 billion), British Government stocks of £5.31 billion (2009: 5.44 billion), deposits with the Banking Department of £26.65 billion (2009: £29.23 billion) and reverse repurchase agreements of £17.89 billion (2009: £9.80 billion).

The amount payable to HM Treasury (to the National Loans Fund) by the Issue Department for the year ended 28 February 2010 was £491 million (2009: £2.19 billion). 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.

13.2 Royal Mint

The Royal Mint was set up in 1975 as a Trading Fund under the Government Trading Fund Act 1973 and became an Agency in 1990. The trade, assets and liabilities of the Trading Fund were vested into a Government-owned subsidiary company on 31 December 2009. This company, Royal Mint Ltd, manufactures and supplies coins, medals, seals and similar articles. HM Treasury wholly owns the Public Dividend Capital of the Royal Mint Trading Fund (and therefore its subsidiary company). In accordance with the FReM, HM Treasury's investment is shown at its historical cost. A dividend of £4 million was declared for the year 2009-10 (2008-09: £4 million). The associated cost of capital is £2.6 million (2008-09 £2.5 million). For details on the calculation of the cost of capital see note 1.9.

13.2.1 Extracts from the Royal Mint's Accounts for the Year Ended 31 March 2010

	2010 £000	2009 £000
Extracts from the Profit and Loss statement		
Turnover	172,761	159,009
Operating profit	5,258	4,588
Net interest payable	(1,062)	(322)
Profit before taxation	**4,196**	**4,266**
Tax on profit/(loss) of ordinary activities	(443)	-
Loss for the year	**3,753**	**4,266**
Extracts from the statement of financial position		
Non-current assets	33,375	33,144
Current assets	82,789	68,655
Liabilities due within one year	(53,779)	(37,422)
Liabilities due after more than one year	(3,269)	(8,457)
Net assets and shareholders' funds	**59,116**	**55,920**

For further information, refer to the full Royal Mint Report and Accounts, which can be viewed on the following website www.royalmint.com

13.3 Partnerships UK

Partnerships UK plc (PUK) was established on 1 April 2000. Its purpose is to provide a permanent and sustainable centre of expertise to develop the Government's Public Private Partnership programme. Equity in PUK was partially sold during March 2001, with 51 per cent of the shares being allocated to private investors, and 4.4 per cent being allocated to the Scottish Executive. HM Treasury retains an equity interest of 44.6 per cent of the shares.

In the 2009 Pre-Budget Report the then Government announced that it had commenced discussions with Partnerships UK's board with a view to HM Treasury acquiring, as part of the creation of Infrastructure UK, the capabilities within PUK that support the delivery of major projects and programmes. Those discussions are ongoing. Following the announcement, HM Treasury's management has reviewed the equity interest and impaired it to reflect the sale of PUK. This has resulted in the fair value being equal to the carrying value as at 31 March 2009.

The associated cost of capital charge is £0.3 million (2008-09: £0.3 million). PUK has paid a dividend of £1.8 million in 2009-10 (none in 2008-09 as it had a policy of not paying dividends to its shareholders, with any surpluses being reinvested in the business).

The 2009-10 Annual Accounts of PUK have not been published as at the date of the publication of these accounts.

13.3.1 Extracts from PUK's Accounts for the Year Ended 31 March 2009

	2009*
	£000
Extracts from the Profit and Loss statement	
Turnover: group and share of joint ventures	23,084
Profit/(Loss) on ordinary activities before taxation	17,764
Tax credit/(charge) on loss of ordinary activities	(5,366)
Profit/(Loss) for the year	**12,398**
Extracts from the statement of financial position	
Non-current assets	17,130
Current assets	60,388
Payables falling due within one year	(9,742)
Payables falling due after more than one year	(36,083)
Net assets and shareholders' funds	**31,693**

* From published 2008-09 Accounts. For further information, refer to the full PUK Report and Accounts, which can be viewed on the following website www.partnershipsuk.org.uk

13.4 Buying Solutions

Buying Solutions, originally known as The Buying Agency, was set up in 1991 as a Trading Fund under the Government Trading Fund Act 1973. It provides procurement services to other government bodies. OGC owns 100 per cent of the issued Public Dividend Capital of Buying Solutions. In accordance with the FReM, OGC's investment is shown at its historical cost. A dividend of £2.1 million is payable for the year ended 31 March 2010 (2008-09 £2.1 million). The associated cost of capital is £2.1 million (2008-09 £2.1 million). For details on the calculation of the cost of capital see note 1.9.

13.4.1 Extracts from Buying Solutions' Accounts for the Year Ended 31 March 2010

	2010 £000	2009* (Restated) £000
Extracts from the income statement		
Turnover	104,430	91,789
Operating surplus/(deficit)	(3,588)	(244)
Net interest receivable and payable	33	508
Surplus/(deficit) for the year	**(3,555)**	**264**
Dividend to be surrendered to OGC	(2,106)	(2,082)
Retained surplus/(deficit)	**(5,661)**	**(1,818)**
Extracts from the statement of financial position		
Non-current assets	10,443	11,196
Current assets	33,236	33,522
Liabilities due within one year	(15,102)	(12,722)
Liabilities due after more than one year	(321)	(446)
Net assets and shareholders' funds	**28,256**	**31,550**

*The 2008-09 Accounts have been restated to reflect the merger of PASA and first time adoption of IFRS.
For further information, refer to the full Buying Solutions' Report and Accounts, which can be viewed on the following website www.buyingsolutions.gov.uk

13.5 Northern Rock (Asset Management) plc and Northern Rock Plc

In February 2009, the then Government announced that subject to state aid approval Northern Rock Plc would be restructured into two separate entities, with its back book of mortgages to be managed separately to its other business.

In January 2010, the legal and capital restructure of the former Northern Rock Plc was completed following approval from the European Commission. This resulted in the business being split between two separate companies, a new bank, Northern Rock plc (NR) and the existing company renamed, Northern Rock (Asset Management) plc (NR(AM)).

All customers' deposits and a proportion (around 10 per cent) of the mortgage book were transferred to NR, a new bank offering mortgage and savings' products. The remaining mortgages, the existing loan from HM Treasury and all wholesale funding remained in NR(AM).

The Ordinary and Preference shares that were transferred to HM Treasury following the Northern Rock plc Transfer Order 2008 continue to be carried at historic cost, which is nil. This is in line with FReM and the valuation of the company by the Independent valuer on 30 March 2010. Please see note 27 for further information.

The ordinary shares in Northern Rock plc (the new bank) are carried at historic cost in line with FReM.

The March 2010 Budget announced that Northern Rock (Asset Management) plc and Bradford & Bingley plc will be integrated under a single holding company. For further details see note 27.1.

See note 27 for detail on the cost of capital.

13.5.1 Extracts from Northern Rock (Asset Management) plc's Accounts for the Year Ended 31 December 2009

	2009 £ million	2008 £ million
Extracts from the income statement		
Total income	1,107	254
Loss before taxation	(258)	(1,356)
Tax on profit/(loss) of ordinary activities	(19)	46
Loss for the year	**(277)**	**(1,310)**
Extracts from the balance sheet		
Total assets	87,445	104,346
Total liabilities	(86,390)	(103,712)
Total equity	**1,055**	**634**
Total non-shareholders' funds	(1,441)	(1,036)
Total equity attributable to equity shareholders'	**(386)**	**(402)**

For further information, refer to the full Northern Rock (Asset Management) plc Report and Accounts, which can be viewed on the following website www.northernrockassetmanagement.co.uk

Of the NR(AM) net assets of £1,055 million, £0.9 million of net liability was transferred to NR from 1 January 2010. On 31 December 2009, HM Treasury provided NR with £1.4 billion of capital support in order for the company to meet the FSA's regulatory capital requirements.

13.6 Bradford & Bingley Plc

Bradford & Bingley Plc (B&B) is a UK based financial services business. On 29 September 2008 the Chancellor of the Exchequer announced under the Banking (Special Provisions) Act 2008 that all shares of B&B were transferred into public ownership. Immediately after this transfer, B&B's UK retail deposit along with its branch network and its Isle of Man operations were transferred to Abbey National plc. The remaining assets and liabilities of B&B - principally comprising its mortgage book, personal loan book, headquarters and relevant staff, and treasury assets and its wholesale liabilities remain in public ownership and will be wound down over a period of time.

In accordance with the FReM, the shares are being carried at historic cost. This is currently shown as nil, which is in line with the conclusion of the independent valuer. 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's shareholders and bondholders. Full report can be viewed on the website http://www.bandbvaluer.org.uk. Please see note 28 and 40.1 for further information.

The March 2010 Budget announced that Northern Rock (Asset Management) plc and Bradford & Bingley plc will be integrated under a single holding company. For further details see note 27.1.

See note 28 for detail on the cost of capital.

13.6.1 Extracts from Bradford & Bingley Plc's Accounts for the Year Ended 31 December 2009

	2009 £ million	2008 £ million
Extracts from the income statement		
Total income	623	887
Profit/(Loss) before taxation	(196)	134
Tax on profit of ordinary activities	98	(116)
Profit/(Loss) for the year	**(98)**	**18**
Extracts from the balance sheet		
Total assets	49,395	55,923
Total liabilities	(48,000)	(54,765)
Net assets and shareholders' funds	**1,395**	**1,158**

For further information, refer to the full Bradford & Bingley's Report and Accounts, which can be viewed on their website www.bbg.co.uk

13.7 Deposits Management (Heritable) Limited

Deposits Management (Heritable) Limited (DMH) is a subsidiary of HM Treasury set up to facilitate the restructuring of Heritable Bank Plc. DMH has net assets of £1. In accordance with the FReM, the shares are being carried at historic cost. In June 2010 DMH was placed into members' voluntary liquidation and any dividend payable on the completion of this process will be paid to Heritable (in administration).

Please see note 31 for further information on Heritable Bank Plc.

13.7.1 Extracts from Deposits Management (Heritable) Limited's Accounts for the Period Ended 30 April 2010

	2010 £000
Extracts from the income statement	
Total income	16
Profit/(Loss) before taxation	-
Tax on profit of ordinary activities	-
Profit/(Loss) for the year	**-**
Extracts from the balance sheet	
Total assets	1,016
Total liabilities	(1,016)
Net assets and shareholders' funds	**-**

13.8 UK Financial Investments Limited

UK Financial Investments Limited (UKFI) was created by the Government on 3 November 2008, as part of its response to the financial crisis, to manage the investments it has taken in UK banks in the interests of wider financial stability.

Its overarching objective is to protect and create value for the taxpayer as shareholder, with due regard to financial stability and acting in a way that promotes competition. UKFI is funded by fee income from the HM Treasury. Its activities are governed by its Board, which is accountable to the Chancellor of the Exchequer and – through the Chancellor – to Parliament.

In accordance with the FReM, the HM Treasury's shares in UKFI are being carried at historic cost, which is £1.

13.8.1 Extracts from UK Financial Investments Limited's Accounts for the Year Ended 31 March 2010

	2010	2009
	£000	£000
Extracts from the income statement		
Total income	3,944	1,242
Administrative and other expenses	(3,944)	(1,242)
Profit/(loss) for the year	-	-
Extracts from the statement of financial position		
Total assets	850	916
Total liabilities	(850)	(916)
Net assets and shareholders' funds	-	-

For further information, refer to the full UK Financial Investments Limited's Report and Accounts, which can be viewed on the following website www.ukfi.co.uk

13.9 Royal Bank of Scotland Group Plc

The Royal Bank of Scotland Group Plc (RBS) is a British banking and insurance holding company.

As part of the Government Recapitalisation Scheme 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.

For further information on the above, please see note 31 of HM Treasury's 2008-09 Resource Accounts.

Following the 19 January 2009 announcement, RBS conducted an open offer to all existing shareholders in order to fund the preference share redemption.

On 3 April 2009 shareholders approved the issue of the new ordinary shares and redemption of the preference shares at RBS's Extraordinary General Meeting.

In line with the terms of the conversion HM Treasury underwrote the open offer and subscribed to those shares not taken up by existing shareholders. The subscription price due from HM Treasury for these shares was then offset against RBS's obligation to pay the redemption price in respect of the preference shares (together with the accrued coupon and the underwriting fees) to HM Treasury.

On 7 April 2009, the results of the open offer were announced, allowing the redemption to take place on 15 April 2009.

On 26 November 2009, the Government and RBS signed binding agreements under which the Government injected £25.5 billion of capital in the form of B shares - equal to the £25.5 billion total capital commitment announced in February 2009, which comprised £13 billion in upfront capital, £6 billion of capital to be drawn at the option of RBS and £6.5 billion in a fee taken as capital.

As a result the Government's economic ownership of RBS rose to 83.2 per cent as at 31 March 2010. HM Treasury agreed that it would not vote in respect of the B shares to the extent that such votes, together with any votes that the Treasury is entitled to cast in respect of any ordinary shares held by it, would exceed 75 per cent of the total votes eligible to be cast on a resolution. It currently holds 68.4 per cent of the total ordinary share capital of RBS.

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'). This will ensure that RBS is properly and robustly secured in a severe downturn. This commitment has a duration of five years, and this capital can only be retired early if the FSA judges it is no longer required

In accordance with the Special Accounts Direction, the shares are being carried at fair value, as there is observable market data.

Please see note 29 for further information on RBS.

For details on cost of capital, see note 29.

13.9.1 Extracts from Royal Bank of Scotland Group Plc's Accounts for the Year Ended 31 December 2009

	2009 £ million	2008* (Restated) £ million
Extracts from the income statement		
Total income	38,690	25,868
(Loss) before taxation	(2,595)	(40,836)
Tax on loss of ordinary activities	371	2,323
Profit/(Loss) from discontinued operations, net of tax	(99)	3,971
Profit/(loss) for the year	**(2,323)**	**(34,542)**
Extracts from the balance sheet		
Total assets	1,696,486	2,401,652
Total liabilities	(1,601,855)	(2,321,154)
Net assets and shareholders' funds	**94,631**	**80,498**

* There is no effect on the net asset position
For further information, refer to the full Royal Bank of Scotland Group Plc's Report and Accounts pages 241 & 243, which can be viewed on the following website www.rbs.com

13.10 Lloyds Banking Group Plc

Lloyds Banking Group (LBG) was formed on the 19 January 2009 from the merger of Lloyds TSB and HBOS.

Following the Government announcement on 13 October 2008, 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.

These transactions resulted in HM Treasury holding 43.4 per cent of the enlarged share capital and £4 billion of preference shares in LBG.

On 7 March 2009 the Government announced its agreement with LBG to redeem HM Treasury's £4 billion preference share investment. In order to fund the redemption of HM Treasury's preference share holding, LBG conducted a placing and open offer of ordinary shares to all its existing shareholders. Existing shareholders had the opportunity to subscribe for new ordinary shares at a price of 38.43 pence per ordinary share.

On 8 and 11 June 2009 HM Treasury redeemed its preference shareholding and subscribed to its pro rata entitlement of ordinary shares under the open offer.

In December 2009, LBG raised additional capital through a combination of a £13.5 billion rights issue, and swapping £9 billion of existing debt for contingent capital, equity or cash. HM Treasury took up its rights as a shareholder in LBG to participate in the planned capital raising, investing £5.7 billion net of an underwriting fee. The Government's shareholding in LBG as at end March 2010 was 41.3 per cent.

In accordance with the Special Accounts Direction, the shares are being carried at fair value, as there is observable market data.

Please see note 30 for further information on LBG.

For details on cost of capital, see note 30.

13.10.1 Extracts from Lloyds Banking Group Plc's Accounts for the Year Ended 31 December 2009

	2009 £ million	2008* (Restated) £ million
Extracts from the income statement		
Total income	45,297	7,009
Profit before taxation	1,042	760
Tax on profit of ordinary activities	1,911	38
Profit for the year	**2,953**	**798**
Extracts from the statement of financial position		
Total assets	1,027,255	436,033
Total liabilities	(983,148)	(426,334)
Net assets and shareholders' funds	**44,107**	**9,699**

* There is no effect on the net asset position

For further information, refer to the full Lloyds Banking Group Plc's Report and Accounts pages 127, 129 & 130, which can be viewed on the following website www.lloydsbankinggroup.com

14. Loans & Receivables

14.1 Loans and advances to financial institutions

	At 1 April 2008 £000	At 1 April 2009 £000	Additions £000	Transfers[1] £000	Loan Repayments £000	Impairment Reversals £000	Amortisation £000	Impairments £000	At 31 March 2010 £000
Core Treasury									
Loans and Receivables									
Partnerships UK Loan Stock	15,594	15,594	-	-	(7,797)	-	-	-	**7,797**
Northern Rock Loan (prior to restructuring)	19,300,000	14,561,479	-	(14,315,459)	(246,020)	-		-	**-**
Northern Rock Asset Management loan[2]	-	-	8,656,737	14,315,459	(2,192)	-	-	-	**22,970,004**
Bradford & Bingley statutory debt	-	3,040,404	53	(1,333,329)	-	374,225	55,629	-	**2,136,982**
Bradford & Bingley working capital facility	-	6,000,000	2,550,000	-	-	-	-	-	**8,550,000**
Bradford & Bingley loan asset	-	320,932	-	(320,932)	-	-	-	-	**-**
KSF statutory debt	-	233,394	27	(52,793)	(147,622)	120,353	9,237	-	**162,596**
London Scottish statutory debt	-	7,021	7,701	-	-	-	224	(6,758)	**8,188**
Heritable statutory debt	-	34,181	339	44,598	(31,932)	-	2,515	(9,245)	**40,456**
Icesave statutory debt	-	415,238	132,054	103,876	-	-	21,182	(68,637)	**603,713**
Dunfermline statutory debt	-	1,452,344	-	-	(15,421)	-	47,859	(84,936)	**1,399,846**
FSCS Bradford & Bingley loan	-	14,207,293	4,684	1,654,261	(207,293)	-	-	-	**15,658,945**
FSCS KSF loan	-	2,793,560	333	52,793	(1,079,750)	-	-	-	**1,766,936**
FSCS Heritable loan	-	519,171	1,751	(44,598)	(168,970)	-	-	-	**307,354**
FSCS London Scottish loan	-	88,485	92,299	-	-	-	-	-	**180,784**
FSCS Icesave Loan	-	3,369,924	219,658	(2,171,524)	(5,249)	-	-	-	**1,412,809**
Depositors' and Investors' Guarantee Fund (DIGF) loan	-	-	178,287	2,067,648	-	-	-	-	**2,245,935**
Loans given by IFUL[3]	-	-	46,387	-	-	-	-	-	**46,387**
Loans and Receivables Sub total	**19,315,594**	**47,059,020**	**11,890,310**	**-**	**(1,912,246)**	**494,578**	**136,646**	**(169,576)**	**57,498,732**

Please see notes 1.23 and 27-35 on the recoverability assessment of the Northern Rock Asset Management, Bradford & Bingley, Heritable, KSF, Icesave and DIGF loans

[1] Revisions to FSCS and share of the deposit liabilities following FSCS due diligence analysis carried out in line with its statutory and contractual obligations. See notes 27-35 for further information.
[2] Included in Northern Rock additions is a non-cash addition of £150 million, which is the capitalised interest earned in the period November 2008 to January 2009.
[3] Refer to note 36.6 for further information on IFUL.

14.2 Trade Receivables & other current assets

14.2a Analysis by Type

	2009-10		2008-09		2007-08	
	Core Treasury £000	Group £000	Core Treasury £000	Group £000	Core Treasury £000	Group £000
Amounts falling due within one year						
Other taxation and social security	4,236	4,344	4,126	4,154	2,018	1,925
Trade receivables	7,395	8,817	4,730	6,739	2,229	4,185
Deposits and advances	264	351	290	366	293	375
Other receivables	28	204	29	40	2	59
Prepayments and accrued income financed by Supply	10,684	13,464	23,727	26,898	4,385	7,456
Sub-total: Supply financed balances	**22,607**	**27,180**	**32,902**	**38,197**	**8,927**	**14,000**
Accrued income from financial institutions due to the Consolidated Fund on receipt	559,875	559,875	908,448	908,448	81,000	81,000
Other accrued income due to the Consolidated Fund on receipt	3,357	3,357	151	151	15,074	15,074
Amounts due from the Consolidated Fund in respect of supply	803	106	5,513	4,224	-	-
Fee receivable for financial guarantees	1,465,470	1,465,470	1,083,672	1,083,672	-	-
	2,052,112	**2,055,988**	**2,030,686**	**2,034,692**	**105,001**	**110,074**
Amounts falling due after more than one year						
Other receivables (Supply financed)	1,318	1,325	-	9	-	9
Prefunding for premature retirements (Supply financed)	-	-	-	-	3	3
Accrued investment income	1,189	1,189				
Fees receivable for financial guarantees	1,520,953	1,520,953	2,690,707	2,690,707	-	-
	1,523,460	**1,523,467**	**2,690,707**	**2,690,716**	**3**	**12**
Total	**3,575,572**	**3,579,455**	**4,721,393**	**4,725,408**	**105,004**	**110,086**
Of which						
Due to the Consolidated Fund on receipt	**3,550,844**	**3,550,844**	**4,682,978**	**4,682,978**	**96,074**	**96,074**

The Bank of England dividend is normally paid in two instalments, in April and October. Accordingly, the first instalment for 2009-10, £47 million, was received on 1 April 2010 and surrendered to the Consolidated Fund.

Included in the above figure of £3,357k for other accrued income due to the Consolidated Fund, is £3,050k relating to the third, final and interest instalments on the Barlow Clowes case.

14.2b Intra Government Balances

		Amounts falling due within one year			Amounts falling due after more than one year	
	2009-10	2008-09	2007-08	2009-10	2008-09	2007-08
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	5,957	5,701	6,669	-	-	3
Balances with local authorities	(443)	288	87	-	-	-
Balances with NHS Trusts	10	54	-	-	-	-
Balances with public corporations and trading funds	(822)	273	482	1,318	-	-
Sub total: intra government balances	**4,702**	**6,316**	**7,238**	**1,318**	**-**	**3**
Balances with bodies external to government	2,051,286	2,028,376	95,457	1,522,149	2,690,716	7,388
Total Receivables at 31 March	**2,055,988**	**2,034,692**	**102,695**	**1,523,467**	**2,690,716**	**7,391**

15. Inventories

		2009-10		2008-09		2007-08
	Core Treasury	Group	Core Treasury	Group	Core Treasury	Group
	£000	£000	£000	£000	£000	£000
Coinage scrap metal inventories	104	104	54	54	140	140
Finished coinage inventories awaiting issue	6,674	6,674	5,829	5,829	7,905	7,905
Total	**6,778**	**6,778**	**5,883**	**5,883**	**8,045**	**8,045**

HM Treasury pays for coins upon production in line with the Coinage Contract (UKCC). Production is in accordance with an agreed schedule and HM Treasury holds the stock of finished coins on its statement of financial position, as shown above.

Under the new contract which came into effect on 1 January 2010, the Mint will hold a 12 week supply of buffer stock which will be calculated by using the average weekly issue in the previous financial year x 12.

The increase in stock levels at 31 March 2010 compared to 31 March 2009 was due to buffer stocks being built up in Periods 10, 11 and 12 where there is very little, if any, demand.

16. Cash and cash equivalents

	2009-10 Core Treasury £000	2009-10 Group £000	2008-09 Core Treasury £000	2008-09 Group £000	2007-08 Core Treasury £000	2007-08 Group £000
Balance at 1 April	3,152	4,975	1,555	3,504	4,308	8,558
Net change in cash balances - inflow/(outflow)	(1,909)	(3,019)	1,597	1,471	(2,753)	(5,054)
Balance at 31 March	**1,243**	**1,956**	**3,152**	**4,975**	**1,555**	**3,504**
The following balances were held at 31 March:						
Government Banking Service	1,243	1,941	3,152	4,790	1,555	3,171
Bank of England	-	14	-	184	-	332
Cash in hand	-	1	-	1	-	1
Balance at 31 March	**1,243**	**1,956**	**3,152**	**4,975**	**1,555**	**3,504**

16.1 Reconciliation of Net Cash Requirement to Increase/(Decrease) in Cash

	Note	2009-10 Group £000	2008-09 Group £000	2007-08 Group £000
Net Cash Requirement		(45,447,736)	(88,309,709)	(207,309)
From the Consolidated Fund (Supply) – current year		45,451,856	88,916,520	205,257
Unused supply surrendered		-	(612,000)	-
Amounts due to the Consolidated Fund received and not paid	17.1	2,061	9,200	2,540
Amounts due to the Consolidated Fund – received in a prior year and paid over	17.1	(9,200)	(2,540)	(5,236)
From the Consolidated Fund (non-Supply)		-	1,555,162	-
Capital transaction (non-Supply)		-	(1,555,162)	-
Advance from the Contingencies Fund		-	-	(306)
Increase/(decrease) in cash		**(3,019)**	**1,471**	**(5,054)**

17. Trade payables and other liabilities

17.1 Analysis by Type

Amounts falling due within one year	2009-10 Core Treasury £000	2009-10 Group £000	2008-09 (Restated) Core Treasury £000	2008-09 (Restated) Group £000	2007-08 (Restated) Core Treasury £000	2007-08 (Restated) Group £000
Trade payables	808	1,599	2,067	2,795	1,077	4,456
Other payables	4,503	4,705	2,043	2,557	1,982	2,283
Other taxation and social security	1,514	2,201	1,396	1,919	1,369	1,907
Accruals and deferred income	30,274	40,392	34,920	42,340	25,532	29,185
Capital accruals	2,552	3,585	427,909	428,181	409	627
Subtotal: Supply financed working capital payables	**39,651**	**52,482**	**468,335**	**477,792**	**30,369**	**38,458**
PFI contract (note 22.2)	1,557	1,557	1,447	1,447	1,344	1,344
Deferred contingent capital fee income	240,000	240,000	-	-	-	-
Amounts issued from the Consolidated Fund for Supply but not spent at year end	-	-	-	-	901	965
Consolidated Fund extra receipts received	1,861	2,061	8,017	9,200	987	2,540
Consolidated Fund extra receipts receivable	1,117,831	1,117,831	1,483,892	1,483,892	96,214	96,214
Total	**1,400,900**	**1,413,931**	**1,961,691**	**1,972,331**	**129,815**	**139,521**

Amounts falling due after more than one year	2010 Core Treasury £000	2010 Group £000	2009 (Restated) Core Treasury £000	2009 (Restated) Group £000	2008 (Restated) Core Treasury £000	2008 (Restated) Group £000
PFI contract (note 22.2)	**130,653**	**130,653**	132,209	132,209	133,657	133,657
Bond from sub-tenants	-	-	-	-	-	167
Long term accruals and deferred income	3,484	6,643	-	-	-	-
Total	**134,137**	**137,296**	**132,209**	**132,209**	**133,657**	**133,824**

17.2 Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	2009-10 £000	2008-09 (Restated) £000	2007-08 (Restated) £000	2009-10 £000	2008-09 (Restated) £000	2007-08 (Restated) £000
Balances with other central government bodies	1,121,212	1,496,411	103,414	-	-	-
Balances with local authorities	53	39	-	-	-	-
Balances with NHS Trusts	(28)	28	28	-	-	-
Balances with public corporations and trading funds	2,542	674	1,665	-	-	-
Sub total: intra government balances	**1,123,779**	**1,497,152**	**105,107**	-	-	-
Balances with bodies external to government	290,152	475,179	34,414	137,296	132,209	133,824
Total Payables at 31 March	**1,413,931**	**1,972,331**	**139,521**	**137,296**	**132,209**	**133,824**

17.3 Other Liabilities - Financial Guarantees

	At 31 March 2010 £000	At 1 April 2009 £000	At 1 April 2008 £000
Core Treasury			
Financial Guarantees			
Credit Guarantee Scheme	2,094,089	2,261,443	-
Other	705,277	963,293	-
Total	**2,799,366**	**3,224,736**	**-**

Please see note 1.21 for further information.

18. Reconciliation of working capital movements for the purpose of the net cash requirement and the cash flow statement

Core Treasury

	Note	2009-10 Core Treasury £000	2008-09 (Restated) Core Treasury £000	Movement Core Treasury £000
Supply financed inventories (finished coins)	15	6,674	5,829	**845**
Supply financed receivables due within one year	14.2a	22,607	32,902	**(10,295)**
Supply financed receivables due after one year	14.2a	1,318	-	**1,318**
Supply financed payables due within one year	17.1	39,651	468,335	**428,684**
Supply financed payables due after one year	17.1	3,484	-	**(3,484)**
Supply financed working capital movement for the Net Cash Requirement (note 5)				**417,068**
Inventory	15	104	54	**50**
Receivables for income that will be surrenderable to the Consolidated Fund within one year	14.2a	2,028,702	1,992,271	**36,431**
Receivables for income that will be surrenderable to the Consolidated Fund over one year	14.2a	1,522,142	2,690,707	**(1,168,565)**
Deferred income not passing through OCS	17.1	(240,000)	-	**(240,000)**
Financial guarantee liabilities	17.3	(2,799,366)	(3,224,736)	**425,370**
Adjust for capital expenditure accruals	17.1	2,552	427,909	**(425,357)**
Working capital movement for the Cash Flow Statement				**(955,003)**

Group

	Note	2009-10 Group £000	2008-09 (Restated) Group £000	Movement Group £000
Supply financed inventories (finished coins)	15	6,674	5,829	**845**
Supply financed receivables due within one year	14.2a	27,180	38,197	**(11,017)**
Supply financed receivables due after one year	14.2a	1,325	9	**1,316**
Supply financed payables due within one year	17.1	52,482	477,793	**425,311**
Supply financed payables due after one year	17.1	6,643	-	**(6,643)**
Supply financed working capital movement for the Net Cash Requirement (note 5)				**409,812**
Inventory	15	104	54	**50**
Receivables for income that will be surrenderable to the Consolidated Fund within one year	14.2a	2,028,702	1,992,271	**36,431**
Receivables for income that will be surrenderable to the Consolidated Fund over one year	14.2a	1,522,142	2,690,707	**(1,168,565)**
Deferred income not passing through OCS	17.1	(240,000)	-	**(240,000)**
Financial guarantee liabilities	17.3	(2,799,366)	(3,224,736)	**425,370**
Adjust for capital expenditure accruals	17.1	3,585	428,181	**(424,596)**
Working capital movement for the Cash Flow Statement				**(961,498)**

The inventories movement of £50k (non-Supply) has been excluded from the working capital movement for the Net Cash Requirement but is included in the working capital movement for the Cash Flow Statement.

19. Provisions for liabilities and charges

2009-10

	Surplus leasehold property	Financial stability provisions	Other	Early departure & pension commitments	Total
	£000	£000	£000	£000	£000
Core Treasury					
Balance at 1 April 2009 (Restated)	-	25,294,700	84,644	1,798	**25,381,142**
Provided in the year	-	38,675	1,115	-	**39,790**
Provision utilised in year	-	(17,165)	-	(570)	**(17,735)**
Provision not required written back	-	(25,277,535)	(84,644)	-	**(25,362,179)**
Transfer from/(to) OCS	-	-	-	113	**113**
Unwinding of discount	-	-	-	40	**40**
Change in discount rate	-	-	-	46	**46**
At 31 March 2010	**-**	**38,675**	**1,115**	**1,427**	**41,217**
Others					
Balance at 1 April 2009 (Restated)	6,942	-	25	5,551	**12,518**
Provision utilised in year	(1,265)	-	(18)	(1,696)	**(2,979)**
Transfer from payables	-	-	-	-	**-**
Transfer from OCS	466	-	(7)	137	**596**
Unwinding of discount	139	-	-	125	**264**
Change in discount rate	-		-	152	**152**
At 31 March 2010	**6,282**	**-**	**-**	**4,269**	**10,551**
Group					
At 1 April 2009 (Restated)	6,942	25,294,700	84,669	7,349	**25,393,660**
At 31 March 2010	**6,282**	**38,675**	**1,115**	**5,696**	**51,768**

2008-09

	Surplus leasehold property £000	Northern Rock refinancing of loan £000	Financial stability provisions £000	Other £000	Early departure & pension commitments £000	Total £000
Core Treasury						
Balance at 1 April 2008 (Restated)	-	19,300,000	-	-	2,338	**19,302,338**
Provided in the year	-	-	25,294,700	84,644	-	**25,379,344**
Provision utilised in year	-	(18,781,456)	-	-	(976)	**(18,782,432)**
Provision not required written back	-	(518,544)	-	-	-	**(518,544)**
Transfer from/(to) OCS	-	-	-	-	427	**427**
Unwinding of discount	-	-	-	-	37	**37**
Change in discount rate					(28)	**(28)**
At 31 March 2009	**-**	**-**	**25,294,700**	**84,644**	**1,798**	**25,381,142**
Others						
Balance at 1 April 2008 (Restated)	7,391	-	-	275	8,003	**15,669**
Provision utilised in year	(1,134)	-	-	-	(2,815)	**(3,949)**
Transfer from payables	-	-	-	-	-	**-**
Transfer from OCS	546	-	-	(250)	341	**637**
Unwinding of discount	139	-	-	-	120	**259**
Change in discount rate					(98)	**(98)**
At 31 March 2009	**6,942**	**-**	**-**	**25**	**5,551**	**12,518**
Group						
At 1 April 2008 (Restated)	7,391	19,300,000	-	275	10,341	19,318,007
At 31 March 2009 (Restated)	**6,942**	**-**	**25,294,700**	**84,669**	**7,349**	**25,393,660**

Maturity analysis of provisions

for the year ended March 2010

	Surplus leasehold property £000	Financial stability provisions £000	Other £000	Early departure & pension commitments £000	Total £000
Core Treasury					
Provisions due within one year	-	38,675	1,115	481	**40,271**
Provisions due after more than one year	-	-	-	946	**946**
Balance at 31 March 2010	**-**	**38,675**	**1,115**	**1,427**	**41,217**
Other					
Provisions due within one year	1,095	-	-	407	**1,502**
Provisions due after more than one year	5,187	-	-	3,862	**9,049**
Balance at 31 March 2010	**6,282**	**-**	**-**	**4,269**	**10,551**
Group					
Provisions due within one year	1,095	38,675	1,115	888	**41,773**
Provisions due after more than one year	5,187	-	-	4,808	**9,995**
Balance at 31 March 2010	**6,282**	**38,675**	**1,115**	**5,696**	**51,768**

for the year ended March 2009

	Surplus leasehold property £000	Financial stability provisions £000	Other £000	Early departure & pension commitments £000	Total £000
Core Treasury					
Provisions due within one year	-	294,700	84,644	545	**379,889**
Provisions due after more than one year	-	25,000,000	-	1,253	**25,001,253**
Balance at 31 March 2009 (Restated)	**-**	**25,294,700**	**84,644**	**1,798**	**25,381,142**
Other					
Provisions due within one year	1,002	-	25	1,533	**2,560**
Provisions due after more than one year	5,940	-	-	4,018	**9,958**
Balance at 31 March 2009 (Restated)	**6,942**	**-**	**25**	**5,551**	**12,518**
Group					
Provisions due within one year	1,002	294,700	84,669	2,078	**382,449**
Provisions due after more than one year	5,940	25,000,000	-	5,271	**25,011,211**
Balance at 31 March 2009 (Restated)	**6,942**	**25,294,700**	**84,669**	**7,349**	**25,393,660**

	Surplus leasehold property £000	Northern Rock refinancing of loan £000	Other £000	Early departure & pension commitments £000	Total £000
Core Treasury					
Provisions due within one year	-	19,300,000	-	854	**19,300,854**
Provisions due after more than one year	-	-	-	1,484	**1,484**
Balance at 31 March 2008 (Restated)	**-**	**19,300,000**	**-**	**2,338**	**19,302,338**
Other					
Provisions due within one year	1,258	-	275	3,107	**4,640**
Provisions due after more than one year	6,133	-	-	4,896	**11,029**
Balance at 31 March 2008 (Restated)	**7,391**	**-**	**275**	**8,003**	**15,669**
Group					
Provisions due within one year	1,258	19,300,000	275	3,961	**19,305,494**
Provisions due after more than one year	6,133	-	-	6,380	**12,513**
Balance at 31 March 2008 (Restated)	**7,391**	**19,300,000**	**275**	**10,341**	**19,318,007**

19.1 Surplus leasehold property

OGC has responsibility for the disposal of 14 surplus leasehold properties on behalf of central civil government. The surplus leasehold property provision ensures that the future liabilities are provided for. These liabilities are assessed on the basis of the net present value of the future outgoings associated with the lease, discounted at 2.2 per cent (2008-09: 2.2 per cent). The expected timings of any resulting transfer of economic benefits are considered to be £1.1 million within one year and the balance after one year.

19.2 Financial stability provisions

The £25.3 billion provision as at 31 March 2009 largely comprised of a £25 billion provision in relation to the Asset Protection Scheme (APS). This was deemed to be a constructive obligation as no legally binding APS agreements with participating banks were signed at the time. Between March and Autumn 2009 work continued on finalising the terms and design of the APS. Meanwhile, confidence began to return to financial markets and LBG therefore considered alternatives to its participation 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. RBS entered into the APS on 26 November 2009 (subject to shareholder and State aid approval) under revised terms compared with the in-principle agreement reached in February 2009 and acceded to the APS on 22 December 2009. As HM Treasury's obligation under this scheme is accounted for at fair value through the OCS (with a derivative liability of £1.2 billion as at 31 March 2010 (note 13)), no provision under IAS 37 is required.

Of the remaining £0.3 billion which related to onerous contract provisions, £17.2 million has been utilised against the impairments on the respective statutory debts advances made in the current year. The remaining is released to the OCS. Further provisions have been made for potentially unrecoverable element of statutory debt payments yet to be made for commitments in excess of FSCS limits. The expected timing of any resulting transfer of economic benefits are considered to occur within the next financial year.

19.3 Other provisions

This included indemnities (note 36.2.5), specific dilapidations, legal costs, and other provisions. The provisions created in 2008-09 are no longer needed or have been reclassified as a derivative as a judgement has been made that it is more appropriately accounted for as a derivative. This is a prior period adjustment but it has not been restated, as the effect on the OCS is nil.

New provisions have been created for legal costs, costs to protect HM Treasury's employee's rights and conditions upon their transfer to Fujitsu and an indemnity provided to the Debt Management Account (DMA). HM Treasury has indemnified the DMA against any losses it suffers on the difference between the rates at which the funds are raised for Bank of England Asset Purchase Facility to deposit with the Bank and the rate received by the DMO on its deposit with the Bank – that is, Bank Rate. This the actual cost incurred as at the balance sheet date. When the BEAPFF is closed down, HM Treasury will pay a one off net amount to the DMA. The expected timings of any resulting transfer of economic benefits are considered to be less than one year, which is in line with the BEAPFF derivative liability.

19.4 Early departure & pension commitments

See statement of accounting policies - note 1.12. The expected timings of any resulting transfer of economic benefits are considered to be £4 million within one year and the balance after one year.

20. Notes to the consolidated statement of operating costs by departmental strategic objectives

	Programme grants and other current gross expenditure 2009-10 £000	Capital Employed 2009-10 £000	Programme grants and other current gross expenditure 2008-09 (Restated) £000	Capital Employed 2008-09 (Restated) £000
1a	15	2,036	-	3,423
1b	663	3,424	-	7,710
1c	203	8,758	235	22,222
1d	3,219	17,827	2,805	36,243
1e	45,725	40,815	58,225	91,590
Total DSO 1	**49,825**	**72,860**	**61,265**	**161,188**
2a	69,051	2,123,430	63,050	1,495,623
2b	524	2,620	-	5,906
2c	307	1,569	-	3,492
2d	1,045	66,137	1,251	38,571
2e	2,645,930	118,590,073	757,857	43,084,484
2f	19	1,710	(9)	2,371
2g	54	952	-	2,584
2h	127	669	1,767	13,460
Total DSO 2	**2,717,057**	**120,787,160**	**823,916**	**44,646,491**
Other costs	(55,758)	(26,472)	(110)	(900)
Exceptional items	(24,893,716)	-	43,934,881	-
Operating costs/net assets	**(22,182,592)**	**120,833,548**	**44,819,952**	**44,806,779**

Programme grants and other current gross expenditure and capital employed have been allocated as follows:

20.1 Programme grants and other gross expenditure

The main items arising in both years are the cost of capital charge in respect of Treasury's investment in the Bank of England (split 50/50 between DSOs 2a and 2e); the cost of coinage (DSO 1e); and non-Voted expenditure on banking and gilts registration services (DSO 1e).

2009-10 totals also include the costs associated with Treasury's involvement in the financial markets (DSO 2e), and exceptional items of -£24.9b in respect of impairments on investments and property values.

20.2 Capital employed

Where assets or liabilities relate to specific DSOs they are attributed directly. For example, the £4.2 billion investment in the Bank of England is attributed to DSOs 2a and 2e; the £15.7 million investment in Partnerships UK is attributed to DSO 2d; and the numerous investments in financial institutions and the resulting liabilities are attributed to DSO 2e.

Where assets or liabilities cannot be directly attributed to specific DSOs they are attributed based on the proportion of net administration costs to each DSO.

21. Capital commitments

	2009-10 Core Treasury £000	2009-10 Group £000	2008-09 Core Treasury £000	2008-09 Group £000
Contracted capital commitments at 31 March not otherwise included in these financial statements				
Property, plant & equipment	1,694	1,694	56	56
Intangible Assets	-	1,600	-	-
Undrawn loan commitments from IFUL	72,295	72,295	-	-
Approved but not contracted capital commitments				
New equity/loans into Northern Rock	2,500,000	2,500,000	15,000,000	15,000,000
Increase B&B working capital loan	3,000,000	3,000,000	5,500,000	5,500,000
Assistance to other financial institutions	24,000	24,000	-	-
Other	1,150	2,070	250,185	250,185
Total	**5,599,139**	**5,601,659**	**20,750,241**	**20,750,241**

The approved but not contracted capital commitments are included in the Main Estimates for 2010-11.

22. Commitments under leases

22.1 Operating leases

Total future minimum lease payments under operating lease are given in the table below for each of the following periods.

	2009-10 Core Treasury £000	2009-10 Group £000	2008-09 (Restated) Core Treasury £000	2008-09 (Restated) Group £000	2007-08 (Restated) Core Treasury £000	2007-08 (Restated) Group £000
Buildings:						
Not later than one year	1,115	1,242	594	1,889	1,075	2,347
Later than one year and not later than five years	4,397	4,518	4,300	8,935	690	5,450
Later than five years	4,120	6,758	5,195	13,083	253	9,270
	9,632	**12,518**	**10,089**	**23,907**	**2,018**	**17,067**
Other:						
Not later than one year	1,266	98	859	859	1	44
Later than one year and not later than five years	810	180	1,748	1,748	-	40
Later than five years	-	-	-	-	-	-
	2,076	**278**	**2,607**	**2,607**	**1**	**84**

22.2 Commitments under the PFI contract for 1 Horse Guards Road

Under IFRIC 12 the provision of the serviced accommodation at 1 Horse Guards Road building is treated as an asset of HM Treasury (see note 11.2.1).

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership (EP) in respect of Core HM Treasury's buildings at 1 Horse Guards Road. The substance of the contract is that the Department 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 PFI contract comprises:	2009-10 Core Treasury	2009-10 Group	2008-09 (Restated) Core Treasury	2008-09 (Restated) Group	2007-08 (Restated) Core Treasury	2007-08 (Restated) Group
	£000	£000	£000	£000	£000	£000
Rentals due within one year	11,275	11,275	11,275	11,275	11,275	11,275
Rentals due between two to five years	45,100	45,100	45,100	45,100	45,100	45,100
Rentals due thereafter	251,811	251,811	263,086	263,086	274,361	274,361
	308,186	**308,186**	**319,461**	**319,461**	**330,736**	**330,736**
Less interest element	175,976	175,976	185,805	185,805	195,736	195,736
	132,210	**132,210**	**133,656**	**133,656**	**135,000**	**135,000**

Charge to operating Cost Statement and Future Service Charge Commitments

The total amount charged in the Operating Cost Statement in respect of the service element (including indexation) of the on-balance sheet PFI transactions was £6,840k (2008-09: £6,891k (restated)).

At 31 March 2010 the Department was committed to pay service charges during the next year:

	2009-10 Core Treasury	2009-10 Group	2008-09 (Restated) Core Treasury	2008-09 (Restated) Group	2007-08 (Restated) Core Treasury	2007-08 (Restated) Group
	£000	£000	£000	£000	£000	£000
Service charge	3,711	3,711	3,651	3,651	3,651	3,651

23. Other financial commitments

23.1 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 (UKCC) covering 2010-11 – 2014-15. Pricing is on an equalised margin basis across denominations.

Monthly payments are made for coins manufactured by the Mint. Coins which are produced but which have not yet been issued are held in stock on HM Treasury's balance sheet. Production schedules under the UKCC are approved by HM Treasury on a quarterly basis. The Mint recharges HM Treasury for the metal prices it incurs, which are variable in line with market prices.

For the year 2009-10 HM Treasury purchased 1,153.2 million (2008-09: 1,435.7 million) coins, and 1,184.3 million (2008-09: 1,297.0 million) coins were despatched to the coin centre. The net stock movement resulted in manufacturing charges of £12.4 million (2008:09 £15.0 million) to the OCS, including VAT.

23.2 Reinsurance

HM Treasury has made arrangements to provide reinsurance facilities for certain terrorist attacks against industrial and commercial property in Great Britain. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. In the event of a major terrorist event, HM Treasury's liability could be significant, but unquantifiable in the short term.

24. Financial Instruments

The following tables and narrative provide information on the financial instruments' balances included in the 2009-10 resource accounts and analyses the extent of risks faced by HM Treasury, and how these risks have been managed.

24.1 Classification

2009-10

Core Treasury	Fair value through OCS £000	Hedging derivatives £000	Available-for-sale £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non-financial assets / liabilities £000	At 31 March 2010 £000
Assets							
Property, plant and equipment	-	-	-	-	-	103,860	**103,860**
Intangible assets	-	-	-	-	-	1,776	**1,776**
Available-for-Sale	-	-	65,326,304	-	-	-	**65,326,304**
Derivative financial assets expiring after more than one year	-	167,806	-	-	-	-	**167,806**
Loans and receivables							
Loans and advance to financial institutions	-	-	-	57,498,732	-	-	**57,498,732**
Trade and other receivables due after more than one year	-	-	-	1,523,460	-	-	**1,523,460**
Derivative financial assets expiring within one year	-	363,809	-	-	-	-	**363,809**
Trade and other receivables due within one year	-	-	-	2,047,294	-	4,818	**2,052,112**
Inventories	-	-	-	-	-	6,778	**6,778**
Cash and cash equivalents	-	-	-	1,243	-	-	**1,243**
Total assets	**-**	**531,615**	**65,326,304**	**61,070,729**	**-**	**117,232**	**127,045,880**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,399,386)	(1,514)	**(1,400,900)**
Provisions due within one year	-	-	-	-	(40,271)	-	**(40,271)**
Derivative financial instruments expiring within one year	(87,199)	(305,864)	-	-	-	-	**(393,063)**
Other current liabilities - Financial guarantees' income	-	-	-	-	(2,799,366)	-	**(2,799,366)**
Derivative financial liabilities expiring after more than one year	(1,200,000)	(226,001)	-	-	-	-	**(1,426,001)**
Other payables: amounts falling due after more than one year	-	-	-	-	(130,653)	(3,484)	**(134,137)**
Provisions due after more than one year	-	-	-	-	(946)	-	**(946)**
Total liabilities	**(1,287,199)**	**(531,865)**	**-**	**-**	**(4,370,622)**	**(4,998)**	**(6,194,684)**
Total taxpayers' equity	**(1,287,199)**	**(250)**	**65,326,304**	**61,070,729**	**(4,370,622)**	**112,234**	**120,851,196**

Group	Fair value through OCS £000	Hedging derivatives £000	Available-for-sale £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non-financial assets / liabilities £000	At 31 March 2010 £000
Assets							
Property, plant and equipment	-	-	-	-	-	104,451	**104,451**
Intangible assets	-	-	-	-	-	5,332	**5,332**
Available-for-Sale	-	-	65,326,654	-	-	-	**65,326,654**
Derivative financial assets expiring after more than one year	-	167,806	-	-	-	-	**167,806**
Loans and receivables							
Loans and advance to financial institutions	-	-	-	57,498,732	-	-	**57,498,732**
Trade and other receivables due after more than one year	-	-	-	1,523,467	-	-	**1,523,467**
Derivative financial assets expiring within one year	-	363,809	-	-	-	-	**363,809**
Trade and other receivables due within one year	-	-	-	2,049,730	-	6,258	**2,055,988**
Inventories	-	-	-	-	-	6,778	**6,778**
Cash and cash equivalents	-	-	-	1,956	-	-	**1,956**
Total assets	**-**	**531,615**	**65,326,654**	**61,073,885**	**-**	**122,819**	**127,054,973**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,411,732)	(2,199)	**(1,413,931)**
Provisions due within one year	-	-	-	-	(41,773)	-	**(41,773)**
Derivative financial instruments expiring within one year	(87,199)	(305,864)	-	-	-	-	**(393,063)**
Other current liabilities - Financial guarantees' income	-	-	-	-	(2,799,366)	-	**(2,799,366)**
Derivative financial liabilities expiring after more than one year	(1,200,000)	(226,001)	-	-	-	-	**(1,426,001)**
Other payables: amounts falling due after more than one year	-	-	-	-	(133,812)	(3,484)	**(137,296)**
Provisions due after more than one year	-	-	-	-	(9,995)	-	**(9,995)**
Total liabilities	**(1,287,199)**	**(531,865)**	**-**	**-**	**(4,396,678)**	**(5,683)**	**(6,221,425)**
Total taxpayers' equity	**(1,287,199)**	**(250)**	**65,326,654**	**61,073,885**	**(4,396,678)**	**117,136**	**120,833,548**

2008-09

Core Treasury	Fair value through OCS £000	Hedging derivatives £000	Available-for-sale £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non-financial assets / liabilities £000	At 31 March 2009 £000
Assets							
Property, plant and equipment	-	-	-	-	-	101,463	**101,463**
Intangible assets	-	-	-	-	-	2,266	**2,266**
Available-for-Sale	-	-	23,050,172	-	-	-	**23,050,172**
Derivative financial assets expiring after more than one year	-	18,594	-	-	-	-	**18,594**
Loans and receivables							
Loans and advance to financial institutions	-	-	-	47,059,020	-	-	**47,059,020**
Trade and other receivables due after more than one year	-	-	-	2,690,707	-	-	**2,690,707**
Derivative financial assets expiring within one year	1,018,341	8,872	-	-	-	-	**1,027,213**
Trade and other receivables due within one year	-	-	-	2,029,339	-	1,347	**2,030,686**
Inventories	-	-	-	-	-	5,883	**5,883**
Cash and cash equivalents	-	-	-	3,152	-	-	**3,152**
Total assets	**1,018,341**	**27,466**	**23,050,172**	**51,782,218**	**-**	**110,959**	**75,989,156**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,961,691)	-	**(1,961,691)**
Provisions due within one year	-	-	-	-	(379,889)	-	**(379,889)**
Derivative financial instruments expiring within one year	(427,607)	(17,474)	-	-	-	-	**(445,081)**
Other current liabilities - Financial guarantees' income	-	-	-	-	(3,224,736)		**(3,224,736)**
Derivative financial liabilities expiring after more than one year	-	(21,721)	-	-	-	-	**(21,721)**
Other payables: amounts falling due after more than one year	-	-	-	-	(132,209)	-	**(132,209)**
Provisions due after more than one year	-	-	-	-	(25,001,253)	-	**(25,001,253)**
Total liabilities	**(427,607)**	**(39,195)**	**-**	**-**	**(30,699,778)**	**-**	**(31,166,580)**
Total taxpayers' equity	**590,734**	**(11,729)**	**23,050,172**	**51,782,218**	**(30,699,778)**	**110,959**	**44,822,576**

Group	Fair value through OCS £000	Hedging derivatives £000	Available-for-sale £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Non-financial assets / liabilities £000	At 31 March 2009 £000
Assets							
Property, plant and equipment	-	-	-	-	-	101,934	**101,934**
Intangible assets	-	-	-	-	-	2,968	**2,968**
Available-for-Sale	-	-	23,050,522	-	-	-	**23,050,522**
Derivative financial assets expiring after more than one year	-	18,594	-	-	-	-	**18,594**
Loans and receivables							
Loans and advance to financial institutions	-	-	-	47,059,020	-	-	**47,059,020**
Trade and other receivables due after more than one year	-	-	-	2,690,716	-	-	**2,690,716**
Derivative financial assets expiring within one year	1,018,341	8,872	-	-	-	-	**1,027,213**
Trade and other receivables due within one year	-	-	-	2,031,970	-	2,722	**2,034,692**
Inventories	-	-	-	-	-	5,883	**5,883**
Cash and cash equivalents	-	-	-	4,975	-	-	**4,975**
Total assets	**1,018,341**	**27,466**	**23,050,522**	**51,786,681**	**-**	**113,507**	**75,996,517**
Liabilities							
Trade and other payables falling due within one year	-	-	-	-	(1,972,186)	(145)	**(1,972,331)**
Provisions due within one year	-	-	-	-	(382,449)	-	**(382,449)**
Derivative financial instruments expiring within one year	(427,607)	(17,474)	-	-	-	-	**(445,081)**
Other current liabilities - Financial guarantees' income	-	-	-	-	(3,224,736)		**(3,224,736)**
Derivative financial liabilities expiring after more than one year	-	(21,721)	-	-	-	-	**(21,721)**
Other payables: amounts falling due after more than one year	-	-	-	-	(132,209)	-	**(132,209)**
Provisions due after more than one year	-	-	-	-	(25,011,211)	-	**(25,011,211)**
Total liabilities	**(427,607)**	**(39,195)**	**-**	**-**	**(30,722,791)**	**(145)**	**(31,189,738)**
Total taxpayers' equity	**590,734**	**(11,729)**	**23,050,522**	**51,786,681**	**(30,722,791)**	**113,362**	**44,806,779**

24.2 Fair value of financial assets and liabilities

(i) Financial instruments measured at fair value through OCS

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.

The assets covered by the APS are mapped to credit default swap curves derived from observable market information, which are used to derive default probabilities. The Gaussian copula models the joint default behaviour of the underlying assets. Stochastic recovery modelling, a relatively recent innovation developed in response to the recent market turmoil and now a broadly accepted industry standard, allows the model to be calibrated to the market prices of traded CDO tranches.

A Monte Carlo engine simulates default times for each asset and recoveries in different scenarios. Cash flows due to each party in each scenario are discounted and the results averaged to determine the net present value of the position.

The valuation model reflects the delay incorporated into the APS from the time that a loss is incurred on an asset to any protection payment by discounting protection cash flows. It also reflects the exit option, which is not a standard feature of CDOs. It assumes that RBS will not exit the APS before four years have elapsed, which corresponds to total fee payments of £2.6bn, which is £100m higher than the minimum required payment of £2.5bn. At that point, it will remain in the APS only if the expected value of future protection is greater than the value of future payments. In effect, it is assumed that RBS will have perfect foresight at that point.

The model uses three types of inputs: portfolio data, observable market data and unobservable data. Portfolio data is obtained for each individual asset and includes Covered Amount (the maximum loss on the asset that would be covered by the APS), Triggered Amount (the actual gross loss on the asset if it has triggered), maturity, internal rating, and expected loss given default (the fraction of the gross loss amount that is expected to be lost net of recoveries). Observable market data includes credit spreads, FX rates, and interest rates. Unobservable data consists of the correlation between underlying assets and the uncertainty in recoveries. The HM Treasury determined levels for these unobservable inputs by calibrating them to the contract initial fair value of zero and found that the results were in the credible ranges of correlation values derived from observable market values of traded liquid instruments and market practice recovery uncertainties.

The APS valuation at 31 March 2010 was a liability of £1.2 billion. This represents the payment of fees received of £1.4 billion and changes since inception in remaining life to maturity, credit spreads, FX rates, interest rates, and the portfolio. Consequently, HM Treasury has made a mark-to-market gain of £0.2 billion since inception of the APS on 22 December 2009, with shortened time to maturity and narrowing credit spreads leading to a gain that was partially offset by the effect of weakening sterling and portfolio changes (e.g. migration, amortisation, prepayments).

Bank of England Asset Purchase Facility Fund (BEAPFF) derivative: The fair value of the derivative represents the best estimate of the amount due from HM Treasury to Bank of England on settlement of the scheme. It is principally arrived by calculating the difference between the purchase price of the assets in the quantitative easing (QE) and their fair value (market value of the underlying instruments) as at balance sheet date plus administration and interest charges.

(ii) Hedging derivatives

Forward contracts relating to Credit Guarantee schemes:

The fair value of forward foreign exchange contracts on initial recognition is zero. Following initial recognition, the fair value of forward foreign exchange contract is determined by using valuation techniques that refer to observable market data. Specifically, the fair value is determined by comparing the present value of future foreign exchange cashflows translated at the contracted forward foreign exchange rate with the present value of future foreign exchange cashflows translated at the forward foreign exchange rate quoted in active markets at the reporting date based on a comparable forward foreign exchange contract that matures on the same date as the existing contract.

(iii) Available-for-Sale investments

Available-for-Sale investments have been valued at fair value, where there is observable market data. The fair value is determined by using the published share prices as at balance sheet date. This comprises of investments in ordinary shares of Royal Bank of Scotland plc and Lloyds Banking Group plc.

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 at least the market value of the underlying ordinary shares. Therefore, they are valued using the closing price of RBS' ordinary shares as at balance sheet date.

For RBS's dividend access share, 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. Key assumptions used are:

- Accrued payments on the dividend access share will not be paid up until the cancellation trigger if at the following scheduled dividend declaration date a dividend is declared.
- A single data-point for the credit spread is assumed in the model as the dividend access share is perpetual.
- The model assumes that there are no dividend payments until 2011 as a result of the EU Commission ban on ordinary share dividend payments (including dividend access Share payments). This means assuming no ordinary and dividend access share dividends up to and including 31 May 2011.
- Traded securities referred to for the initial assessment of the appropriate risk spread at the launch of the B shares:

  Royal Bank of Scotland Securities plc Series 1

  EUR 1,250 million issue size

  ISIN: XS0205935470

  Royal Bank of Scotland Securities plc Series 1

  EUR 1,250 million issue size

  ISIN: DE000A0E6C37

In summary, the Dividend Access Share is valued by assessing the cash flows received on the Share by way of 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. The fair value of the dividend access share on the date of acquisition (22 December 2009) was £4.2 billion.

In accordance with the FReM, Available-for-Sale financial assets that are interests in public bodies outside the departmental boundary are carried at historical cost less any impairment recognised. Public bodies include public dividend stock held in the Royal Mint and Buying Solutions and ordinary shares in UK Financial Investments Limited and Deposits Management (Heritable) Limited. Extracts from the latest audited financial statements for these entities are provided in note 13.

The investments in Bank of England and Partnerships UK are re-measured to be equivalent to HM Treasury's share of net assets per the published accounts of the investee bodies. Gains and losses arising on re-measurement are recognised directly in the AFS Reserve.

For investments other than the above not carried at fair value (see note 1.18.4), there is no active market for them and there is no intention to sell. As these investments are primarily unlisted equity shares and cannot be fair valued, they have been carried at historic as allowed under paragraph 46(c) of IAS 39. Therefore, we do not disclose fair value comparative.

(iv) Loans and receivables and other financial instruments

In accordance with the FReM, loans and receivables with public bodies are carried at historical cost less any impairment recognised. Other loans and receivables are carried at amortised cost using the effective interest rate method.

24.2.1 Valuation hierarchy of financial instruments carried at fair value

Financial instruments	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Other* £m**	**Total £m**
Available-for-Sale financial assets	34,774	22,440	2,475	5,638	**65,327**
Derivatives financial assets	-	532	-	-	**532**
Total	**34,774**	**22,972**	**2,475**	**5,638**	**65,859**
Derivative financial liabilities	-	(619)	(1,200)	-	**(1,819)**
Total	**34,774**	**22,353**	**1,275**	**5,638**	**64,040**

*This column includes Available-for-Sale assets which are held at either net asset value or historic cost in accordance with the FReM or special accounts direction.

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise of investments in ordinary shares of Royal Bank of Scotland plc and Lloyds Banking Group plc.

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data, the instrument is considered to be level 2. Examples of such financial instruments include the Bank of England Asset Purchase Facility derivative, forward contracts relating to Credit Guarantee Schemes, B shares in RBS.

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include Asset Protection Scheme derivative and Dividend Access Share.

There were no transfers between level 1 and level 2 during the year.

24.2.2 Movements in level 3 portfolio

Please see note 13 for movements between opening and closing balance of level 3 portfolio. There have been no transfers in and out of level 3.

24.3 Income and expense

The income and expense recognised in the OCS in relation to financial instruments include:

Financial instruments income/(expense)	2009-10 £m	2008-09 £m
Financial guarantee fees	1,355	726
Interest income from loans	814	501
APS Withdrawal fee income	2,500	-
Fair value adjustments to financial instruments	113	-
Fee from underwriting	266	419
Dividends	242	789
Net gain on forward contract to buy ordinary shares	6	(591)
Foreign exchange gains	20	67
Impairment of financial assets	(109)	(18,926)
Amortisation of loans	137	63
Interest expenditure	(1)	(92)
Total	**5,343**	**(17,044)**

24.4 Hedging

The fair value of the Credit Guarantee Scheme (CGS) fee income foreign exchange currency receivable and the fair value of the forward contract derivative net liability as at 31 March 2010 is £1.7 billion (£1.2 billion in 2008/09) and £0.3 million (£1.7 million in 2008/09) respectively.

The term of the instruments guaranteed under the CGS will remain for no longer than three years. However extensions to these guarantees may be agreed up to the scheme end date of 9 April 2014. Fees for the guarantee are received from start of the guarantee till the end of the scheme and are paid three months in arrears and/or on maturity. The OCS is updated on the date of the receipt of the guarantee fee.

At 31 March 2010, the value of the hedging reserve as at 31 March 2010 was £1.4 million. During the term of the hedge relationship, the hedge is considered 100 per cent effective.

24.5 Financial risk management and financial risk factors

HM Treasury's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. HM Treasury's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on HM Treasury's financial performance.

The HM Treasury Board carries out risk management. It identifies and evaluates financial risks in close co-operation with HM Treasury's policy teams / sub-committees: the Group Operations Committee, the Group Finance Committee, the Group Resource Audit Committee, the Exchequer Funds Audit Committee and for core Treasury, the Executive Management Group (up until December 2009). Post January 2010, committees were the Investments and Projects Committee, the Audit Committee and for core Treasury the Executive Management Group

Traditional risk management (in the private sector) aims to maximise investor return while maintaining risk at an acceptable level. 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. Through its risk management, HM Treasury seeks to minimise overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate. HM Treasury uses derivative financial instruments to hedge certain risk exposures.

24.5.1 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 three types of risk: foreign exchange risk, price risk and interest rate risk.

The sensitivity analysis in the following sections relate to the position as at 31 March 2010 and 31 March 2009.

(i) Foreign exchange risk

HM Treasury takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates through the CGS Scheme (see note 36.1) and Asset Protection scheme (see note 36.7). The exposure in CGS scheme is managed through foreign exchange forward contracts entered into at the inception of each individual guarantee. Presented below is the sterling equivalent of the foreign currency balance sheet assets and liabilities relating to CGS, analysed by their underlying foreign currencies. See note 24.5.1.1 on sensitivity analysis of foreign exchange risk in APS.

At 31 March 2010 (Sterling equivalent £ millions)	**USD**	**EUR**	**CHF**	**AUD**	**JPY**	**Total**
Assets						
- Financial guarantee receivables	976	407	2	45	135	**1,565**
- Foreign currency forward contract	299	137	1	6	89	**532**
Liabilities						
- Financial guarantee liability	(833)	(337)	(2)	(36)	(117)	**(1,325)**
- Foreign currency forward contract	(298)	(124)	(1)	(26)	(84)	**(533)**
Net on-balance sheet financial position	**144**	**83**	**0**	**(11)**	**23**	239

At 31 March 2009 (Sterling equivalent £ millions)	**USD**	**EUR**	**CHF**	**AUD**	**JPY**	**Total**
Assets						
- Financial guarantee receivables	557	562	1	31	86	**1,237**
- Foreign currency forward contract	18	-	-	-	9	**27**
Liabilities						
- Financial guarantee liability	(512)	(480)	(1)	(30)	(86)	**(1,109)**
- Foreign currency forward contract	(4)	(34)	-	(1)	-	**(39)**
Net on-balance sheet financial position	**59**	**48**	-	-	**9**	**116**

The net position shown above is HM Treasury's exposure to foreign currency movements in CGS. The table below shows the effect of a 10 and 25 per cent strengthening/(weakening) on the net balance sheet position of foreign exchange rates (relative to £ sterling) on the OCS. These variances were considered reasonably possible at the balance sheet date. Where there is no impact on the OCS, it is because these currency exposures are perfectly hedged.

At 31 March 2010 (Sterling equivalent £ millions)	**USD**	**EUR**	**CHF**	**AUD**	**JPY**	**Total**
Impact on the OCS of changes in foreign exchange rates						
Strengthening of £ versus foreign currency of 10 per cent	14	8	0	(1)	2	**23**
Strengthening of £ versus foreign currency of 25 per cent	36	21	0	(3)	6	**60**
Weakening of £ versus foreign currency of 10 per cent	(14)	(8)	(0)	1	(2)	**(23)**
Weakening of £ versus foreign currency of 25 per cent	(36)	(21)	(0)	3	(6)	**(60)**

At 31 March 2009 (Sterling equivalent £ millions)	USD	EUR	CHF	AUD	JPY	Total
Impact on the OCS of changes in foreign exchange rates						
Strengthening of £ versus foreign currency of 10 per cent	6	5	-	-	1	**12**
Strengthening of £ versus foreign currency of 25 per cent	15	12	-	-	2	**29**
Weakening of £ versus foreign currency of 10 per cent	(6)	(5)	-	-	(1)	**(12)**
Weakening of £ versus foreign currency of 25 per cent	(15)	(12)	-	-	(2)	**(29)**

(ii) Price risk

HM Treasury is exposed to equity securities price risk through investments held by HM Treasury and classified on the consolidated statement of financial position as Available-for-Sale investments.

Of HM Treasury's Available-for-Sale assets (see note 13), ordinary shares in Lloyds Banking Group (LBG) and The Royal Bank of Scotland (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. Sensitivity analysis for the dividend access share is given separately below. No market exists for the remaining investments, which are primarily other Government bodies, some of which are never intended for sale. Such investments are primarily accounted for at historical cost and thus not exposed to price risk.

The below analysis shows the OCS and equity impact of a 10 per cent and 25 per cent increase or (decrease) in the market price of the above mentioned investments in RBS and LBG. These variances were considered reasonably possible as at the balance sheet date.

		2009-10		**2008-09**
	OCS	**Equity**	**OCS**	**Equity**
	£m	£m	£m	£m
Increase of 10 per cent	452	4,531	1,062	-
Increase of 25 per cent	452	12,005	2,655	-
(Decrease) of 10 per cent	(5,761)	778	(1,062)	-
(Decrease) of 25 per cent	(10,446)	(2,010)	(2,655)	-
Holding value of the shares at 31 March		**34,774**		**10,619**

(iii) Interest rate risk

There are two types on interest rate risk: 1) cash flow and 2) fair value.

1. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk arises on variable rate loans.

The table below shows the effect of movements in LIBOR or Bank of England Base Rate as appropriate, considered reasonably possible at the balance sheet date, on the OCS.

Impact on OCS	2009-10 £m	2008-09 £m
Increase 50 bps[1]	4	2
Increase 100 bps	8	4
(Decrease) 50 bps	(4)	(2)
(Decrease) 100 bps	(8)	(4)
Total variable rate interest received in year	**814**	**449**

2 Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk arises on fixed interest rate loans. It is considered that if LIBOR or the Bank of England Base Rate were to vary by the degree considered reasonably possibly above, there would be no impact on the carrying value of HM Treasury's fixed rate debt instruments.

24.5.1.1 Market risks and sensitivity analysis relating to APS derivative

The value of the APS is subject to changes in market factors, primarily credit spreads, FX rates (in particular USD and EUR) and interest rates. Changes in credit spread impact the implied loss in the asset pool and thus the value of the APS protection. Changes in FX rates impact the GBP value of potential losses that are denominated in foreign currencies. Changes in interest rate impact the present value of future cash flows due to both fees and protection payments.

The sensitivities of the value to the specified changes in these market factors are summarised in below.

Risk Factor	Increase in APS Liability		Decrease in APS Liability	
	Factor	£m	Factor	£m
Credit spreads (absolute moves)	+10bp	123	-10 bp	(122)
Credit spreads (relative moves)	+10%	294	-10%	(292)
FX rates (positive for strengthening GBP)	-1%	60	+1%	(58)
Interest rate (LIBOR)	-10bp	10	+10bp	(10)

24.5.1.2 Market risk analysis for the BEAPFF derivative

BEAPFF: Assets held by the BEAPFF are subject to market risk. Fluctuations in the market value of the asset portfolio will largely reflect movements in Government bond prices, for e.g. a 1 per cent change in bond prices would generate a movement of around £2 billion in the value of the portfolio. Month to month movements of this magnitude have occurred in the year.

The table below represents an analysis of debt securities and commercial paper by credit risk groupings, based on external rating agency designation or equivalent at 31 March 2010:

[1] Bps= basis points, where 100 basis points equals one per cent.

Credit Risk Ratings for Corporate Bonds and Gilts

Credit Risk ratings	Gilts £m	Corporate £m
AAA	192,066	-
AA	-	119
A	-	584
B	-	761
Total	**192,066**	**1,464**

Credit Risk Ratings for Commercial Paper

Credit Risk ratings	Nominal Primary Holdings £m	% of Holdings
A2/P2/F2	100	80
A3/P3/F3	25	20
Total	**125**	**100**

24.5.1.3 Sensitivity Analysis for the Forward contracts derivative

During the financial year April 2009 to March 2010, forward contracts used as hedging instruments were 100 per cent effective. Hence a sensitivity review of the Forward contracts is not required.

24.5.1.4 Sensitivity Analysis for the Dividend Access Shares

The sensitivity analysis is given below as at 31 March 2010

Input to the model	Increase by	Decrease / (Increase) in fair value £m	Decrease by	Decrease / (Increase) in fair value £m
Share price sensitivity	10p	1,221	10p	(1,420)
Credit spread sensitivity	100 basis points	246	100 basis points	(283)
Volatility sensitivity	5%	(67)	5%	72

24.5.2 Credit risk

Credit risk is the risk that counterparty 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. HM Treasury's credit risk arises from loans issued to financial institutions, financial guarantees, indemnities issued and the balance receivable under forward contracts (see note 27 to 36 for a full description of individual investments and schemes and exposures of each investment and scheme).

The below table shows the credit rating and the utilisation of the credit facilities of the major counterparties at the balance sheet date.

As at 31 March	Credit rating	2009-10 Exposure £m	 Total facility £m	2008-09 Exposure £m	 Total facility £m
Loans and advances to financial institutions:					
Northern Rock (Asset Management)	N/A – In wind down	22,970	25,470	14,561	22,561
Bradford & Bingley	N/A – In wind down	10,687	13,137	9,040	9,040
Loans given by IFUL	N/A**	46	120	-	-
Partnerships UK Loan Stock	AAA*	8	8	16	16
Icelandic banks	N/A – In administration	807	807	683	683
Dunfermline	N/A – In administration	1,400	1,400	1,452	1,452
London Scottish Bank	N/A – In administration	8	8	7	7
FSCS	AAA*	19,326	19,875	21,299	22,177
Depositors' and Investors' Guarantee Fund Loan	BBB-	2,246	2,246	-	-
Financial guarantees fees receivable	AAA-BBB	2,986	-	3,774	-
Trade and other receivables	N/A	589	-	949	-
Derivatives at fair value through the OCS	N/A	-	-	1,018	-
Hedging derivatives	N/A	532	-	27	-
		61,605	**63,071**	**52,826**	**55,936**
Financial guarantees exposure (off-balance sheet)					
Guarantee to depositors in Northern Rock plc	AAA*	7,200	-	20,700	-
Guarantee to depositors in Northern Rock (Asset Management) plc	N/A – In wind down	15,800	-	N/A	-
Guarantee to depositors in Bradford and Bingley plc	N/A – In wind down	6,800	-	17,000	-
		29,800	**-**	**37,700**	**-**
Total		**91,405**	**63,071**	**90,526**	**55,936**

* Government rating applied, as it is owned by the government
** No individual credit ratings applicable

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. HM Treasury holds no other security over its loan assets.

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment (see accounting policy note 1.18). The table below details all financial instruments, which have been impaired:

Impairments as at 31 March	Original carrying amount £m	Impairment charge to the OCS £m	2010 Revised carrying amount £m	Original carrying amount £m	Impairment charge to the OCS £m	2009 Revised carrying amount £m
Statutory Debt with financial institutions	5,458	343	5,801	6,796	(1,618)	5,178
Available-for-Sale financial instruments	17,781	(452)	17,329	27,926	(17,308)	10,618
Total impairment allowance		**(109)**			**(18,926)**	

Impairments are recognised based on HM Treasury's expected recoveries and discount rates used to price in the opportunity cost of funds utilised.

The following assets (comprised solely of aged trade receivables) are past due at the reporting date, but have not been impaired:

Assets past due but not impaired	2009-10	2008-09
	£m	£m
Past due up to three months	8.80	6.3
Past due three months to six months	-	0.4
Past due over six months	0.04	0.1
Total	**8.84**	**6.8**

24.5.3 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
- reassessing 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 balance sheet date. Liabilities disclosed in the table are the contractual undiscounted cash flows. Foreign exchange forward contracts will be settled on a gross basis.

				As at 31 March 2010	2009
Group	Up to 3 months	3-12 months	Over 1 year	Total	Total
	£m	£m	£m	£m	£m
Non derivative liabilities:					
Trade and other payables	1,174	-	137	1,311	1,580
Provisions	1	3	10	14	99
Derivative Liabilities:					
APS[1]	-	-	1,200	1,200	-
BEAPFF	87	-	-	87	-
Forward ordinary share contracts	-	-	-	-	7,069
Forward currency contracts held for hedging:					
- Outflow	75	307	275	657	1,391
- Inflow	70	291	254	615	1,386

1 The earliest that any payment would be made to RBS under the APS is two years after the first loss has been exceeded. For liquidity reporting purposes we have recorded the fair value of £1.2bn in the "Over 1 year" time bucket. Given the short time scales involved and the low interest rate environment there is no material difference between discounted and undiscounted cash flows.

25. Contingent liabilities[1]

25.1 Contingent liabilities disclosed under IAS 37

25.1.1 Guarantees and indemnities

Northern Rock Plc and Northern Rock (Asset Management) Plc

HM Treasury has guaranteed indemnities provided by Northern Rock plc and Northern Rock (Asset Management) plc for its new directors against liabilities and losses in the course of their actions whilst both entities are 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 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.

Bradford & Bingley

HM Treasury has confirmed to the Financial Services Authority its intention to take appropriate steps, should it prove necessary, to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has guaranteed indemnities provided by Bradford & Bingley for the directors appointed post public ownership against liabilities and losses in the course of their actions whilst the company is in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

Royal Bank of Scotland

To ensure that RBS is properly and robustly secured in a downturn, the Treasury is making available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum (see note 29). 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 satisfied in cash, or B-shares or deferred tax assets with the consent of the Treasury. Maximum potential liabilities under this intervention are estimated to be £8 billion.

Heritable

HM Treasury has guaranteed indemnities provided by Deposits Management (Heritable) Limited for the appointed directors against liabilities and losses in the course of their actions. Maximum potential liabilities under this intervention are considered unquantifiable.

Special Liquidity Scheme

HM Treasury has indemnified the Special Liquidity Scheme (see note 36.5 below) which allow banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills. Payment under the scheme would only arise if the capital losses exceed any surplus accruing to the Bank of England over the duration of the scheme. Maximum potential liabilities under this intervention are estimated to be £165 billion.

[1] Certain contingent liabilities would be limited by recourse to assets if they were to crystallise. The amounts shown above are gross of any such offset. Contingent liabilities with recourse to equities have not been included.

Infrastructure Finance Unit Limited

HM Treasury has guaranteed indemnities provided by Infrastructure Finance Unit Limited for its new directors against liabilities and losses incurred in the course of their actions (see note 36.6). Maximum potential liabilities under this intervention are considered unquantifiable.

United Kingdom Financial Investments

HM Treasury has guaranteed indemnities provided by United Kingdom Financial Investments for its new directors against liabilities and losses incurred in the course of their actions. Maximum potential liabilities under this intervention are considered unquantifiable.

Bank of England Asset Purchase Fund Facility Limited

The Deed of Indemnity between HM Treasury, the Bank of England and BEAPFF provides that BEAPFF on behalf of itself and its officers and directors may at any time claim payment under the indemnity in respect of any indemnified losses incurred. The losses include all claims, losses, damages, liabilities, etc suffered or incurred by BEAPFF or its officers or directors as a result of, arising out of, in connection with, or which are attributable to, BEAPFF carrying on activities pursuant to or in connection with the APF, save to the extent that the losses arise from BEAPFF's own wilful default or reckless disregard of its obligations. Maximum potential liabilities under this intervention are considered unquantifiable.

25.1.2 Compensation Schemes

In accordance with section 5 of the Banking (Special Provisions) Act 2008 a Compensation Scheme has been established by the Northern Rock plc Compensation Scheme Order 2008. Under the Scheme an independent valuer was appointed to assess what compensation, if any, is payable to former shareholders and others. 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 Financial Services and Markets Tribunal. Maximum potential liabilities under this intervention are considered unquantifiable.

In accordance with section 5 of the Banking (Special Provisions) Act 2008 a Compensation Scheme has been established by the Bradford & Bingley plc Compensation Scheme Order 2008. Under the Scheme HM Treasury is liable to pay any amount of compensation considered to be payable by the independent valuer (who will be appointed to perform the functions under the Compensation Scheme Order) to persons who held shares in Bradford & Bingley immediately before they were transferred to HM Treasury and also to other parties who were affected by the provisions of the Transfer Order. On 5 July 2010 the valuer issued a final Assessment Notice, in which he concluded that no compensation is payable by HM Treasury to former B&B’s shareholders and bondholders. Under the Order any affected party may request the valuer to reconsider his assessment (valuer has set a deadline of 27 August 2010 to receives these representations), and if still dissatisfied with the revised Assessment Notice then affected parties may refer the matter to the Financial Services and Markets Tribunal. Maximum potential liabilities under this intervention are considered unquantifiable.

On 7 July 2009 the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009 (“the Order”) came into force. Under the Order HM Treasury is liable to pay to specified third parties any amount of compensation determined to be payable by the independent valuer appointed to perform the functions referred to in article 4 of that Order. 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 to perform the functions referred to in article 4 of that Order. The Panel is also responsible for removing the independent valuer from office on the ground of incapacity or serious misconduct. The Treasury has indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred by Panel members 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.

25.1.3 Equitable Life ex-gratia payment scheme

In January 2009, HM Treasury published "The Prudential Regulation of the Equitable Life Assurance Society: the Government's response to the Report of the Parliamentary Ombudsman's Investigation". In this response, the Government accepted that certain maladministration had occurred and apologised to Equitable Life policyholders. Further to this, the Government undertook to establish a fair ex-gratia payment scheme for those Equitable Life policyholders who have suffered a disproportionate impact as a result of the relevant maladministration. The Government commissioned Rt. Hon Sir John Chadwick to advise the Government on matters relevant to the relative losses and disproportionate impact suffered by current and former Equitable Life policyholders. Sir John delivered his final advice on 22 July 2010. Alongside that, Towers Watson has provided a range of estimated loss figures, that ranges from £0.4 - £4.8 billion.

The current Government has pledged to set up an Independent Commission that will advise it on an independently designed payment scheme as swiftly as possible. The Government will consider Sir John Chadwick's Advice, alongside representations by interested parties. The Government will set out the funding available for the scheme at the Spending Review on 20th October, in light of affordability, alongside the final loss figure. As explained in note 1.23.6, the publication of Sir John's report, and accompanying material, does not trigger the need for a provision.

25.1.4 Pool Re and Pool Re (Nuclear)

Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. Maximum potential liabilities under this arrangement are considered unquantifiable.

25.1.5 Royal Mint

The Royal Mint Trading Fund has a Memorandum of Understanding (MOU) arrangement with the National Loans Fund by which it can draw down funds in the form of a financing facility subject to demand. The upper limit of this financing facility is £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 from within the Treasury's DEL limit.

In addition, the Royal Mint Ltd (a government owned company established on 31 December 2009 as a subsidiary of the Royal Mint Trading Fund to carry out all its trading activity) is provided with lending from commercial financing institutions in the form of a working capital overdraft facility. HM Treasury is providing Credit Support to a maximum of £36 million to enable this facility. The Credit Support agreement will cease to operate after 31 January 2011.

25.1.6 Bradford & Bingley 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 on 29 September 2008. HM Treasury has therefore guaranteed to pay or procure the payment of any benefit amount which falls due for payment from the remaining section at a time when there are insufficient assets to pay that amount. The size of this contingent liability is £89.9 million as at 31 December 2009.

For further information, see Bradford & Bingley's Report and Accounts for 2009, which can be viewed on their website www.bbg.co.uk.

25.1.7 Barlow Clowes

The Barlow Clowes group of companies collapsed in 1988, and HM Treasury subsequently made ex-gratia payments to investors. HM Treasury and the liquidators and receivers (referred to as the Officeholders) of various of the Barlow Clowes entities initiated a process to recover as much as was reasonably possible from the Barlow Clowes companies and those associated with the collapse. In the last of the legal actions to be completed judgment was given against the defendants on 11 February 2002 for the amounts (calculated in the High Court of Justice of the Isle of Man) of: £8,425,053 plus daily interest accruing from 24 July 2002 of £791 for Director A; and £9,924,276 plus daily interest accruing from 24 July 2002 of £927 for Director B. Various appeals followed.

The Officeholders are not seeking recovery from Director B as he is believed to have no quantifiable assets. However, the Officeholders have taken steps to enforce the judgement against Director A and on 14 May 2008 reached agreement to a settlement in the amount of £6.8 million plus interest, payable in instalments.

HM Treasury continues to indemnify the liquidators and receivers (the Officeholders) of Barlow Clowes pursuant to the deeds of indemnity dated 3 April 1991 and 29 March 1994. Maximum potential liabilities under this intervention are unquantifiable.

25.2. Contingent liabilities not required to be disclosed under IAS 37 but included for Parliamentary reporting and accountability

25.2.1 Bank of England Asset Purchase Facility

In January 2009, HM Treasury authorised the Bank of England to create a new fund, the Asset Purchase Facility (APF). The Chancellor authorised the Bank of England to purchase up to £50 billion of high quality private sector assets. HM Treasury has indemnified the Bank of England and the fund specially created by the Bank to implement the facility from any losses arising out of or in connection with the facility. In March 2009, the Chancellor authorised the APF to purchase UK Government debt on the secondary market. He also agreed that the Bank of England should be given the option to finance purchases under the facility using central bank money. He authorised an increase in the scale of the purchases to up to £150 billion of which up to £50 billion should be used to purchase private sector assets (see note 36.2). In November 2009, the Chancellor authorised to increase the scale of purchases to £200 billion. The maximum potential liabilities under this intervention are estimated to be £200 billion of which £87.2 million are carried at fair value on the balance sheet at the balance sheet date.

25.2.2 Asset Protection Scheme

To provide certainty and confidence to banks in their lending, the Government announced its intention to offer capital and asset protection on those assets most affected by the current economic conditions (see note 36.7) on the Asset Protection Scheme) on 19 January 2009. On 22nd December 2009, RBS acceded to the Asset Protection Scheme, insuring an asset pool of £282 billion, with a £60 billion first loss piece, and 90 per cent of losses thereafter insured. Following the Quarter one results of the RBS announced on 7 May 2010, the contingent liability is £153.8 billion because the asset pool has reduced to £230.9 billion (because exchange rate movements offset disposals/maturities). Maximum exposure to HM Treasury is estimated at £153.8 billion of which £1.2 billion is carried at fair value on the balance sheet at the balance sheet date.

25.2.3 Credit Guarantee Scheme

The Credit Guarantee Scheme was put in place as part of the financial support to the banking sector announced on 8 October 2008 (see note 36.1). It provides a Government guarantee for new short and medium term debt issuance to eligible institutions. The Scheme became operational on 13 October 2008 and closed to new issuance on 28 February 2010. Maximum potential liabilities under this intervention are estimated to be £125 billion of which £2.1 billion are carried at fair value on the balance sheet at the balance sheet date.

25.2.4 Northern Rock Plc and Northern Rock (Asset Management) Plc guarantees

HM Treasury announced guarantee arrangements with effect from 1 January 2010 in respect of retail and wholesale deposits transferred to Northern Rock plc pursuant to the restructuring of the bank (see note 27 below). On 24 February 2010 HM Treasury gave three month's notice to terminate the guarantee arrangements covering retail deposits in Northern Rock plc. Accordingly, as of close on 24 May 2010, retail deposits are no longer guaranteed with the exception of fixed term deposits existing at 24 February 2010 which will be guaranteed for the duration of their term. Wholesale deposits guarantee arrangements will terminate on 31 December 2010. Maximum potential liabilities under this intervention are estimated to be £7.2 billion (as at 31 March 2010) of which £0.04 billion are carried at fair value on the balance sheet at the balance sheet date.

HM Treasury also announced replacement guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and derivative transactions of, and certain wholesale deposits held in accounts with Northern Rock (Asset Management) plc, in each case existing immediately after the transfer became effective on 1 January 2010 and which will not be transferred pursuant to the restructuring of the bank. Maximum potential liabilities under this intervention are estimated to be £15.8 billion (as at 31 March 2010) of which £0.1 billion are carried at fair value on the balance sheet at the balance sheet date.

25.2.5 Bradford & Bingley guarantee

In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley (see note 28 below for further details). Maximum potential liabilities under this intervention are estimated to be £6.8 billion (as at 31 March 2010) of which £0.6 billion are carried at fair value on the balance sheet at the balance sheet date.

25.2.6 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.

26. Losses and special payments

The Group's administration costs include £25.5k arising from 44 claims for losses, and claims waived or abandoned.

27. Northern Rock additional information

27.1 Background

On 22 February 2008, by an order made under the Banking (Special Provisions) Act 2008, the shares of Northern Rock plc (NR) were transferred into temporary public ownership (TPO). For further information and events in the period to 31 March 2009, please see HM Treasury's 2007-08 and 2008-09 Resource Accounts.

In February 2009, the then Government announced that subject to state aid approval NR would be restructured into two separate entities, with its back book of mortgages to be managed separately to its other business.

On 28 October 2009, State aid approval for this plan was received from the European Commission and on 8 December 2009 a Transfer Order was made under the Banking (Special Provisions) Act 2008 to effect the restructuring on 1 January 2010.

Following this State aid approval, there was a retrospective change to the terms of the loan agreement and guarantee fees. This resulted in a net refund of £179 million from HM Treasury to NR. This payment was immediately used by NR to reduce the amount owed to HM Treasury under the loan arrangement.

On 1 January 2010, the business of NR was split between Northern Rock plc (NR plc) and Northern Rock (Asset Management) plc (NR(AM)). All customer deposits and a proportion (around 10 per cent) of the mortgage book were transferred to NR plc, a new bank offering mortgage and savings products and regulated by the Financial Services Authority (FSA). The remaining mortgages, the existing loan from HM Treasury and all wholesale funding remained in NR which was renamed NR(AM). NR(AM) does not offer new mortgage products or hold any deposits and is committed to a wind down of its business. Both companies continue to be Government owned, and the Government's interest in them is managed by UK Financial Investments (UKFI).

On 31 December 2009, HM Treasury provided NR plc 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 up to £1.6 billion in additional capital support will be provided to NR(AM) should that be necessary to allow it to continue to meet its regulatory capital requirements. These amounts are within the £3 billion of capital support announced by the then Government in August 2008.

On 24 February 2010, following consultation with the FSA, HM Treasury announced that it intended to remove HM Treasury's temporary guarantee arrangements for retail deposits in NR plc.

Consequently, these guarantee arrangements were lifted with effect from close of business on 24 May 2010. However, fixed term deposits existing at 24 February 2010 will continue to be covered by the guarantee arrangements until maturity. The guarantee arrangements for wholesale deposits and borrowings of NR plc will terminate on 31 December 2010. Every eligible depositor with NR plc continues to have the first £50,000 of their deposit guaranteed by the Financial Services Compensation Scheme (FSCS) (see note 36.3), as is the case for customers of all banks and building societies in the UK authorised by the FSA to conduct the regulated activity of accepting deposits.

The guarantee arrangements for certain wholesale deposits and borrowings of NR(AM) will continue until the end of the wind down process.

The March 2010 Budget announced that Northern Rock (Asset Management) plc and Bradford & Bingley plc will be integrated under a single holding company. The integrated business will be committed to providing excellent customer service, leading arrears management and efficient operations. Both companies will remain as separate legal entities under the new holding company, each with its own balance sheet liabilities and government support arrangements. The integration is the optimal solution to maximise value for the taxpayer and to create a solid platform for the orderly management of both companies' mortgage books.

27.2 Financial transactions

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 in NR (now renamed NR(AM)). Mr Caldwell determined that there was no value in the shares (or right to receive shares) as at the valuation date i.e. 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). For further details see website: www.northernrockvaluer.org.uk

As a result of the support and guarantee arrangements provided to NR, the review of options for resolution and the taking of NR into TPO, HM Treasury incurred certain costs and received certain income on behalf of the then Government. Both companies (NR and NR(AM)) have agreed to reimburse HM Treasury for any expenses and costs incurred, including the professional fees incurred by HM Treasury in connection with the restructuring of NR.

The following transactions have been included in these accounts:

27.2.1 Professional fees

The members of the Tripartite Authorities entered into a number of contracts for professional advice on its response to the financial crisis and, specifically, on NR related matters. The professional fees incurred by HM Treasury, including those relating to NR, have been included in "other administration costs" within the Resource Accounts (see note 7.3).

27.2.2 Recovery of costs and related income

NR agreed to indemnify HM Treasury for certain costs incurred. These recoveries have been accounted for as "administration income appropriation in aid" and used to offset operational costs (see note 9).

NR plc and NR(AM) have paid a monthly fee in respect of the guarantee arrangements, in line with the terms of the agreement between HM Treasury, the Bank of England and the two companies. These fees, totalling £45.5 million in 2009-10, included guarantee fees of £24.7 million from NR for the period 1 April 2009 to 31 December 2009, £3 million from NR(AM) and £17.8 million from NR plc for the period 1 January 2010 to 31 March 2010. These guarantee fees have been accounted for as Consolidated Fund Extra received and have been surrendered, or are due to be surrendered, to the Consolidated Fund (see note 9.2).

Under the current arrangements, professional fees will continue to be incurred during the period of TPO and recharged accordingly to either NR plc or NR(AM) in accordance with the indemnity. The guarantee fees will continue to be received from both companies to the extent retail and wholesale deposits are covered by the guarantee arrangements.

27.2.3 HM Treasury's investment in NR

The ordinary and preference shares in NR (now NR(AM), see para 27.1 above) continue to be held in HM Treasury's balance sheet at historic cost (nil) in accordance with HM Treasury's accounting polices (see note 1).

HM Treasury received ordinary shares following the capital injection of £1.4 billion in NR plc. These unquoted shares are held in the HM Treasury's balance sheet at historic cost, being the price paid, in line with HM Treasury's accounting policies (see note 1).

27.3 Other disclosures relating to the financing of NR

27.3.1 HM Treasury loan to NR (from 1 January 2010 NR(AM))

On 28 August 2008, the existing loan of £18.78 billion was novated on the same terms to HM Treasury from the Bank of England. For further information, please see note 29.3.1 of HM Treasury's 2008-09 Resource Accounts.

A new loan facility structure and agreement was put in place as part of the restructuring of NR. The loan and payment in kind (PIK) balances existing under the loan as at 31 December 2009 remained with NR(AM) under the new loan facility agreement.

The outstanding Government loan had been reduced to £14.3 billion at 31 December 2009 from £26.9 billion at 31 December 2007. The loan increased on 4 January 2010 by £8.5 billion, taking the outstanding loan balance to £22.8 billion (excluding PIK), in order for NR(AM) to finance the difference between mortgage assets and retail and wholesale deposit liabilities that were transferred to NR plc. As announced by HM Treasury on 23 February 2009, NR plc will use the cash it has received from NR(AM) to increase mortgage lending.

The gross loan (including the PIK balance) as at the balance sheet date of 31 March 2010 is £22.97 billion including PIK balance of £150.7 million. The cost of capital charge is £587 million. This is equal to 3.5 per cent on the average value on the balance sheet (see note 1.9).

The interest receivable on HM Treasury's loan to NR/NR(AM) for the period up to 31 March 2010 is £225 million. This interest has been surrendered or due to be surrendered to the consolidated Fund, see note 9.2 for details.

The Treasury is also providing 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. No fee is payable on the WCF unless drawndown.

We expect the loan facilities to NR(AM) to be repaid in full over the period of wind down as per the business plan.

28. Bradford & Bingley additional information

28.1 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 temporary public ownership (TPO). Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey). To facilitate this transfer and in accordance with provisions of Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 (the Transfer Order), the FSCS and HM Treasury made cash payments to Abbey in respect of the retail 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. Further information and events in the period to 31 March 2009, please see HM Treasury's 2008-09 Resource Accounts.

Under the Transfer Order, B&B is responsible for determining the size of the aggregate retail deposit liabilities which were transferred to Abbey under the Transfer Order. Following due diligence analysis by KPMG notifications were sent by B&B to HM Treasury and the FSCS in July 2009 and December 2009. Both notifications revised upwards the estimated size of the retail deposit liabilities transferred to Abbey. As a result the FSCS and HM Treasury made further payments to Abbey in July 2009 and December 2009 totalling £428.2 million (£433.6 million including interest).

This brings the total cash paid to Abbey by the FSCS and HM Treasury (taking into account the £612 million consideration paid by Abbey to HM Treasury) to £18.4 billion as at 31 March 2010.

Under the Transfer Order, the FSCS is responsible for determining the liability of the FSCS for the eligible deposits up to £35,000 per depositor (the FSCS compensation limit at the time). HM Treasury is liable for deposit balances in excess of £35,000. Following due diligence analysis carried out by Deloitte on behalf of FSCS, the liability split between the FSCS and HM Treasury was revised. The FSCS liability as at 29 September 2008 was changed (retrospectively) from £14 billion to £15.3 billion and was adjusted further following the additional payments to Abbey to £15.7 billion from 18 December 2009. Interest will be paid by the FSCS to HM Treasury retrospectively on the additional liability due for the period 29 September 2008 to 31 March 2009.

The HM Treasury liability was revised to £2.7 billion from 29 September 2008; £2.8 billion from 18 December 2009.

In September 2008, HM Treasury put in place guarantee arrangements to safeguard certain wholesale borrowings and deposits with B&B. The terms of the guarantee are set out in more detail below.

In September 2008, the Bank of England provided a Working Capital Facility (WCF) loan to B&B. The WCF was refinanced by HM Treasury on 29 December 2008 and stood at £8.5 billion as at 31 March 2010 whilst the commitment remains at £11.5 billion.

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.

On 25 January 2010, the European Commission gave State aid approval to the restructuring plan for B&B and also approved the guarantee arrangements for B&B's wholesale deposits and borrowings. These were announced on 29 September 2008 and will remain in place until the wind down of B&B is complete.

The March 2010 Budget announced that Northern Rock (Asset Management) plc and Bradford & Bingley plc will be integrated under a single holding company. For additional details refer to note 27.1 above.

The HM Treasury loan to the FSCS stood at £15.7 billion and the HM Treasury pay out for deposit balances above £35,000 stood at £2.8 billion as at 31 March 2010 (refer to note 36.3.2 for details).

For accounting purposes, HM Treasury top up is recognised on a net present value basis with adjustments made towards impairment and amortisation of cost. The net present value of the HM Treasury top up as at 31 March 2010 is £2.1 billion (refer to note 14 for details).

28.2 Financial transactions

The independent valuer completed his final assessment on 5 July 2010 and he has concluded that no compensation is payable by HM Treasury to former B&B's shareholders and bondholders. Under the Order any affected party may request the valuer to reconsider his assessment (the valuer has set a deadline of 27 August 2010 to receive these representations), and if still dissatisfied with the revised Assessment Notice the affected parties may then refer the matter to the Financial Services and Markets Tribunal. The full report can be viewed on this website http://www.bandbvaluer.org.uk.

As a result of the support and guarantee arrangements provided to B&B, the review of options for resolution, the transfer of B&B into TPO and the transfer of B&B's retail deposit book, branch and agency network and share in its Isle of Man subsidiary to Abbey, HM Treasury incurred certain costs.

The following transactions have been included in these accounts:

28.2.1 Professional fees, recovery of costs and related income

Professional fees incurred by HM Treasury, including those relating to B&B, have been included in "other administration costs" within the Resource Accounts (see note 7.3).

B&B agreed to indemnify HM Treasury for certain costs incurred. Recoveries of these and other costs have been appropriated in aid to offset against costs.

HM Treasury also receives a monthly fee in respect of the wholesale deposit guarantee arrangements. This fees received totalled £259.8 million during the financial year 09-10 (2008-09: nil) and have been accounted for as Consolidated Fund Extra Receipts and are surrenderable to the Consolidated Fund (see notes 9.2).

28.2.2 HM Treasury's investment in B&B

The ordinary shares that were brought onto HM Treasury's balance sheet when B&B entered TPO continue to be valued at historic cost (nil) as at the balance sheet reporting date (see note 1).

28.3 Other disclosures relating to the financing of B&B

28.3.1 HM Treasury loan to FSCS

The interest on HM Treasury's loan to the FSCS is charged at twelve month LIBOR plus 30 basis points. As of 31 March 2010, HM Treasury had accrued £302.1 million of interest from the FSCS on the loan. This will be paid on 1October 2010. This interest also includes additional interest owed retrospectively by the FSCS for the period 29 September 2008 to 31 March 2009 – see section 28.1 above.

On 31 March 2010, the remaining undrawn amount on the total facility is £25.7 million. This undrawn amount will be cancelled from 1 April 2010.

28.3.2 HM Treasury loan to B&B

HM Treasury has provided a WCF of £11.5 billion. As of 31 March 2010, B&B had utilised £8.5 billion of this total. The WCF will be repaid by B&B in line with the agreed B&B's business plan. This WCF was initially issued by the Bank of England and refinanced by HM Treasury on 29 December 2008.

The WCF attracts monthly interest on a net basis and also a monthly commitment and interest fee on the daily balance on the proportion of the WCF that has been drawdown but not used.

The interest due on the WCF at 31 March 2010 is £160.5 million, which will be surrendered to the Consolidated Fund. As a result of the European Commission's approval on 25 January 2010 of the State aid given to B&B the interest terms of the WCF were changed with retrospective effect. This resulted in HM Treasury refunding £27.9 million to B&B.

The £2.8 billion provided by HM Treasury for the retail depositors' balances in excess of £35,000 (the then FSCS depositor compensation limit) is a claim on B&B. It is not accruing any interest.

The total cost of capital charge for the B&B financial interventions is £895.1 million, (£256 million (2008-09)) charged at 3.5 per cent on the average value on the balance sheet, see note 1.9).

28.3.3 The Guarantee

HM Treasury has provided a guarantee to B&B on the unsecured and unsubordinated wholesale deposits and unsecured and unsubordinated wholesale borrowings, including any accumulated interests as existed as at midnight of 28 September 2008. This guarantee remained in place as at 31 March 2010.

On 25 January 2010, the European Commission provided State aid approval to the continuation of the guarantee arrangements until the wind down of B&B is completed.

For further information on the Guarantee please see HM Treasury's website www.hm-treasury.gov.uk.

29 Royal Bank of Scotland additional information

29.1 Background

As part of the Government Recapitalisation Scheme 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.

For further information on the above, please see note 31 of HM Treasury's 2008-09 Resource Accounts.

Following the 19 January 2009 announcement, RBS conducted an open offer to all existing shareholders in order to fund the preference share redemption.

On 3 April 2009 shareholders approved the issue of the new ordinary shares and redemption of the preference shares at RBS's Extraordinary General Meeting.

In line with the terms of the conversion HM Treasury underwrote the open offer and subscribed to those shares not taken up by existing shareholders. The subscription price due from HM Treasury for these shares was then offset against RBS's obligation to pay the redemption price in respect of the preference shares (together with the accrued coupon and the underwriting fees) to HM Treasury.

On 7 April 2009, the results of the open offer were announced, allowing the redemption to take place on 15 April 2009.

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 - equal to the £25.5 billion total capital commitment announced in the pre-accession agreement terms in February 2009, which comprised £13 billion in upfront capital, £6 billion of capital to be drawn at the option of RBS and £6.5 billion in a fee taken as capital.

As a result the Government's economic ownership of RBS rose to 83.2 per cent as at 31 March 2010. HM Treasury agreed that it would not vote in respect of the B shares to the extent that such votes, together with any votes that the Treasury is entitled to cast in respect of any ordinary shares held by it, would exceed 75 per cent of the total votes eligible to be cast on a resolution. It currently holds 68.4 per cent of the total ordinary share capital of RBS.

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'). This will ensure that RBS is properly and robustly secured in a severe downturn. This commitment has a duration of five years, and this capital can only be retired early if the FSA judges it is no longer required

29.2 Asset Protection Scheme

The Accession Agreement to the APS was signed on 26 November, however participation was subject to a number of conditions, such as approval by RBS' shareholders and final approval by the European Commission. RBS acceded to the Asset Protection Scheme (APS) on 22 December 2009 under revised terms compared with the in-principle agreement reached in February 2009.

RBS has insured an asset pool of £282 billion, with a first loss piece of £60 billion borne by RBS. The APS asset pool has reduced to £230.9 billion as of 31 March 2010 (due to disposals, repayments, maturities, other movements and exchange rate movements). For losses exceeding the first loss amount, HM Treasury provides protection on 90 per cent of losses incurred. RBS is paying an annual fee of £0.7 billion for the first three years (2009-11), and £0.5 billion thereafter for the insurance provided. RBS has also paid for a portion of the APS set up costs, and will pay for the ongoing operation of the APS.

For further details of the APS please see note 36.7.

29.2.1 Consideration

In consideration for providing capital in the form of the B share subscription and the Contingent Capital Commitment, RBS will pay a premium of 4 per cent per year on the unused capital commitment. HM Treasury has received £320 million for the period up to 31 December 2010. This fee amount has been surrendered to Consolidated Fund, refer to note 9.2 for further details.

In addition, the Dividend Access Share (in conjunction with the B shares) will pay a non-cumulative discretionary dividend at the higher of 7 per cent of the acquisition price and 2.5 times any dividend paid in respect of the ordinary shares. Such dividend rights will continue until the Parity Value[1] of the B shares equals or exceeds 65p for 20 or more dealing days in any 30 day trading period.

[1] The Acquisition and Contingent Capital Agreement contains a definition of Parity Value. The Agreement can be found at the following website: http://www.hm-treasury.gov.uk/aps_framework.htm"

29.3 Recovery of costs and related income

HM Treasury charged RBS an underwriting fee of 0.5 per cent on all shares underwritten and 1 per cent on shares purchased by HM Treasury. The total fees received during the year was £80.2 million. This has been surrendered to the Consolidated Fund.

In addition, HM Treasury has and will charge RBS for all legal, financial and other costs incurred in relation to RBS's participation in the recapitalisation scheme and APS, other than costs that may be awarded against HM Treasury in any court or arbitral proceedings. These costs have been included in "other administration costs" within the Resource Accounts (see note 7.3).

RBS had paid APS fee of £1.4 billion for the first two years (till end of December 2010). This has been surrendered to the Consolidated Fund.

Amounts for these and other recoveries have been appropriated in aid to offset against costs.

29.4 HM Treasury's investment in RBS

On 15 April 2009, HM Treasury redeemed its preference shareholdings.

The preference shares earned a dividend of £224 million (12 per cent) up until the redemption date (2008-09: £199 million and 2009-10: £25 million). This has been surrendered to the Consolidated Fund.

The carried forward value of investments in ordinary shares of RBS as at 31 March 2010 stood at £17.4 billion. This value represents the fair value, being the price per share quoted as at the balance sheet reporting date.

The B shares are carried at fair value, as at 31 March 2010, they stood at £22.4 billion and dividend access share at £2.5 billion, see note 13 and note 24.5 for further details.

The cost of capital charge is £769.1 million (2008-09 - £131.5 million) (cost of capital is charged at a rate of 3.5 per cent on the value in the balance sheet, see note 1.9).

30. Lloyds Banking Group additional information

30.1 Background

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. For further details on the Recapitalisation Scheme, please see note 42.4 of HM Treasury's 2008-09 Resource Accounts.

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.

For further details of events leading up to 31 March 2009, please see note 32.1 of HM Treasury's 2008-09 Resource Accounts.

On 7 March 2009 the Government announced its agreement with LBG to redeem HM Treasury's £4 billion preference share investment. In order to fund the redemption of HM Treasury's preference share holding, LBG conducted a placing and open offer of ordinary shares to all its existing shareholders. Shares not taken up by existing shareholders were placed in the market. HM Treasury subscribed to its pro-rata entitlement under the open offer.

On 5 June 2009, shareholders of LBG approved an issue of new ordinary shares

30.2 Consideration

LBG paid the Government a fee of £2.5 billion in return for the benefit it received from its intended participation in the APS. This has been surrendered to the Consolidated Fund, see note 9.2 for further details.

30.3 Recovery of costs and related income

HM Treasury charged Lloyds Banking Group an underwriting fee of 0.5 per cent and 1 per cent on shares purchased as part of preference shares conversion. This fee was £43 million and has been surrendered to the Consolidated Fund, see note 9.2 for details.

For the 2009 rights issue, HM Treasury charged Lloyds Banking Group a commitment fee of 2.45 per cent on shares purchased by HM Treasury. The total fee was £143 million and has been surrendered to the Consolidated Fund see note 9.2 for details.

In addition, HM Treasury has charged LBG for all legal, financial and other costs incurred in relation to LBG's participation in the recapitalisation and APS. These costs have been included in "other administration costs" within the Resource Accounts (see note 7.3).

Amounts for these and other recoveries have been appropriated-in-aid to offset against costs.

30.4 HM Treasury's investment in LBG

As at 31 March 2010, the carried forward value of the investments in the ordinary shares of LBG is £17.33 billion. This value represents fair value of the investments, being the price per share quoted on the balance sheet reporting date.

On the 8 and 11 June 2009, HM Treasury's £4 billion preference shareholding was redeemed by LBG.

The preference shares earned a dividend of £191 million (12 per cent) up until the redemption date (2008-09: £100 million and 2009-10: 91 million). This has been surrendered to the Consolidated Fund.

The cost of capital charge is £404.3 million (2008-09: £60.2 million), representing 3.5 per cent on the average value in the balance sheet (see note 1.9).

30.5 The Asset Protection Scheme

On 7 March 2009 LBG announced its intention to place £260 billion of assets into the Asset Protection Scheme (APS). An agreement in principle was signed by HM Treasury and LBG at that point.

Between March 2009 and autumn 2009 work continued on finalising the terms and design of the APS. Meanwhile, confidence began to return to financial markets and LBG therefore considered alternatives to its participation 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. On exiting the APS, a fee of £2.5bn was levied on LBG for the implicit protection it has received since indicating it would participate.

LBG raised additional capital through a combination of a £13.5 billion rights issue, and swapping £9 billion of existing debt for contingent capital, equity or cash. The Government took up its rights as a shareholder in LBG to participate in the planned capital raising, investing £5.7 billion net of an underwriting fee.

As at 31 March 2010, HM Treasury held 41.3 per cent of the ordinary share capital in LBG.

31 Heritable additional information

31.1 Background

Heritable Bank plc (Heritable) is a UK subsidiary of Landsbanki islands hf (an Icelandic bank) and was regulated by Financial Services Authority (FSA).

On 8 October 2008, by orders made under the Banking (Special Provisions) Act 2008, the retail deposit liabilities of Heritable 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 by HM Treasury and the FSCS to ING equal to the value of the deposit book liabilities less £1 million. Heritable is now in administration. For further information and events leading up to 31 March 2009, please see HM Treasury's 2008-09 Resource Accounts.

Under the Heritable Bank plc Transfer of Certain Rights and Liabilities Order 2008 ('the Transfer Order'), the FSCS is responsible for carrying out due diligence analysis on the split between the transferred deposits which are covered by the FSCS (up to the £50,000 threshold) and those which are not covered by the FSCS (in excess of the £50,000 threshold) are instead covered by HM Treasury. The due diligence performed by the Deloitte on behalf of FSCS confirmed that the FSCS liability was reduced from £500 million to £455.4 million from 7 October 2008. The FSCS borrowed £12.5 million on 29 December 2008 to provide compensation to eligible depositors whose accounts were not transferred to ING. The HM Treasury liability was revised from £45 million to £89.6 million from 7 October 2008.

The administrator for Heritable paid out dividends to creditors in August 2009 and December 2009 and in March 2010. Dividends paid out to FSCS and HM Treasury totalled £194.2 million. A proportion (£162.3 million) of this was used to pay down part of the FSCS's liability to HM Treasury under the loan and the remaining amount (£31.9 million) was used to effectively reimburse HM Treasury for part of the amount it paid out for deposit balances above £50,000.

After 31 March 2010, HM Treasury and FSCS were required to pay a further £2 million (net of interest) to ING in relation to the transfer of Heritable retail deposits. This is reflected in the 2009-10 Resource Accounts.

The HM Treasury loan to the FSCS stood at £307.4 million and the HM Treasury pay out for deposit balances above £50,000 stood at £58 million as at 31 March 2010 (refer to note 36.3.2 for details).

For accounting purposes, HM Treasury top up is recognised on a net present value basis with adjustments made towards impairment and amortisation of cost. The net present value of the HM Treasury top up as at 31 March 2010 is £40.5 million (refer to note 14 for details).

The repayments in respect of HM Treasury top up are expected over the period of wind down as determined by the Administrators. The FSCS will repay the principal outstanding in accordance with a timetable to be agreed between FSCS and HM Treasury.

The professional fees incurred by HM Treasury relating to Heritable are included in the total financial stability costs in note 7.3.

31.2 HM Treasury's investment in DMH

DMH is a subsidiary of HM Treasury. Under the terms of the Transfer Order, £1 million (plus interest) in respect of the transferred deposits which was retained from the payment to ING in accordance with the Transfer of Rights and Liabilities to ING Order 2008 is offset by a liability of £1 million (plus interest and less the costs incurred by DMH in performing its obligations under the Transfer Orders) to Heritable (in administration).

The arrangements are currently being put in place to wind up DMH.

31.3 HM Treasury loan to FSCS and HM Treasury top up

The interest receivable on HM Treasury's loan to the FSCS in respect of Heritable is twelve month LIBOR plus 30 bps. As at 31 March 2010, HM Treasury has recognised £6.3 million (net of interest refund of £0.9 million relating to period 8 October 2008 to 31 March 2009) of interest from the FSCS on the loan. This will be paid on 1 October 2010.

The undrawn element of the loan facility also attracts a monthly commitment fee payable by the FSCS to HM Treasury. On 31 March 2010, the remaining undrawn amount on the total facility is £2.5 million. This undrawn amount will be cancelled from 1 April 2010.

The £58 million funding provided by HM Treasury to DMH/ING for retail depositors' balances in excess of £50,000 is not accruing any interest. A liability was imposed on Heritable under the Transfer Order for this amount and therefore HM Treasury is creditor in the administration.

The cost of capital charge is £15.2 million (2008-09: £7.4 million), representing 3.5 per cent on the average value in the balance sheet (see note 1.9).

32. Kaupthing Singer & Friedlander additional information

32.1 Background

On 8 October 2008, by an order made under the Banking (Special Provisions) Act 2008, the 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. For further information and events leading upto 31 March 2009, please see note 34 of HM Treasury's 2008-09 Resource Accounts.

Under the Kaupthing Singer and Friedlander Ltd Transfer of Certain Rights and Liabilities Order 2008 (the Transfer Order) the FSCS is responsible for carrying out due diligence analysis on the split between the transferred deposits which are covered by the FSCS (up to the £50,000 threshold) and those which are not covered by the FSCS (in excess of the £50,000 threshold) (covered by HM Treasury). The due diligence performed by Deloitte on behalf of FSCS confirmed that the FSCS liability was increased from £2.5 billion to £2.8 billion from 8 October 2008. The HM Treasury liability was revised down from £550 million to £233 million from 8 October 2008.

The FSCS is paying out eligible retail deposits in KSF non-'Edge' products directly. HM Treasury made a loan facility of £530 million available to FSCS for these payments in 2008-09. Of this total, £150 million was repaid to HM Treasury on 31 March 2010. Following due diligence conducted by the FSCS, the remaining £380 million has been split with £150 million deemed as a loan to the FSCS for compensation up to £50,000 and £230 million deemed as a liability of HM Treasury for payouts to depositors with balances in excess of £50,000.

The KSF administrator paid out dividends to creditors in July 2009, December 2009 and in March 2010. Total dividends paid out to FSCS and HM Treasury amounted to £1 billion. A proportion of this (£896.3 million) was used to reduce the FSCS loan to HM Treasury and the remainder (£147.6 million) was used to reduce the HM Treasury liability for deposit balances above £50,000.

After 31 March 2010, HM Treasury and FSCS were required to pay a further £0.4 million (net of interest) to ING in relation to the transfer of KSF retail deposits. This is reflected in the 2009-10 Resource Accounts.

The HM Treasury loan to the FSCS stood at £1.8 billion and the HM Treasury pay out for deposit balances above £50,000 stood at £291.2 million as at 31 March 2010 (refer to note 36.3.2 for details).

For accounting purposes, HM Treasury top up is recognised on a net present value basis with adjustments made towards impairment and amortisation of cost. The net present value of the HM Treasury top up as at 31 March 2010 is £162.6 million (refer to note 14 for details).

The repayments in respect of HM Treasury top up are expected over the period of wind down as determined by the Administrators. The FSCS will repay the principal outstanding in accordance with a timetable to be agreed between FSCS and HM Treasury.

The professional fees incurred by HM Treasury relating to KSF are included in the total financial stability costs in note 7.3.

32.2 HM Treasury loan to FSCS and HM Treasury top up

The interest receivable on HM Treasury's loan to the FSCS in respect to KSF is twelve month LIBOR plus 30bps. As at 31 March 2010, HM Treasury has recognised £48.9 million of interest from the FSCS on the loan.

Under the revised KSF loan agreement HMT had made available to the FSCS with effect from 1 April 2010 exactly £150 million and any amounts undrawn by 31 March 2011 will be cancelled

HM Treasury's liability for deposits above £50,000 as at 31 March 2010 is £291.2 million and this is not accruing any interest. It is recoverable from the administration process for KSF (see above).

The cost of capital charge is £86.7 million (2008-09: £37.5 million), representing 3.5 per cent on the average value in the balance sheet (see note 1.9).

33. London Scottish Bank additional information

33.1 Background

On 30 November 2008, the High Court made an Administration Order in relation to London Scottish Bank plc (LSB) and administrators were appointed. For further information and events leading up to 31 March 2009, please see note 35 of HM Treasury's 2008-09 Resource Accounts.

As at 31 March 2010, HM Treasury loan to FSCS stood at £180.8 million and the HM Treasury pay out for deposit balances above £50,000 stood at £19.2 million (see note 36.3.2).

For accounting purposes, HM Treasury top up is recognised on a net present value basis with adjustments made towards impairment and amortisation of cost. The net present value of the top up as at 31 March 2010 is £8.2 million (refer to note 14).

HM Treasury will meet payments above the £50,000 threshold for eligible depositors. The £19.2 million provided by HM Treasury is not accruing any interest.

The repayments in respect of top up are expected over the period of wind down as determined by the Administrators. The FSCS will repay the principal outstanding in accordance with a timetable to be agreed between FSCS and HM Treasury).

The professional fees incurred by HM Treasury and specifically related to LSB are included in total financial stability costs in note 7.3.

The cost of capital charge is £4.1 million (2008-09: £0.07 million), representing 3.5 per cent on the average value in the balance sheet (see note 1.9).

The undrawn element of the loan facility attracts a monthly commitment fee payable by the FSCS to HM Treasury. On 31 March 2010, the remaining undrawn amount on the total facility is £50 million.

Interest earned on the drawn facility was £2.1 million to 31 March 2010.

34 Icesave additional information

34.1 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. For further information and events up to 31 March 2009, please see note 36 of the HM Treasury's 2008-09 Resource Accounts.

HM Treasury provided the FSCS with £3.9 billion funding in 2008-09 to allow it to make payouts to retail deposit holders at Icesave. HM Treasury provided a further £530 million between 1 April 2009 and 31 March 2010 so that it could continue to make payouts, taking the total payout to £4.4 billion as at 31 March 2010.

According to the FSCS of the £4.4 billion total funding provided, about £2.2 billion (plus costs and interest) falls to 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 £773 million represents compensation by HM Treasury for amounts above £50,000.

HM Treasury expects that it and the FSCS will recover these amounts from the winding up of Landsbanki – the FSCS and HM Treasury are now creditors - and from the Icelandic Authorities.

HM Treasury is continuing to work with the Icelandic Authorities on a process to ensure the UK is refunded for the amounts it paid out to depositors in respect of amounts covered by the DIGF. A loan agreement that would have had that effect was put to a referendum of the Icelandic people on 6 March 2010 and was rejected. Nevertheless, HM Treasury continues to expect full repayment of this amount. It is continuing to discuss the terms of the repayment with the Icelandic Authorities and other relevant parties. The professional fees incurred by HM Treasury relating to Icesave are included in the total financial stability costs in note 7.3.

As at 31 March 2010, HM Treasury loan to FSCS stood at £1.4 billion and the HM Treasury pay out for deposit balances above £50,000 stood at £772.9 million (see note 36.3.2).

For accounting purposes, top up is recognised on a net present value basis with adjustments made towards impairment and amortisation of cost. The net present value of the top up as at 31 March 2010 is £603.7 million (see note 14 for details).

34.2 HM Treasury loan to the FSCS and DIGF and HM Treasury top up

The interest receivable on HM Treasury's loan to the FSCS in respect of Icesave is one-year LIBOR plus 30bps. As at 31 March 2010, HM Treasury has recognised £23.5 million of interest from the FSCS on the loan which will be paid on 1 October 2010.

The undrawn element of the loan facility attracts a quarterly commitment fee payable by the FSCS and DIGF to HM Treasury. On 31 March 2010, the remaining undrawn amount on the total facility is £470 million.

The £773 million payment provided by HM Treasury for the retail depositors' balances in excess of £50,000 is not accruing any interest. The repayments in respect of HM Treasury top up are expected over the period of wind down of Landsbanki as determined by the Administrators.

The total cost of capital charge relating to Icesave is £110.5 million (2008-09: £9.9 million) and DIGF is £33.5 million, representing 3.5 per cent on the average value in the balance sheet (see note 1.9).

35. Dunfermline Building Society additional information

35.1 Background

On 28 March 2009, the Financial Services Authority, after consultation with HM Treasury and Bank of England, concluded that Dunfermline Building Society (DBS) 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) (DBS Bridge Bank). A court order was made that day placing DBS into building society special administration.

HM Treasury provided on 30 March 2009 about £1.6 billion of cash in order to match the difference between the retail and wholesale deposit liabilities and the mortgage assets transferred from DBS to Nationwide. The business transferred to DBS Bridge Bank was subsequently sold and transferred to Nationwide on 30 June 2009 by the Bank of England following a competitive auction process. The DBS Bridge Bank was later placed into members' voluntary liquidation which was completed in February 2010.

For further information and events leading up to 31 March 2009, please see, note 37 of HM Treasury's 2008-09 Resource Accounts.

On 30 September 2009, Nationwide refunded £15.4 million to HM Treasury following due diligence carried out by KPMG on behalf of HM Treasury.

A liability against DBS was created in the Transfer Instrument made by the Bank of England on 30 March 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).

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 in accordance with the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009.

On 25 January 2010, the European Commission provided State aid approval of the restructuring plan for DBS.

The professional fees incurred by HM Treasury in connection with the resolution of DBS are included in total financial stability costs in note 7.3.

As at 31 March 2010, HM Treasury pay out for deposit balances above £50,000 stood at £1.5 billion.

For accounting purposes, top up is recognised on a net present value basis with adjustments made towards impairment and amortisation of cost. The net present value of the top up as at 31 March 2010 is £1.4 billion (refer to note 14 for details).

A cost of capital charge of £52 million (2008-09: £0.3 million) has been applied in respect of HM Treasury's interests in DBS. This represents 3.5 per cent of the average balance sheet value (see note 1.9).

36. Financial stability schemes and interventions

36.1 Credit Guarantee Scheme

36.1.1 Background

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.

For further information and events leading up to 31 March 2009, please see note 38.1of the HM Treasury's 2008-09 Resource Accounts.

On 9 December 2009, a further short extension to the scheme was announced at the Pre-Budget Report. The drawdown window for new issuance closed on 28 February 2010.

As at 24 March 2010, outstanding debt issuance under the scheme stood at £125 billion.

36.1.2 The Guarantee

HM Treasury provides a guarantee in relation to eligible instruments issued by the relevant institution. It is unconditional, irrevocable and ensures timely payment. The Deed of Guarantee is available to be viewed at www.dmo.gov.uk.

Total fee income recognised in the 2009-10 Resource Accounts is £1.6 billion (2008-09: £0.5 billion), which has been accounted for as Consolidated Fund Extra Receipts and are surrenderable to the Consolidated Fund.

36.1.3 Term of the CGS

All debt issued under the scheme would continue to have a final maturity date of 9 April 2014.

36.1.4 Additional measures

Subsequent to the closure of the draw down window on 28 February 2010, banks and building societies may continue to rollover any outstanding guaranteed debt (all of it until April 2012 and up to one-third of the total, a maximum of £83.3 billion for all institutions combined, until April 2014). All other aspects of the CGS remain the same.

For details on how the CGS has been accounted for, see note 1.21 - Financial Guarantees.

36.2 Bank of England Asset Purchase Facility

36.2.1 Background

On 19 January 2009, the then 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, with Bank Rate at a historically low level, the Chancellor, Mr.Alistair Darling, authorised the Monetary Policy Committee (MPC) to use the APF for monetary policy purposes.

For further information on the period before 31 March 2009, please see note 38.2 of HM Treasury's 2008-09 Resource Accounts.

36.2.2 Purpose of the Asset Purchase Facility

In May 2009, the MPC extended its programme of asset purchases from £75 billion to £125 billion. At the request of the MPC, the Chancellor, Mr.Alistair Darling, authorised an increase in the upper limit of the APF to £175 billion in August 2009, and then to £200 billion in November 2009. At the end of January 2010, the total stock of assets held under the APF had increased to £200 billion.

Following the MPC's decision to maintain the stock of asset purchases financed by the issuance of central bank reserves at £200 billion on 4 February 2010, the Chancellor, Mr.Alistair Darling, wrote to the Chairman of the Treasury Select Committee, Mr John McFall, to confirm that the APF would continue to offer facilities for commercial paper, corporate bonds and secured commercial paper. Purchases of these assets since the February 2010 MPC meeting are being financed by the issue of Treasury Bills and the DMO's cash management operations.

36.2.3 Asset eligibility

Facilities have been launched for purchase by the APF of: UK Government gilts; corporate bonds; commercial paper and; secured commercial paper. The Bank stands ready to make purchases of bonds issued under HM Treasury's Credit Guarantee Scheme (CGS) but, to date, it has not been deemed necessary to activate this facility (see note 36.1). This list can be amended upon the Chancellor's, approval. The Bank of England should be satisfied that they only purchase high quality assets of investment grade for which there will be a viable private market demand when conditions in financial markets return to normal. Further details about asset eligibility and the APF are available on the Bank of England's website at http://www.bankofengland.co.uk/markets/apf/index.htm.

36.2.4 Term of the Asset Purchase Facility

The APF's purpose is to help the MPC meet the inflation target and to restore the flow of credit to corporate borrowers. Consequently, as the outlook for the economy improves and normal liquidity conditions return, the Bank of England is expected to wind down the fund, with the APF being completely withdrawn when it is no longer required. The Chancellor will authorise the APF's continued operation for the following financial year at each Budget. The Chancellor, Mr.Alistair Darling, confirmed in the March Budget 2010 that the APF would remain in place in financial year 2010-11.

36.2.5 Indemnity

36.2.5.1 Bank of England Asset Purchase Facility Fund Limited

The Bank of England and the company set up to undertake the purchases, the Bank of England Asset Purchase Facility Fund Limited (BEAPFF), are indemnified by HM Treasury against any losses incurred under the APF. The BEAPFF is a wholly-owned subsidiary of the Bank. In return for providing this indemnity, HM Treasury will receive any net profit generated by the scheme (see note 19.3). The current intention is that any amount due to or from the BEAPFF will not be demanded until the scheme ends. Treasury minutes were laid before both Houses of Parliament on 19 January, 5 March, 14 September and 9 November 2009, and 5 February and 24 March 2010, updating Parliament on the contingent liabilities arising from the use of the APF.

The Bank of England has published APF accounts for the year ended February 2010. The fair value of the APF derivative as at March 2010 is included under note 13 of the HM Treasury's 2009-10 Resource Accounts.

36.2.5.2 Debt Management Account (DMA)

The Debt Management Office (DMO) has agreed to finance a small portion of the Bank of England Asset Protection Facility through instruments it issues/trades on other similar transactions.

HM Treasury has indemnified the Debt Management Account against any losses it suffers on the difference between the rates at which the funds are raised for Bank of England Asset Purchase Facility to deposit with the Bank and the rate received by the DMO on its deposit with the Bank – that is, Bank Rate.

The DMA indemnity as at March 2010 has been provided for in note 19 for the actual cost incurred at the balance sheet date.

36.3 The Financial Services Compensation Scheme

36.3.1 Background

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. It became operational on 1 December 2001 when the FSMA came into force. 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.

Please see the FSCS website for further information on FSCS: www.fscs.org.uk

36.3.2 Summary of FSCS loans and HMT top up payments

The loans and top ups made by HM Treasury to the FSCS were subject to adjustments following FSCS due diligence during the financial year, for details refer to note 28.1, 31.1, 32.1, 33.1 and 34.1 respectively. The outcome of this due diligence resulted in reallocation of outstanding balances between FSCS loans and HMT top up. The table below shows the loans and top ups (undiscounted) made by HM Treasury to the FSCS up to 31 March 2010.

	B&B £000	Heritable £000	KSF £000	LSB £000	Icesave £000
FSCS loan balance as at 01 April 2009	14,207,293	519,171	2,793,560	88,485	3,369,924[2]
Drawdowns	4,684	1,751	333	92,299	219,658
Increase / (Decrease) in FSCS loan from HMT top up following due diligence/accrual	1,654,261	(44,598)	52,793	-	(2,171,524)[3]
FSCS loan repayments	-	(162,299)	(1,046,874)	-	-
Bank of England refinanced interest repayment	(207,293)	(6,671)	(32,876)		(5,249)
FSCS loan balance as at 31 March 2010[1]	**15,658,945**	**307,354**	**1,766,936**	**180,784**	**1,412,809**
Top UP as at 01 April 2009 (before impairment and repayment)	4,094,977	45,000	491,636	11,515	539,817
Drawdowns during the year	53	339	27	7,701	132,054
BoE refinanced interest adjustment	-	-	-	-	(2,764)
Increase / (Decrease) in Top up from FSCS loans following due diligence	(1,333,329)	44,598	(52,793)	-	103,876
Top up repayments during the year	-	(31,932)	(147,622)	-	-
Top up balance as at 31 March 2010[1]	**2,761,701**	**58,005**	**291,248**	**19,216**	**772,983**
Facility remaining undrawn 31 March 2010[5]	25,706	2,500	-	50,000	470,000[4]

[1] Refer to note 14.1 Loans and advance to financial institutions for further details

[2] Includes the loan to the Icelandic Compensation Scheme (DIGF) in respect of compensation payouts up to €20,887 per depositor in accordance with the EU Deposit Guarantee Scheme Directive

[3] Adjusted to take out the loan to the Icelandic Compensation Scheme (DIGF) so that loan balance relates only to FSCS payouts for amounts above €20,887 and less than £50,000

[4] These funds can be used to payout the DIGF liability as well as the FSCS and HMT share of depositor compensation liabilities

[5] The facility remaining represents unspent amount under the original loan agreements. Under the revised loan agreement, with effect from 1 April 2010, B&B and Heritable undrawn facility amounts were fully cancelled and in the case of KSF, HM Treasury has made available exactly £150 million, Any amounts undrawn under the KSF loan will be cancelled by 31 March 2011

36.4 Asset Backed Securities Guarantee Scheme

36.4.1 Background

On 19 January 2009, the Government announced it would establish a new guarantee scheme for asset backed securities to improve banks' access to wholesale funding markets, help support lending, and promote robust and sustainable markets over the longer-term.

For further information, please see note 38.4 of HM Treasury's 2008-09 Resource Accounts.

The Government sought to extend the scheme's drawdown window to 31 December 2009, so that banks and building societies could continue to have the opportunity to benefit from a variety of guaranteed funding to support their lending to the economy.

On 27 October 2009, the European Commission approved this extension. The scheme closed on 31 December 2009, as planned.

Full details of the scheme are published on the Debt Management Office (DMO) website www.dmo.gov.uk.

36.5 Bank of England Special Liquidity Scheme

36.5.1 Background

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 (financial institutions) 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 assets held by financial institutions that can be used in the SLS must be high quality.

Although the drawdown window to access the SLS has closed, the Scheme will remain in place for three years, thereby providing participating institutions with continuing liquidity support and certainty. Only securities formed from loans existing before 31 December 2007 were eligible.

For further information and events leading upto 31 March 2009, please see 38.5, of HM Treasury's 2008-09 Resource Accounts.

Details on this Bank of England Scheme can be found at www.bankofengland.co.uk.

36.5.2 Indemnity

Under the scheme, the Bank of England is indemnified by HM Treasury against any losses incurred.

Assets taken into the scheme are high quality, revalued daily with margin calls as necessary and are subject to a conservative haircut. The Bank of England receives a fee for participation in the scheme. It is considered that the risk of any loss suffered by the Bank of England is very low. Accordingly, no provision is has been made in these accounts as no call is expected to be made under the indemnity.

36.5.3 Fees

The financial institutions will be required to pay a fee (to the Bank of England) to swap HM Treasury Bills. The fee charged is the spread between the 3-month London Interbank interest rate (Libor) and the 3-month interest rate for borrowing against the security of government bonds (GC Repo), subject to a floor of 20 basis points. The average spread over the drawdown period was around 115 basis points.

For the financial year 2009-10 as recompense for the administration and operational costs, HM Treasury has received a fee of £30,000 (2008-09: £125,000) (The DMO has received a fee of £200,000 (2008-09: £250,000) from the Bank of England. These fees have been surrendered to the Consolidated Fund on receipt.

36.5.4 Utilisation of the SLS

Since its inception until the end of the drawdown period (30 January 2009), Treasury Bills with a face value of approximately £185 billion have been lent under the SLS. The SLS has been accessed by 32 financial institutions.

The total nominal value of the securities held by the Bank of England as collateral under the SLS as at end January amounted to £287 billion. For further information, please see the Bank of England's Annual Report 2009 on www.bankofengland.co.uk.

36.6 The Infrastructure Finance Unit

36.6.1 Background

HM Treasury established The Infrastructure Finance Unit (TIFU) following the announcement on 3 March 2009 that, Government would lend to PFI projects to ensure vital PFI infrastructure projects go forward as planned despite the current financial market conditions, supporting jobs, economic activity and delivery of public services.

Since then, TIFU has lent to one transaction, committing a loan of £120 million to the Greater Manchester Waste Disposal Authority's PFI project. During the year, several other PFI contracts have successfully reached financial close since the establishment of TIFU without the need for its support.

It is currently engaged in a number of projects that are looking to achieve financial close during 2010-11 to enable it to respond promptly if a need for provision of finance from TIFU arises.

TIFU has established credit approval and loan monitoring processes comparable to those operated by commercial banks, and has a robust governance structure including a Steering Group with two independent members.

HM Treasury's intention is to supplement bank/capital market funding, where it is available on acceptable terms, not to replace it. HM Treasury expects the private sector, together with the EIB, to provide the majority of debt finance for PFI transactions, but it is able to provide 100 per cent of the senior debt finance required by a PFI project where necessary.

Infrastructure Finance Unit Limited (IFUL) was established to act as the lender of record for all transactions supported by TIFU. IFUL was set up for vires reasons and is wholly owned by HM Treasury.

For further detailed information, please refer to Section 2 – Resource Accounts, Note 38.6 of HM Treasury Annual Report and Accounts 2008-09 and also please see notification "Letter providing guidance on TIFU – 5 May 2009" in the HM Treasury's website www.hm-treasury-gov.uk.

36.6.2 Cost

It is intended that the costs of operating TIFU will be met from the interest and fee revenues generated from the lending operations. For the year to 31 March 2010, all TIFU costs have been covered in this way.

36.6.3 Fees

IFUL has lent to GMWDA as one of the syndicate of lenders. Fees and loan margins charged by IFUL are set by the commercial rates agreed between GMWDA and the syndicate of lenders.

This fee income totalling £2.6 million during the financial year 2009-10, have been accounted for as Consolidated Fund Extra Receipts and are surrenderable to the Consolidated Fund (see notes 9.2).

36.6.4 Exit

Treasury lending is on commercial terms and is intended to be temporary and reversible. It is therefore expected to cease when market lending capacity is adequate to meet PFI demand, and HM Treasury's loans will be sold to the private sector in due course.

36.7 Asset Protection Scheme

36.7.1 Background

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.

Under the APS, in return for a fee, HM Treasury provides protection against a proportion of future credit losses on a defined pool of assets to the extent that credit losses exceed a "first loss" amount, to be borne by the participating institution.

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, by putting cover of 90per cent of losses above the first loss amount in place in respect of the banks' exposure to losses associated with these 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.

In February 2009 and March 2009, the Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG) announced their intention to participate in the APS respectively.

For further details, please see note 38.7 of HM Treasury's 2008-09 Resource Accounts.

On 3 November 2009, the Government announced the conclusion of discussions with LBG and RBS regarding the key terms of their participation in the APS.

As a result of improved market conditions, LBG did not participate in the APS and instead raised additional private sector capital and paid a fee of £2.5 billion to the Government for the implicit protection provided during 2009 as a result of its initial announcement to participate in the Scheme.

On 22 December 2009, RBS acceded to the APS under revised terms compared to the in-principle agreement reached in February 2009 that better align incentives and deliver better risk-sharing with the private sector. RBS has insured an asset pool with a par value of £282 billion as at 31 December 2008, with a £60 billion first loss piece. The APS asset pool has reduced to £230.9bn as of 31 March 2010 (due to disposals, repayments, maturities, other movements and exchange rate movements).

The APS assets remain on RBS's balance sheet. RBS also remains the primary manager of the assets, but the APS agreements give HM Treasury significant rights over how these assets are managed. The APS Terms and Conditions require that RBS complies with wide-ranging asset management, reporting and governance conditions, designed to ensure that the taxpayer is properly protected and that bank customers are treated fairly.

HM Treasury has established the Asset Protection Agency (APA) to operate the APS at an arms length. While it takes operational decisions relating to the APS in line with the published Framework Document agreed between HM Treasury and APA, informed by appropriate specialist knowledge and expertise, any decisions that could have particularly significant implications for the taxpayer or that carry wider sensitivities remain subject to ministerial approval.

36.7.2 Application period

On 31 March 2009, APS application period closed and no further eligible institutions requested to participate in this scheme thereafter.

36.7.3 Duration of the APS

The duration of the coverage is until 2099. However, RBS's participation in the APS may be terminated earlier by agreement between HM Treasury and RBS. RBS can also propose to leave the APS earlier if the FSA has approved the termination, and RBS has repaid in full any payouts under the Scheme, plus an exit fee detailed below. Where substantial claims have been made by RBS and have not been repaid, the terms of exit will be by negotiation and subject to the same minimum aggregate exit fee set out below.

36.7.4 Fees

The fee payable for the APS can be paid in cash or, with HM Treasury approval, by the issue of capital instruments by the institution, or by giving up certain tax assets.

Under the terms of APS, RBS is paying an annual fee in advance of £0.7 billion for the first three years, followed by £0.5 billion a year for the remaining term of its participation in the APS. RBS will pay a minimum exit fee when it leaves the APS.

Exit would need to be approved by the FSA. The minimum exit fee will be the larger of either £2.5 billion, 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.

As at 31 March 2010, RBS had paid APS fee of £1.4 billion for the first two years (untill end of December 2010). This has been surrendered to the Consolidated Fund, see note 9.2.

37. Related party transactions

The Department 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.

37.1 Core Treasury

Core Treasury has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, UK Financial Investments, Department of Work and Pensions and HMRC.

Although the Bank of England (see note 13.1), the Royal Mint (see note 13.2), Northern Rock (see note 13.5), Bradford & Bingley (see note 13.6), Partnerships UK (see note 13.3), UKFI (see note 13.8), Royal Bank of Scotland (see note 13.9) and Lloyds Banking Group (see note 13.10) fall outside the resource accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Payments to these bodies for services provided and the dividend payments and other income received are material and in the operating cost statement. For details on the transactions with the above entities, see note 27-36.

Prior to becoming a non-executive member of HM Treasury Board on 1 October 2008, Sir Callum McCarthy was chairman of the FSA and a member of the Court of the Bank of England.

37.2 OGC

The OGC is an office of HM Treasury and sponsors Buying Solutions (note 13.4), which is a trading fund. These bodies are regarded as related parties with which OGC has had various material transactions during the year.

In addition OGC has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, Home Office, HMRC, Department for Business Innovation & Skills, Department for Transport, Department for Work and Pensions, Treasury Solicitors, Ministry of Defence, and their agencies.

The Chief Executive has not undertaken any material transactions with OGC or related parties during the year.

37.3 DMO

The DMO is an executive agency of HM Treasury. The DMO has had various transactions with the following who, in addition to HM Treasury, are considered related parties: the National Loans Fund (gilt issuance services), the Consolidated Fund (income surrenders), the Bank of England (banking services), government department clients of the Commissioners for the Reduction of the National Debt (fund management services), the Public Works Loan Board (loan administration services), National Savings & Investments (derivative valuation services), the Asset Protection Agency (facilities), Royal Bank of Scotland Group plc (shared information network service) and the Department of Energy and Climate Change (carbon emissions auction services). None of the DMO Managing Board members had any material transactions with the DMO.

37.4 Senior decision makers

Until 31 December 2009, Tom Scholar was a non-executive director at Northern Rock plc, and a member of the Audit and Risk Committees of its Board. He is also a non-executive director of Deposits Management (Heritable) Ltd.

Louise Tulett became a non-executive board member of UK Financial Investments Limited on 2 March 2009, for which she receives no remuneration. In that capacity she also chairs UK Financial Investments Limited's Audit Committee.

Ministers, HM Treasury Board, senior management and Audit Committee of the HM 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.

38. Third party assets

All third party assets (along with the associated liability) are included in the balance sheet.

39. Entities within the departmental boundary

The entities within the boundary during 2009-10 were as follows:

- the Core Department (Core Treasury) including Infrastructure Finance Unit Limited;
- the Office of Government Commerce (OGC);
- the Debt Management Office (DMO); and
- Asset Protection Agency (APA);

40. Post balance sheet events

Reportable non-adjusting post balance sheet events include:

40.1 Bradford & Bingley Plc

On 5 July 2010, the independent valuer of Bradford and Bingley Plc (B&B) completed his final assessment and concluded that no compensation is payable by HM Treasury to former B&B's shareholders and bondholders. Under the Order any affected party may request the valuer to reconsider his assessment (valuer has set a deadline of 27 August 2010 to receives these representations), and if still dissatisfied with the revised Assessment Notice then affected parties may refer the matter to the Financial Services and Markets Tribunal. The full report can be viewed on this website http://www.bandbvaluer.org.uk.

40.2 Office of Government Commerce

On 15 June 2010, the Prime Minister announced that the responsibility for The Office of Government Commerce (OGC) and the public sector procurement agency, Buying Solutions, will move to the Cabinet Office where they will form part of the Efficiency and Reform Group (ERG).

On 25 June 2010, Nigel Smith, Chief Executive at the Office of Government Commerce (OGC), confirmed he will be leaving his post when his current contract expires in September 2010.

40.3 Equitable Life

On 22 July 2010, the Financial Secretary to Treasury announced the publication of Sir John Chadwick's review of loss incurred by policyholders of Equitable Life from maladministration in the regulatory regime. As explained in note 1.23.6 and note 25.1.3, this is not an adjusting post balance sheet event, and no provision is considered appropriate for the ex-gratia compensation scheme.

41 Date authorised for issue

The financial statements were authorised for issue on 26 July 2010.

A Annex of tables (unaudited)

Contents

These tables are provided in accordance with PES (2010) 09 in place of the Spring Departmental Report as a separate unaudited annex to the 2009-10 Resource Accounts for Treasury Group.

Table 1 (Unaudited): Departmental spending (resource and capital) for HM Treasury Group

£ million	Outturn 2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (Restated)	2009-10	Plan 2010-11
Resource DEL								
Core Treasury & GSS[1]	135	138	139	136	135	136	157	156
DMO	8	7	8	7	10	13	16	10
Coinage	21	18	17	19	16	15	13	19
OGC	20	19	41	33	31	24	26	23
Other functions	10	10	10	10	9	8	8	8
APA	-	-	-	-	-	-	-	1
IUK	-	-	-	-	-	-	-	2
UKFI	-	-	-	-	-	-	-	5
DUP[2]								2
Total Resource DEL	**194**	**191**	**215**	**206**	**201**	**196**	**220**	**226**
Of which: Near-cash	*190*	*198*	*204*	*195*	*200*	*192*	*197*	*206*
Resource AME								
Financial stability[3]						42,364	-27,684	-2,379
Impairment charges		-11	-5	1	-15	9	-3	
Coinage	13	16	16	25	24	23	12	27
Bank of England	77	57	36	1	13	-290	42	-150
Other functions	2	2	2	2	2	2	3	3
Total Resource AME	**92**	**64**	**50**	**29**	**24**	**42,108**	**-27,630**	**-2,499**
Of which: Near-cash	*-17*	*-24*	*-30*	*-58*	*-56*	*-2,558*	*-5,540*	*-2,499*
Total Resource Budget[4]	**286**	**255**	**265**	**236**	**226**	**42,304**	**-27,410**	**-2,288**
Of which: depreciation	*8*	*-6*	*1*	*9*	*6*	*18,350*	*102*	*6*
Capital DEL								
Core Treasury & GSS[5]	3	-26	6	2	1	2	55	45
DMO	1	1	1	1	1	1	1	1
OGC		-3	-16	-3	-3			
DUP[3]								3
Total Capital DEL Budget	**4**	**-28**	**-9**	**-1**	**-1**	**3**	**56**	**49**
Capital AME[6]								
Core Treasury				-1				
Assistance to financial institutions						85,525	40,653	5,450
Total Capital AME Budget				**-1**		**85,525**	**40,653**	**5,450**

[1] GSS = Group Shared Services. 2009-10 increase attributable to Financial Stability net administration costs

[2] DUP = Departmental Unallocated Provision.

[3] Financial Stability negative expenditure of –27,684 in 2009-10 largely due to reversal of Financial Stability provisions totalling –25,323 made in 2008-09

[4] Excludes Pool Re non-budget income of £39m but includes non-voted Civil List expenditure of £11 million. Adjusted 2009-10 Resource Budget = £27,469m

[5] 2009-10 increase due to Infrastructure Finance Unit loan to Greater Manchester Waste Disposal Authority's PFI project

[6] Capital AME for 2009-10 is set out in Table 3.

£ million	Outturn							Plan
Total departmental spending	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Core Treasury & GSS[7]	127	104	136	121	116	109,686	13,076	3,266
DMO	8	7	7	8	11	14	17	11
Coinage	34	34	33	44	40	38	25	46
OGC	20	16	27	32	28	24	26	23
Bank of England[8]	77	57	36	1	13	-291	42	-150
Other functions	16	14	15	17	11	10	11	11
APA	-	-	-	-	-	-	-	1
IUK	-	-	-	-	-	-	-	2
UKFI	-	-	-	-	-	-	-	5
DUP								5
Total departmental spending[9]	**282**	**232**	**254**	**225**	**219**	**109,482**	**13,197**	**3,220**
Total DEL	190	157	200	197	195	193	271	269
Resource AME	92	75	54	27	24	23,764	-27,727	-2,499
Capital AME						85,525	40,653	5,450

[7] Core Treasury and GSS net expenditure has fallen between 2008-09 and 2009-10 due to Resource AME reduction of 70,060m, Capital AME reduction of 44,872m offset by increases in Resource DEL and Capital DEL of 21m and 53m respectively after depreciation is taken into account

[8] Bank of England net income of –150 in 2010-11 due to cost of capital charge being discontinued

[9] Total departmental spending is the sum of the resource budget and the capital budget *less* depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL *less* depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME *less* depreciation in AME.

Resource Departmental Expenditure Limit (DEL) including Administration Costs

Table 2(a) (Unaudited): Resource DEL for HM Treasury Group

£ million	Outturn							Plan
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Core Treasury & GSS	**135**	**138**	**139**	**136**	**135**	**136**	**157**	**156**
Net administration costs, including GSS	122	120	120	118	128	116	137	137
Financial Inclusion Fund (admin)			1	1	1	1	-	-
Banking and gilts registration	12	15	10	12	11	11	12	13
Other core Treasury programme costs	1	3	8	4	-4	8	8	6
DMO	**8**	**7**	**8**	**7**	**10**	**13**	**16**	**10**
Net administration costs	7	6	8	7	8	10	12	8
Net programme costs	1	1		1	1	3	4	2
Coinage	**21**	**18**	**17**	**19**	**16**	**15**	**13**	**19**
OGC	**20**	**19**	**41**	**33**	**31**	**24**	**26**	**23**
Net administration costs	20	23	32	33	22	23	25	22
Net programme costs					10	1	1	1
Residual estate		-5	1					
Efficiency Challenge Fund		1	8					
Other functions	**10**	**10**	**10**	**10**	**9**	**8**	**8**	**8**
Grants to Statistics Commission and Parliamentary bodies	2	2	2	2	1	-	-	-
Civil List (net)	8	8	8	8	8	8	8	8
APA	-	-	-	-	-	-	-	1
IUK	-	-	-	-	-	-	-	2
UKFI	-	-	-	-	-	-	-	5
Departmental Unallocated Provision								2
Total Resource DEL	**194**	**192**	**215**	**206**	**201**	**196**	**220**	**226**
Of which:								
Near-cash, of which	190	198	204	195	200	192	197	206
Pay	82	85	91	98	94	90	109	
Goods and services[10]	93	99	97	86	103	90	113	
Depreciation	8	-3	6	8	6	6	5	6

[10] Increase in 2008-09 due to consultancy and other admin professional services costs

Table 2(b) (Unaudited): Resource AME budget for HM Treasury Group, by spending body

£ million	Outturn							Plan
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Core Treasury: impairment charges/ credits	-	**-11**	**-5**	**1**	**-15**	9	-3	-
Coinage	**13**	**16**	**16**	**25**	**24**	23	**12**	**27**
Metal costs	11	13	15	23	24	24	12	31
Cost of capital	2	4	1	2	4	3	3	-
Royal Mint Dividend					-4	-4	-4	-4
Net cost of investment in the Bank of England	**77**	**57**	**36**	**1**	**13**	**-290**	**42**	**-150**
Cost of capital	107	95	83	84	94	127	139	
Dividend receivable	-30	-38	-47	-83	-81	-417	-97	-150
Other functions: Royal Household Pension Fund	**2**	**2**	**2**	**2**	**2**	**2**	**3**	**3**
Financial Stability:								
Other						-2,750	-5,426	-2,379
Cost of capital						809	2,956	
Impairment charges						18,926	109	
Provisions						25,379	-25,323	
Total Resource AME	**92**	**64**	**50**	**29**	**24**	**42,108**	**-27,630**	**-2,499**
Of which:								
Near-cash, of which	-17	-24	-30	-58	-60	-2,558	-5,540	-2,499
Pay	2	2	2	2	2	-	-	-
Goods and services	11	13	15	23	19	24	13	-
Depreciation and impairments	-	-11	-5	-1	-15	18,344	97	-

Table 3 (Unaudited): Capital budget for HM Treasury Group

£ million	Outturn							Plan
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Capital DEL								
Core Treasury including GSS	**3**	**-26**	**6**	**2**	**1**	**2**	**55**	**45**
Administration	3	-26	6	2	1	2	55	45
Investments			6					
Debt Management Office	1	1	1	1	1	1	1	1
Office of Government Commerce:[11] Residual Estate and Whitehall Systems		-3	-16	-3	-3			
Departmental Unallocated Provision								3
Total Capital DEL	**4**	**-28**	**-9**	**-1**	**-1**	**3**	**56**	**49**
Capital AME								
Financial Stability:								
Northern Rock Refinancing/shares						18,781	1,400	2,500
Northern Rock Asset Management Loan						-	8,657	
Bradford & Bingley statutory debt						4,095	-	
Bradford & Bingley Working Capital facility						6,000	2,550	2,950
Bradford & Bingley loan asset						321	-	
KSF statutory debt						550	-	
London Scottish statutory debt						-	8	
Heritable statutory debt						45	-	
Icesave (Landsbanki) debt						800	132	
Dunfermline statutory debt						1,555	-	
Recapitalisation of banks (RBS; LBG)						36,926	38,418	
FSCS loan advances						20,999	319	
Depositors' and Investors' Guarantee Fund (DIGF) Loan						-	178	
Capital repayments						-4,547	-11,009	
Total Capital AME						**85,525**	**40,653**	5,450

[11] After restatement of capital spending to GSS, OGC's residual Admin capital spending is less than £0.5 million each year, rounding to zero in the tables

Table 4 (Unaudited): Capital employed by HM Treasury Group

£ million	Outturn					
	2004-05 (UK GAAP)	2005-06 (UK GAAP)	2006-07 (UK GAAP)	2007-08	2008-09	2009-10
Assets and liabilities in the Statement of Financial Position at year end:						
Assets						
Non-current assets	1,743	1,880	2,000			
Property, plant and equipment				114	102	108
Intangible assets				3	3	5
Financial assets				21,623	72,820	124,114
Current assets[12]	104	74	111	122	3,073	2,435
Liabilities						
Current liabilities	-106	-98	-125	-19,445	-2,800	-2,550
Non-current liabilities	-163	-164	-169	-147	-28,390	-2,864
Capital employed	1,577	1,692	1,818	2,269	44,807	121,248

[12] Under IFRS Current Assets includes non-current assets classified as held for sale (IFRS 5). Unless UK GAAP figures have been restated, the equivalent non-current assets which do not meet the criteria of discontinued operations under FRS 3 will be included within non-current assets.

Table 5 (Unaudited): Administration costs for HM Treasury Group

£ million	Outturn							Plan
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (restated)	2009-10	2010-11
Gross administration costs	**167**	**166**	**185**	**185**	**197**	**207**	**250**	**222**
Related administration cost receipts	-19	-17	-24	-25	-37	**-59**	-77	-62
Total net administration costs	148	**149**	**161**	**160**	**160**	**148**	**173**	**160**
Analysis by activity								
Core Treasury & GSS	**121**	120	121	120	130	**116**	137	120
APA	-	-	-	-	-	-	-	1
IUK	-	-	-	-	-	-	-	2
UKFI	-	-	-	-	-	-	-	5
DMO	7	6	8	7	8	**10**	12	8
OGC	**20**	23	32	33	21	**23**	25	23
DUP								1
Total net administration costs	148	**149**	**161**	**160**	**160**	**148**	**173**	**160**
Gross administration costs include:								
Paybill	82	85	91	99	94	**90**	109	
Other	**85**	81	93	86	103	**116**	141	
Core Treasury and GSS includes:								
Consultancy[13]	**6.16**	4.91	6.10	3.44	17.65	**48.03**	61.90	
Travel and subsistence	1.94	2.11	2.32	2.48	2.32	2.36	2.20	
DMO includes:								
Consultancy	0.52	0.77	0.58	0.34	0.23	**0.07**	0.19	
Travel and subsistence	0.04	0.03	0.04	0.03	0.06	0.06	0.05	
OGC includes:								
Consultancy	4.22	5.71	7.66	5.59	6.27	**6.55**	5.59	
Travel and subsistence	1.55	1.72	2.04	2.40	1.78	1.49	1.43	
Gross administration costs	**167**	**166**	**185**	**185**	**197**	207	250	222

[13] Until 2006-07, recorded Consultancy spend has included a number of steady state/operational contracted out professional services including, since 2002-03, fees to Partnerships UK for their work providing project and policy support to the Treasury and other public bodies on the development, procurement and implementation of public private partnerships. From 2006-07, the Treasury, DMO and OGC have applied OGC's definition of Consultancy which relates to time limited advisory, design & development and implementation assignments.

Table 6 (a) (Unaudited): HM Treasury Group Staff Numbers[14]

Full Time Equivalents (FTEs)	31 March 2003	31 March 2004	31 March 2005	31 March 2006	31 March 2007	31 March 2008	31 March 2009	31 March 2010	31 March 2011 (Plan)
Core Treasury									
CS Permanent	1294	1307	1206	1204	1188	1066	1156	1278	1250
CS Casual	60	64	62	55	52	70	87	72	70
Total Gross Control	1354	1371	1268	1259	1240	1136	1243	1350	1320
DMO									
CS Permanent	79	84	76	71	75	69	79	90	87
CS Casual	2	2	1	1	1	4	7	1	14
Total Gross Control	81	86	77	72	76	73	86	91	101
OGC									
CS Permanent	300	290	300	280	259	195	197	288	310
CS Casual	10	20	70	70	36	47	43	4	3
Total Gross Control	310	310	370	350	295	242	240	292	313
APA									
CS Permanent								18	tbc
CS Casual								4	tbc
Total Gross Control								22	45
Treasury Group									
CS Permanent	1673	1681	1582	1555	1522	1330	1432	1674	tbc
CS Casual	72	86	133	126	89	121	137	81	tbc
Total Gross Control	1745	1767	1715	1681	1611	1451	1569	1755	1779
Buying Solutions									
CS Permanent	230	243	260	282	285	298	310	365	388
CS Casual	10	0	0	0	4	0	0	17	15
Total Gross Control	240	243	260	282	289	298	310	382	403

[14] Staffing numbers for core Treasury, OGC, Buying Solutions and DMO 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. Numbers at this stage are broad estimates pending decisions taken in the Spending review and the outcome of the Treasury's internal Strategic Review, which will report in September 2010.

Table 6 (b) (Unaudited): Core Treasury Staff Diversity data at 31 March 2010[15]

Range	Women (percent)	People from Minority Ethnic background (percent)	People with Disabilities (per cent)
B	71.8	32.3	10.5
C	60.8	30.1	9.1
D	41.5	18.7	3.8
E	37.3	6.4	4.5
F	44.6	4.3	3.3
G	29.6	7.4	0.0
H	0.0	0.0	0.0
All SCS (H, G & F)	38.3	4.7	2.3
Top Management (H & G)	22.2	5.6	0.0
Total	44.6	16.2	5.2

[15] Diversity monitoring data is published on the external website The Treasury's Single Equality Scheme 2009-11 is also available on the website: http://www.hm-treasury.gov.uk/about_equality.htm. In common with other government departments, the Treasury has targets to increase the proportion of women, BME employees and employees with disabilities in the Senior Civil Service (SCS) to 42 per cent, 5 per cent and 5 per cent respectively by April 2011. In addition, there are 2011 targets on the representation of women in top management posts (35 per cent) and for underrepresented groups in the feeder grades to the SCS.

Table 7 (Unaudited): DSO/PSA indicator table

On 8 June 2010 the Government announced as part of the Spending Review Framework[16] that Public Service Agreements (PSAs) and Departmental Strategic Objectives (DSOs) will not be continued. In accordance with Public Expenditure System (PES) guidance the production of the Spring Departmental Reports were cancelled and in place departments are now required to publish a series of performance tables.

The following pages provide tables that include::

- high-level performance data against the Treasury Group's Departmental Strategic Objectives (DSOs) and Public Service Agreements (PSAs) performance indicators;
  - this performance data provides a comparison[17] to that reported in the Annual Report and Accounts 2008-09[18] until 31 March 2010 The data relates to the PSAs and DSOs that were in operation during the previous administration;

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[16] http://www.hm-treasury.gov.uk/press_10_10.htm

[17] This performance data covers the period from July 2009 (when the Annual Report and Accounts 2009 was published) to 31 March 2010. Any data relevant to the period ending 31 March 2010 and released before publication of this document is also included here

[18] http://www.hm-treasury.gov.uk/annual_report09.htm

DSO1 Maintain Sound Public Finances

DSO outcome	Performance indicator	Data Statement
1a) Meeting the obligations of the Fiscal Responsibility Bill.	The Fiscal Consolidation Plan (FCP) extends from 2009-10 to 2015-16 and requires that the Government: • halve public sector net borrowing as a share of GDP over four years from its forecast peak in 2009-10. The Government is setting a target, in secondary legislation enabled by the Bill, for borrowing to be 5.5 per cent of GDP or less in 2013-14; • reduce borrowing as a share of GDP in each and every year from 2009-10 to 2015-16; • ensure that public sector net debt is falling as a share of GDP in 2015-16.	Position at 2009 Autumn Performance Report[19] This performance indicator was introduced in December 2009 following the then Chancellor's announcement of the new Fiscal Responsibility Bill and the Fiscal Consolidation Plan. Position at 31 March 2010 The March Budget 2010[20] projected that public sector net borrowing (PSNB) would peak in 2009-10 at 11.8 per cent of GDP, falling year-on-year from 2009-10 to 5.2 per cent of GDP in 2013-14 and 4.0 per cent of GDP in 2014-15. It presented illustrative projections beyond 2014-15, based on the assumption of an improvement of 0.7 per cent of GDP a year in the cyclically-adjusted current budget until it reached balance. Under this assumption, the March Budget 2010 showed that PSNB would continue to decline and public sector net debt would be falling in 2015-16. March Budget 2010 was therefore consistent with the requirements of the Fiscal Responsibility Act.

[19] This performance indicator for fiscal rules changed after the the announcement of the Fiscal Responsibility Bill..
[20] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/budget2010.htm

1b) Ensuring that the tax yield is sustainable and risks managed.	Tax yield over the economic cycle	Position at the Annual Report and Accounts 2008-09 Tax to GDP ratio is used as an indicator of the level of taxation in any given year. The Treasury has previously judged, at the 2008 Pre-Budget Report, that the last economic cycle ended in 2006. In 2006-07, the tax to GDP ratio was 36.1 per cent. The tax to GDP ratio for 2008-09 outlined in Budget 2009 [21]is quoted at 35.1 per cent in 2008-09 and 33.0 per cent in 2009-10 Position at 31 March 2010. The tax to GDP ratio outlined in the 2010 March Budget is quoted as 35.4 per cent of GDP in 2008-09 and 33.9 per cent in 2009-10.
1c) Managing Public Spending	(i) Differences between Treasury compiled forecasts of Public Sector Current Expenditure (PSCE) and actual outturns as at the End of Year Fiscal Report; and	Position at the Annual Report and Accounts 2008-09 PSCE Outturn for 2007-08[22] was £535.7 billion compared to £538.6 billion forecast in Budget 2007[23], remaining within 0.5 per cent of the Budget forecast. Position at 31 March 2010 PSCE outturn for 2008-09[24] was £563.7 billion compared to £566.2 billion as forecast in Budget 2008[25], a variance of 0.5 per cent.

21 http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/bud_bud09_index.htm
22 http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/prebud_pbr08_fiscalreport.htm
23 http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/bud_bud07_index.htm
24 http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/prebud_pbr09_fiscalreport.htm
25 http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/bud_bud08_index.htm

	(ii) Differences between Public Sector Net Investment (PSNI) at Budget and actual outturns as at the End of Year Fiscal Report	Position at the Annual Report and Accounts 2008-09 PSNI Outturn for 2007-08 was £29.9 billion compared to £29.4 billion as forecast in Budget 2007, remaining within 2 per cent of the Budget forecast. Position at 31 March 2010- PSNI outturn for 2008-09 was 35.7 billion compared to 32.9 billion as forecast in Budget 2008 a variance of 8.5 per cent
1d(i) Professionalising and modernising the finance and procurement functions in government	Performance at departmental level in timeliness and quality of in–year and external reporting	Position at the Annual Report and Accounts 2008-09 For financial year 2008-09, 45 departments (100 per cent) laid their resource accounts before the House before the parliamentary summer recess. For financial year 2008-09, 56 out of 59 (95 per cent) departments, pension funds and other central government bodies, including all major departments, regularly provided monthly in-year monitoring figures to the Treasury. Of the 59 bodies required to report monthly in-year figures to the Treasury in 2008-09, an average of 13 (22 per cent) regularly met all agreed standards for timeliness and accuracy. Of the 56 supplying bodies, each month an average of 46 (82 per cent) supplied on time, with an average of 46 (82 per cent) updating forecasts with actual expenditure on time. Position at 31 March 2010 The 2009 Autumn Performance Report [26] provided further information about the 2008-09 Resource Account. At time of publication, [x] government departments have published their 2009-10 Resource Accounts. For financial year 2009-10 to date, 53 out of 58 (86 per cent) departments, pension funds and other central government bodies, regularly provided monthly in-year monitoring figures to the Treasury. On average 44 (76 per cent) supplied figures on time each month, with an average of 41 (71 per cent) updating forecasts with actual expenditure on time.

[26] http://www.hm-treasury.gov.uk/d/autumnperformance151209.pdf

1d(ii) Professiionalising and modernising the finance and procurement function functions in government	(i) Procurement – Efficiency: Savings from take up of collaborative procurement opportunities and other procurement activity; and	Position at the Annual Report and Accounts 2008-09 Against a target for 2008-09 of £700 million, OGC identified savings of £900 million. Position at 31 March 2010 In 2009-10, against a target of 2.2 billion, savings of £2.5 billion were achieved from collaborative procurement across government in eight categories of common spend (ICT, food, fleet, office solutions, travel, energy, professional services and construction).
	(ii) Effectiveness: improvements in the delivery performance of Government's procurement capability and capacity.	Position at the Annual Report and Accounts 2008-09 OGC completed the first of the Procurement Capability Reviews at the end of 2008. Position at 31 March 2010 The OGC has carried out 16 Procurement Capability Reports of the major Government Departments, and in 2009-10 implemented a second wave of reviews based on a self-assessment process. The reports and the related action plans are published on the OGC website [27]. At 31 March 2010 all review stock take (1 year) and milestone (6 month) assessments had been completed with the exception of the Cabinet Office. Wave Two reviews commenced in September 2009 using a self-assessment tool and at March 2010 eight reviews had been completed. Three review reports (CLG, DWP and Home Office) have been published on the OGC website . The remaining five review reports (HMRC, DfT, DCMS, DfID and DfE) are complete and ready for publication. All of the departments who have completed a self-assessment review have measurably improved their capability.
1e) Managing government cash, debt and reserves efficiently and effectively	(i) All operational activities carried out without major error; and	Position at the Annual Report and Accounts 2008-09 All operational activities were delivered during 2008-09 without major error. Position at 31 March 2010 All operational activities have been carried out and were delivered during 2009-10 without major error.

[27] http://www.ogc.gov.uk/procurement_capability_reviews_procurement_capability_reviews_wave_two_self-assessment.asp

	(ii) appropriate limits and monitoring systems to control financial risks are in place.	Position at the Annual Report and Accounts 2008-09 Appropriate limits and monitoring systems to control financial risks were in place during 2008-09. Position at 31 March 2010 Throughout 2009-10, appropriate limits and monitoring systems continued to be in place.

DSO 2 Ensure high and sustainable levels of economic growth, well-being and prosperity for all.

Outcome	Performance Indicator	Data Statement
2a) Supporting low inflation	Inflation to be kept at the target as specified in the remit sent by the Chancellor of the Exchequer to the Governor of the Bank of England (currently 2 per cent as measured by the 12-month increase in the Consumer Prices Index).	Position at the Annual Report and Accounts 2008-09 The Consumer Prices Index (CPI) annual rate of inflation was 2.2 per cent in May 2009. Position at 31 March 2010 The (CPI) annual rate of inflation was 3.4 per cent in March 2010 The CPI data are sourced from the Office for National Statistics (ONS)[28].
2b) Promoting the efficiency and fairness of the tax system	Impact of policy on tax payers	Position at the Annual Report and Accounts 2008-09 During 2008-09 the then Government introduced a number of measures that were designed to enhance the fairness and efficiency of the UK tax system. Details of these measures can be found in the 2008 Pre-Budget Report[29] and the Budget 2009[30]. Position at 31 March 2010 During 2009-10, a number of measures were introduced by the then Government (or were announced for future implementation) that aimed to further enhance the fairness and efficiency of the UK tax system. Full details of these can be found in the 2009 Pre-Budget Report[31] and the March Budget 2010[32].
2c) Improving the incentives and means to work; supporting children and pensioners; and helping people plan and save for the future.	(i) Increase in the employment rate of the working age population	Position at the Annual Report and Accounts 2008-09 The employment rate[33] for the three months to April 2009 was 73.3 per cent. Position at 31 March 2010 The employment rate for the three months to March 2010 was 72.0 per cent.

[28] http://www.statistics.gov.uk/default.asp
[29] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/prebud_pbr08_index.htm
[30] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/bud_bud09_repindex.htm
[31] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/prebud_pbr09_index.htm
[32] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/budget2010.htm
[33] http://www.statistics.gov.uk/default.asp

	(ii) Number of children in relative low-income households (less than 60 per cent of median income before housing costs).	Position at the Annual Report and Accounts 2008-09 Data on the number of children in relative low income households during this period will not be published until Households Below Average Income Data (HBAI 2010) [34]. Position at 31 March 2010 Between 2007-08 and 2008-09 there was a statistically insignificant fall in the number of children living in UK households with below 60 per cent of contemporary median net disposable household income Before Housing Costs (BHC) fell from 2.9m (23 per cent) children to 2.8 million (22 per cent) children.
2d) Improving the quality and value for money of public services	Progress in delivering on PSA commitments	Position at the Annual Report and Accounts 2008-09 Departments reported for the first time in their PSA commitments in their 2008 Autumn Performance Reports Position at 31 March 2010 A full assessment of progress against the last Government's individual PSAs can be found in departments' 2009 Autumn Performance Reports. The Treasury's 2009 Autumn Performance Report[35] provides the previous Government's last overall description and assessment of PSA data. This overall progress report was based on assessments of individual PSAs as reported by departments earlier that year.
2e) Supporting fair, stable and efficient financial markets	(i) Assessments of UK financial stability and risk management against international comparisons	Position at the Annual Report and Accounts 2008-09 Global financial markets experienced an exceptional period of instability. The action taken by the Government since October 2008 has been successful in preventing the collapse of the financial system and ensuring that no retail depositors in UK banks or building societies lost money. Position at 31 March 2010 The UK has already taken significant action to support the banking sector, including better, more stringent stress testing, capital, liquidity and funding support. It has also taken steps to improve the regulatory regime. Action by the UK authorities has led to significant strengthening of the position of individual UK banks. Progress has also been made in reducing the leverage of the sector.

[34] http://research.dwp.gov.uk/asd/hbai_arc.asp
[35] www.hm-treasury.gov.uk/d/autumnperformance151209.pdf

		At the same time, risk management has improved in the UK relative to other countries, based on the stress tests conducted by the FSA, an interim regulatory framework and a push for increased bank transparency.
	(ii) Competitiveness of the UK's system for financial regulation.	Position at the Annual Report and Accounts 2008-09 In autumn 2008, the UK was ranked 2nd in terms of competitiveness in the World Economic Forum's Financial Development Report. Position at 31 March 2010 In October 2009, the UK was ranked 1st in terms of competitiveness in the World Economic Forum's Financial Development Report.[36]
	(iii) Financial capability and financial inclusion	Position at the Annual Report and Accounts 2008-09 The Family Resources Survey[37] showed that 2 million people in 2002-03 were without access to a bank account. Position at 31 March 2010 The latest report (2007-08)[38] shows that this has fallen to 900,000.
	(iv) Helping to manage the risk from financing of terrorism.	Position at the Annual Report and Accounts 2008-09 A range of measures were taken by a large number of stakeholders across Government and the private sector to address the risk from terrorist financing. Position at 31 March 2010 A range of measures were taken by stakeholders across Government and the private sector in 2009-10 to disrupt terrorist financing as part of the UK's terrorist finance strategy, including the passing of emergency asset-freezing legislation.

[36] www.weforum.org/en/initiatives/gcp/FinancialDevelopmentReport/index.htm
[37] http://research.dwp.gov.uk/asd/frs/2007_08/frs_2007_08_report.pdf
[38] http://statistics.dwp.gov.uk/asd/frs/

2f) Raising productivity with sustainable improvements in the economic performance of all English regions including narrowing the gap in growth rates between the best and worst regions.	(i) Trend growth in output per worker (productivity) over the economic cycle	Position at the Annual Report and Accounts 2008-09 2008-09 Trend growth in output per hour worked (productivity) was an estimated 2.4 per cent per year over the last economic cycle (1997H1-2006H2). Position at 31 March 2010 From 2006H2 onwards, the trend rate of productivity growth was projected to be 2.3 per cent per year. The latest data from the Office for National Statistics shows that actual output per hour worked productivity over the period 2006H2-2010Q1 grew on average by 0.1 per cent per annum, and this reflects the impact that the recession has had on productivity growth. However, this data should be interpreted with caution as trend productivity growth can only be assessed over a full or half economic cycle and the end-date of the current cycle/half-cycle is not yet known.
	(ii) International comparisons of output per worker and per hour worked	Position at the Annual Report and Accounts 2008-09 Between 1997-2008 the UK's productivity gap (measured both in terms of output per hour worked and output per hour) narrowed with every nation in the G7, except the US. During this period, the UK's productivity gap with the US remained broadly constant. Position at 31 March 2010 The most recent data from the Office for National Statistics (ONS) shows a marginal widening of the gap across both measures of productivity in 2008. However, this widening of the productivity gap between the UK and US should be interpreted with caution, due to the short-term impact of the recession on productivity and differences in the business cycles of the respective countries.

	(iii) Regional Gross Value Added (GVA) per head growth rates in each region and between the best and worst performing regions	Position at the Annual Report and Accounts 2008-09 There are two parts to the indicator for regional growth rates. The first part of the target is based on individual growth rates of regions. Between 2002 and 2007 North East, North West, East Midlands, East of England and London have all improved on their performance compared with the baseline period, 1990-2002. Yorkshire and Humber, West Midlands, South East and South West have not grown sufficiently to exceed their baseline growth rate. The South East would have to grow at much higher rates than in the past to achieve its baseline performance. The second part of the target is the gap in growth rates between regions. The difference in growth rates between the Greater South East (London, the South East and the East) and the other six regions has narrowed from 0.6 per cent real GVA per head between 1990-2002 to 0.5 per cent in 2002-2007. Position at 31 March 2010 The first part of the target is based on Regional Gross Value Added (GVA) per head growth rates in each region. Between 2002 and 2008, London improved on baseline (1990-2002) performance, the North East maintained performance, and the remaining regions (North West, Yorkshire and Humber, East Midlands, West Midlands, East of England, South East and South West) saw weaker growth compared to the baseline period.
		The second part of the target is narrowing the gap in growth rates between regions. The gap between the lead and lagging regions has widened. The difference in growth rates between the Greater South East (London, the South East and the East) and the other six regions increased from 0.6 percentage points in the baseline period (1990-2002) to 0.7 percentage points in 2002-2008.

2g) Protecting the environment in an economically efficient and sustainable way.	(i) Increase in the size of the global carbon market	Position at the Annual Report and Accounts 2008-09 Data are drawn from the World Bank report *State and trends of the global carbon market*, which is published annually. In 2008, global volumes traded increased by 61 per cent and the EU Emissions Trading Scheme increased by 50 per cent. Position at 31 March 2010 The 2010 publication of the World Bank report *State and trends of the global carbon market* revised the data for 2008, to show that global volumes traded increased by 62 per cent and the EU Emissions Trading Scheme increased by 50 per cent. In 2009, the EU Emissions Trading System traded volume increased by 105 per cent contributing to an overall 80 per cent increase in carbon trading around the world over the same period.
	(ii) Increased policy cost-effectiveness	Position at the Annual Report and Accounts 2008-09 2008-09 is the first year in which data are available for this indicator. This indicator measures the proportion of emissions reductions below DECC's Shadow Price of Carbon. Early results show that 99.5 per cent of emission reductions will cost less than the Shadow Price of Carbon (SPC), based on full Impact Assessments (IAs) published between April 2008 and March 2009. If partial IAs are also included then 40 per cent of new reductions will cost less than the SPC. Position at 31 March 2010 Including **full** impact assessments published up to March 2010, 30.0 per cent of emissions reductions were cost-effective. From September 2009 to March 2010, the total stock of carbon savings from new policies increased five-fold (from 193.8 to 1009.9 MtCOe).
2h) Pursuing increased productivity and efficiency in the EU, international financial stability and increased global prosperity.	(i) A stable, efficient and representative international financial system well equipped to promote prosperity, and to prevent and respond to crises	Position at the Annual Report and Accounts 2008-09 Whilst economic conditions had been very challenging, progress had been encouraging at the international level through the G20 Finance Ministers and Heads of Government, and agreement had been reached on coordinated action to stimulate the global economy and enhance the regulatory system. Within Europe, the EU had agreed the European Economic Recovery Plan, which provided a significant, coordinated fiscal boost to the EU economy to support demand and stimulate confidence

		Position at 31 March 2010 The degree of global cooperation to address the crisis, which the UK promoted through its 2009 chairmanship of the G20 and input to EU and other international forums, was unprecedented. The G20 delivered the largest and most coordinated fiscal and monetary stimulus ever undertaken, and put in place the Framework for Strong, Sustainable and Balanced Growth to better coordinate economic policies going forward. The UK worked closely with EU partners to ensure effective coordination between European and global action; and, the UK played a leading role in international efforts to strengthen the relevance, effectiveness and legitimacy of the International Financial Institutions.
		Data suggest that the global economy has continued to recover. Both the US and euro-area have emerged from recession, supported in large part by significant fiscal and monetary policy loosening and firm growth in Asia. Financial conditions have continued to improve, though credit conditions remain constrained. The emergence of significant pressures in euro-area sovereign debt markets has, however, increased the uncertainty attached to current prospects
	(ii) Progress towards the Millennium Development Goals (as set out in the Government's International Poverty Reduction PSA)[39]	Position at the Annual Report and Accounts 2008-09 The global economic crisis made meeting the MDG's more challenging, with an estimated 90 million extra people in poverty entering poverty as a result. The baselines for this DSO indicator are as set out in the International Poverty Reduction PSA. These indicators relate to each of the Millennium Development Goals (MDGs), namely: poverty reduction; reduction; gender equality; child mortality; maternal health; combating HIV/AIDs environmental sustainability, including access to water sources; and

[39] http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/d/pbr_csr07_psa29.pdf

		development. Full details on the indicators, and their baseline data, can be found in the Public Service Agreement 29 Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals. Position at 31 March 2010 The broad picture of progress is unchanged from March 2009. World Bank data show that global trends in reducing extreme poverty remain on-track to achieving the MDG target of halving the proportion of people living in extreme poverty by 2015. Strong progress is being made on the indicators relating to education and gender parity and there has been progress on child mortality. Those indicators relating to HIV/AIDs and access to improved water sources have mixed performance; and the target for maternal mortality, one of the most challenging, is off-track and a cause for concern.
	(iii) A more outward looking, flexible and competitive European Union that enables Member States to maximise opportunity, prosperity and fairness	Position at the Annual Report and Accounts 2008-09 The global recession affected progress towards the Lisbon Strategy, which is due to finish at the end of 2010. The EU employment rate was 65.9 per cent in 2008, having risen from 62.2 per cent in 2000, but remaining below the 2010 target of 70 per cent. The employment rate in the UK was 71.5 per cent in 2008. In 2008 the productivity gap between the EU27 and the US was 41.8 per cent on a per worker basis, against 42.0 per cent in 2000. The US – EU gap had also been increasing on a per hour basis; in 2005, the latest year for which data is available, the gap was 36.5 per cent, against 31.6 per cent in 2000. Position at 31 March 2010 Eurostat[40] data show that the EU employment rate was 64.6 per cent in 2009, remaining below the 2010 target. The employment rate in the UK was 69.9 per cent in 2009. However, the productivity gap between the EU27 and the US narrowed slightly in 2009 and is estimated as 42 per cent on a per worker basis – equivalent to the gap observed in 2000..

40 http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

Ending Child Poverty

PSA9	Performance Indicator	Data Statement	Performance indicator led by.
Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020.	(i) The number of children in absolute low-income households.	Position at the Annual Report and Accounts 2008-09 Between 2006-07 and 2007-08 absolute child poverty remained constant, standing at 1.7 million children. Position at 31 March 2010 Latest HBAI (Households Below Average Incomes) Data published in May 2010 show that between 2007-08 and 2008-09, there was a fall in absolute child poverty by 0.1m children from 1.7m (13 per cent) to 1.6m (12 per cent) but this fall was not statistically significant. This is a fall of 1.9m children (14 per cent) since the baseline year of 1998-99.	DWP
	(ii) The number of children in relative low-income households.	Position at the Annual Report and Accounts 2008-09 Between 2006-07 and 2007-08 relative child poverty remained constant standing at 2.9 million children. Position at 31 March 2010 Latest HBAI (Households Below Average Incomes) Data published in May 2010 show that there was a fall between 2007-08 and 2008-09 in relative child poverty by 0.1million children from 2.9 million (23 per cent) to 2.8 million (22 per cent), though this fall was also not statistically significant. This is a fall of 0.6m children (4 per cent) since the baseline year of 1998-99.	DWP
	(iii) The number of children in relative low-income households and in material deprivation	Position at the Annual Report and Accounts 2008-09 In 2007-08 there were 2.2 million children in combined material deprivation and low-income poverty. Position at 31 March 2010 Latest HBAI (Households Below Average Incomes) Data published in May 2010 show that the number of children in combined low income and material deprivation remained constant at 2.2m children between 2007-08 and 2008-09. There has been no overall change in the number of children in material deprivation since the baseline year of 2004-05	DWP

Table 8 (Unaudited): Treasury Group VfM agreed Targets and Delivery Plan[41]

VfM savings (£ million)		2008-09 trajectory	2008-09 actual outturn	2009-10 trajectory	2009-10 (unaudited)	2010-11 target
	Core Treasury	4.9	-	7.8	9.3	15.3
	GSS	3.1	7.3	10.2	7.5	12.8
	OGC	2.6	2.6	5.0	5.0	5.9
	DMO	0.1	0.2	0.4	0.4	0.7
	Programme	1.3	3.0	0.8	0.8	0.3

[41] The Treasury Group VFM Delivery Agreement was published in December 2007, incorporating a VfM target of £30 million savings per annum by 2010-11. Budget 2009 announced further plans to increase Treasury Group's VfM target to £35 million recurrent savings from 2010-11 onwards, contributing to the government's £35 billion overall VfM target. Treasury Group's contribution is being achieved by participation in the Operational Efficiency Programme (OEP) together with other initiatives designed to maximise value for money, while ensuring that outputs and quality of service delivery are not adversely affected. A revised VfM Delivery Agreement incorporating the £35 million target was published in July 2009 (http://www.hm-treasury.gov.uk/d/vfmdeliveryagreement090709.pdf

Table 9 (Unaudited): Recommendations made by the Committee of Public Accounts (PAC)

Central guidance requires departments to report on the recommendations made by the Committee of Public Accounts (PAC) where the department is the principle party to respond.

Since 2002 there have been 20 PAC Reports that have made recommendations requiring action by the Treasury Group.

Recommendations for HM Treasury (core Treasury)

Date of Publication	Title of Report
11 July 2002	2002 – 42nd PAC Report: Managing the relationship to secure a successful partnership in PFI projects
17 July 2002	2002 – 43rd PAC Report: The use of funding competitions in PFI projects – The Treasury Building
13 June 2003	2003 – 22nd PAC Report: PFI refinancing update
19 June 2003	2003 – 28th PAC Report: Delivering better value for money from the Private Finance Initiative
16 July 2003	2003 – 35th PAC Report: PFI construction performance
14 June 2005	2005 – 20th PAC Report: PFI: the STEPS deal
15 May 2007	2007 – 25th PAC Report: Update on PFI debt refinancing and the PFI equity market
27 November 2007	2007 – 63rd PAC Report: HM Treasury - tendering and benchmarking in PFI
2 September 2008	2008 – 36th PAC Report: HM Treasury - making the changes in operational PFI projects
9 September 2008	2008 – 43rd PAC Report: Managing financial resources to deliver better public services
25 June 2009	2009 – 31st PAC Report: Nationalisation of Northern Rock
9 February 2010	2010 – 12th PAC Report: Maintaining financial stability across the United Kingdom’s banking system
6 April 2010	2010 – 33rd PAC Report: Nine reports from the Comptroller and Auditor General published from July 2009 to March 2010

Recommendations for other parts of the Treasury Group

Date of Publication	Title of Report
14 October 2004	2004 – 41st PAC Report: Improving departments capability to procure cost effectively
20 July 2006	2006 – 55th PAC Report: Progress in improving Government Efficiency
19 June 2007	2007 – 31st PAC Report: Central Government's use of consultants
26 June 2007	2007 – 33rd PAC Report: Assessing the value for money of OGCbuying.solutions
11 October 2007	2007 – 48th PAC Report: Progress update on the Efficiency Programme
28 May 2008	2008 – 22nd PAC Report: Improving the efficiency of central Governments use of office property
28 April 2009	2009 – 17th PAC Report: Central Government's use of service contracts

41st PAC Report - Session 2003-04 Improving Departments capability to procure cost effectively, (14 October 2004).	
PAC Recommendation (1): Departments should appoint a commercial director with an appropriate professional qualification who has responsibility and oversight for all commercial dealings with the private sector. He or she should be a member of, or report to, the department's management board, as in the case in five departments, including the department of Work and Pensions. For smaller organisations this function should be assigned to a designated board member, as part of their responsibilities.	Departments are directly responsible for implementing this recommendation.
63rd PAC Report – Session 2006-07 HM Treasury: tendering and benchmarking in PFI, (27 November 2007).	
PAC Recommendation (3): The Treasury and Departments should assess the impact of the new procurement regulations by mid-2008 including whether they have reduced the incidence of late changes to deals.	The Treasury has assessed the impact of Competitive Dialogue and expects to publish the results of the Autumn 2009 assessment in Summer 2010.

Table 10 (Unaudited): Parliamentary Ombudsman complaints – HM Treasury

Parliamentary Ombudsman complaints – HM Treasury

Number of complaints in hand at 1 April 2009	2
Number of complaints accepted for investigation during the year	0
Number of complaints reported on	2
Number of complaints reported on: fully upheld &	0
Percentage of complaints reported on: partially upheld	50
Percentage of complaints reported on: not upheld.	50
Number of complaints in hand at 31 March 2009	0
Source: Parliamentary and Health Ombudsman Annual Report and Accounts 2008-09	

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.

The Annual Report 2008-09 by the Parliamentary and Health Service Ombudsman[42] shows that for the Treasury Group there were two complaints in hand at 1 April 2008 and these were reported on during the year. There were no additional complaints accepted by the Parliamentary Ombudsman during the year 2008-09.

[42] http://www.ombudsman.org.uk/about-us/publications/annual-reports

Table 11 (Unaudited): Treasury Group Sustainable Development data

Estate

At 1 Horse Guards Road, the Treasury works closely with its PFI contractor, Exchequer Partnership (EP), which is responsible for managing building services. They operate and maintain an Environmental Management System (EMS) and maintain ISO 14001 which are part of the contractual agreement. Core Treasury and OGC co-located all their staff in 1 Horse Guards Road in October 2007.

At Rosebery Court (Norwich site), the OGC works closely with MITIE who provide total facilities management of the building.

DMO lease space in Eastcheap Court, London with a shared occupancy in a managed building. Availability of information depends on the building managers, and some information is not available at the time of going to print.

The Asset Protection Agency also lease space in Eastcheap court, but in order to achieve some economies of scale, their consumption is reported collectively with the DMO's.

Buying Solutions rent office space in the privately owned Royal Liver Building, Liverpool with shared occupancy, and a Private Sector landlord. An annual service charge is paid for this accommodation and water is not metered separately by the landlord, so data for water or gas consumption is not available. The same can be said for waste and recycling, which is provided by the landlord for the whole building, but Buying Solutions has introduced its own system to start recording weights of the various waste/recycling streams to provide reasonable estimates.

OGC also leases space in Leeds where 10 employees are based. It is not included in the figures in the tables as the floor space occupied by OGC is small and therefore the environmental impact is not material to the overall group. However initiatives and policies adopted across the Group are also implemented in this office.

The lease at Trevelyan House ended on October 1 2007, therefore figures for this building have been removed in this year's accounts

Figures have been rounded for standard reporting purposes, but the percentage variances have been calculated from the underlying detailed data.

Energy consumption and carbon emissions

Treasury Group energy usage 2008-09 to 2009-10 (MWh)

	2008-09	2009 - 10
1 Horse Guards Road	5812	5727
Rosebery Court	1563	1293
Eastcheap Court	Not available	175
Royal Liver Building	330[43]	364

[43] During recent refurbishment and a internal move at the start of FY 2009-10, electric meters were incorrectly assigned. Buying Solutions have been working with the landlord to rectify this. As a result, it has been necessary to estimate electricity consumption for FY 2009-10 based upon a check meter reading for 1 day, which is likely to be an over-estimate.

Treasury Group energy usage 2008 - 09 to 2009- 10 (tonnes of CO_2)

	2008-09	2009-10
1 Horse Guards Road	3816	3759
Rosebery Court	1078	841
Eastcheap Court	Not available	93
Royal Liver Building	Not available	197

Based on year on year fall in emissions from 2007-08, and an assessment having sound Carbon management systems, HM Treasury was awarded the Carbon Trust Standard for all of its UK operations.

CARBON TRUST STANDARD

REDUCING CO2 YEAR ON YEAR

This included all emissions from the estate, and from all transport used by officials and ministers. HM Treasury is proud to have achieved this, and is committed to maintaining the Standard.

Water consumption

Treasury Group water usage 2008-09 to 2009-10 (m^3)

	2008-09	2009-10
1 Horse Guards Road	14,273	13,204
Rosebery Court	1,407	1,558
Eastcheap Court	*Not available*	*Not available*
Royal Liver Building	*Not available*	*Not available*

Waste and Recycling

Waste and Recycling in 1 Horse Guards Road 2008-09 to 2009-10 (tonnes)

	2008-09	2009-10
Recycled Waste	203	375
Waste sent to landfill	199	0
Waste converted to energy recovery		0 84
Total Waste	402	459
Percentage of waste recycled	50	82

Waste and Recycling in Rosebery Court 2008-9 to 2009-10 (tonnes)

	2008-09	2009-10
Recycled Waste	39	64
Waste sent to landfill	20	15
Total Waste	59	79
Percentage of waste recycled	65	81

Travel

Treasury Group air travel 2008-09 to 2009-10 (1000 miles)

		2008-09	2009 - 10	Tonnes of CO2 for 2009-10
HM Treasury[44]	Domestic	86	133	41
	Short-Haul	332	449	92
	Long-Haul	1608	1398	509
OGC	Domestic	70	63	19
	Short-Haul	43	44	8
	Long-Haul	103	106	44
Buying Solutions[45]	**Domestic**	265	246	76
	Short-Haul	0	0	0
	Long-Haul	0	7	2
DMO	Domestic	5	5	2
	Short-Haul	9	10	2
	Long-Haul	71	88	20

[44] HM Treasury offset their carbon emission from air travel through participation in the Government Carbon Offset Fund for the past two years

[45] The role Buying Solutions has in delivering savings to the public sector through procurement means that travel is a necessary part of managing suppliers and customers to deliver its core function to the public sector. Buying Solutions is introducing a revised travel policy and continues to promote travel avoidance where feasible as part of its internal corporate responsibility 'ConsideR' campaign, with investment in improved video conferencing and a trial of desktop web-cam conferencing

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ISBN 978-0-10-296853-8

9 780102 968538