HM Treasury

Annual Report and Accounts 2014-15

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HM Treasury

Annual Report and Accounts 2014-15

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

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

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Section 5.2 of the Financial Reporting Manual requires departments to meet the reporting requirements of the 2006 Companies Act. To meet these requirements Chapters 1, 2 and Annex B of this report may be considered as a proxy for the Strategic Report and the Lead Non Executive's Report, Chapters 3, 4 and 5 and Annex A may be considered as a proxy for the Director's Report. The Permanent Secretary has signed both sections accordingly.

Contents

Foreword

Foreword by the Chancellor of the Exchequer

The UK grew faster than any other major advanced economy in the world last year, and is set to do the same again this year. Over the past five years we created two million new jobs. And the deficit – now 3.7% of GDP, is a third of the one we inherited in 2010.

But all that progress could be put at risk if we don't continue with the plan that is delivering for the working people of this country.

Economic security is at the heart of that plan. It's not enough to simply eradicate the deficit – we have to reduce our unsustainably high level of national debt. At the Budget I published a revised Fiscal Charter that commits us to running a surplus in normal times to bear down on debt. In the autumn the House will vote on that Charter and I hope it will mark the start of a new settlement for Britain's public finances.

In order to meet the debt targets set out in the Charter we will need to take further difficult decisions to reduce public spending. The Chief Secretary and I, ably supported by Treasury officials, will conduct a Spending Review over the autumn to identify areas we can go further to reduce public expenditure.

Improving productivity – the amount that British workers produce for every hour they work – is the key route to making the UK stronger and families richer, and it's the greatest economic challenge of our time. We've set out concrete steps that we're going to take to improve the infrastructure, education and skills of the UK – and to make sure that this time it's a truly national recovery. Some of the biggest reforms include setting up a new Roads Fund to pay for the sustained investment our roads so badly need and introducing a radical new apprenticeship levy on large firms. We're also devolving even more powers to local areas over things like planning, skills and Sunday trading rules. And to back British businesses and encourage them to invest we're setting the Annual Investment Allowance at £200,000 and cutting Corporation Tax to 18% by 2020 – making it the lowest in the G20.

The final part of the plan is to make sure work always pays, so at the Budget I announced a new National Living Wage, reforms to our welfare system and lower taxes for working people so we move Britain to being the higher wage, lower tax, lower welfare economy we want it to be.

I am grateful to all the Treasury staff and the Non-Executive Board Members for their continued support, and in particular thank Michael O'Higgins for his service as Chair of the Treasury's Audit Committee. It has been a busy period for the Treasury, with two Budgets and a general election within four months, and on behalf of all Treasury Ministers I want to thank everyone for their hard work and also for their support in inducting the newer members of the Treasury Ministerial team to the department.

The Treasury remains at the heart of government and there are plenty of exciting challenges in the year ahead, including reform and renegotiation in Europe, delivering our productivity reforms, completing the sales of our banking assets and rebalancing the economy. By continuing to work through the plan, this Government is committed to securing the future of the UK for everyone in in our country.

George Osborne
Chancellor of the Exchequer
July 2015

Lead Non-Executive's Report

The Treasury has responded to a high degree of challenge during 2014-15. While rising output and falling unemployment eased one set of pressures on policy-making, the department has had to work at a fast pace on a growing portfolio of responsibilities. With a wide range of possible outcomes forecast for the general election, its preparatory policy work had to be similarly wide-ranging.

Meanwhile, initiatives such as the preparation and delivery of pensions' guidance, extensions to Help to Buy, and the Remnimbi and Sukuk issuances have broken new ground for what has historically been a policy department. The Treasury has also shown it can learn from events where its ability to anticipate challenge has not been so successfully demonstrated, notably with respect to statistically-led changes in Britain's EU contribution or demand for the new "pensioner bond". It has also sought to improve its processes for dealing with public correspondence and develop a more outward-looking culture.

Non-Executives have provided independent oversight throughout the year, and will continue to test senior management on their stewardship of the department.

Strategic clarity

Long-term planning and strategic thinking are at the heart of the Treasury's responsibilities. The beginning of a new parliamentary term is a time to set new objectives and new performance indicators. Colleagues from across all policy areas have been open to Non-Executives' challenges and contributions to strategy sessions over the year, and we are soon to engage on the department's plans for the autumn spending round. The Treasury also has a major role to play in the upcoming round of EU negotiations, and Non-Executives have consistently impressed on the Treasury the need to ensure it has full range of skills needed to discharge this role well. Meanwhile, the downside of Britain's strong employment growth has been a poor productivity record, requiring the development of new and innovative policies to address some deep-seated performance issues.

While pressure on senior Ministers' time meant that the full Ministerial Board was unable to meet during 2014-15, the Chancellor was able to set his priorities for the work of the Board's Sub-Committee on policy implementation and the management of the Treasury. As the department is given additional responsibility for delivery, it is clear earlier advice from the Sub-Committee on contingency planning is being heeded.

Commercial sense

The senior management team has always shown itself keen to learn from the private or third sector experience of Non-Executives. We have supported the department's search for cost savings, such as those made this year through the procurement of a new IT service, while continuing to urge attention to the maintenance and enhancement of departmental capability, and the need to apply pay policy flexibly in order to ensure the recruitment and retention of the skilled individuals needed. This includes the attraction of experienced people from the private sector.

Talented people

There were major changes to the leadership of the Treasury in 2014-15, with the departure of three members of the Executive Management Board, including one of our two Second Permanent Secretaries, Sharon White, who will be much missed following her appointment as Chief Executive of Ofcom. While the reinforcement of senior talent in the department over the past few years enabled responsibilities to be reallocated to excellent candidates, these departures have sharply reduced the proportion of women in the EMB. This led the Non-Executives to challenge the Permanent Secretary to demonstrate that the department had robust plans to develop the strong pipeline of female talent that currently exists at Director and Deputy Director levels.

Results focus / Management information

There has been a step-up in the quality of management information and papers presented to the Sub-Committee. Finance and HR data are now being used proactively to influence resource placement and decision-making. The setting of new objectives and performance indicators for Treasury will add a further stimulus to improve. Members of the Sub-Committee are looking forward to a revised set of reports, aligning risk, performance and delivery progress. Non-Executives are keen to see the department present a refreshed and targeted set of performance indicators that will enable the effective monitoring of Treasury activity in real time, and help the department remain focused on results. Our thanks go to the committee's support team for facilitating these improvements.

Forward look

I would like to thank Ministers, Executive and Non-Executive board members for their assistance over the course of the year, and in particular to thank Michael O'Higgins, who stepped down from his role on the Board and as Chair of the Audit Committee after 6 years of dedicated work for the department. I would also like to thank the Permanent Secretary in particular for his responsiveness to questions and challenges raised by the Non-Executives. His leadership of the department, and the respect in which he is held, have contributed greatly both to its performance and its morale.

I am grateful to Richard Meddings for replacing Michael as Chair of the Audit Committee, while since the year-end Tim Score has joined us as a new Non-Executive. Tim brings a wealth of private sector experience with him, most recently having stepped down after 12 years as the Chief Financial Officer at ARM Holdings. My Non-Executive colleagues and I are looking forward to welcoming him to our next meeting at the end of July.

As the new Parliament begins, with the autumn spending review on the horizon, European negotiations getting under way and other elements of the Government's programme making major demands on the Treasury's capabilities, the development, mobilisation and effective deployment of the department's resources remains critical to its success. Non-Executives remain focused on helping the Treasury to horizon scan, to anticipate pressure points and ensure it is fully skilled to provide Ministers with the support they need on the major issues confronting them.

Sarah Hogg

Baroness Hogg

Overview

The Treasury works to achieve strong and sustainable economic growth by setting the direction of the UK's economic and fiscal policy. Led by the Chancellor of the Exchequer, the Treasury is responsible for:

- public spending: including departmental spending, public sector pay and pension, annually managed expenditure (AME) and welfare policy, and capital investment
- financial services policy: including banking and financial services regulation, financial stability, and ensuring competitiveness in the City
- strategic oversight of the UK tax system: including direct, indirect, business, property, personal tax, and corporation tax
- the delivery of infrastructure projects across the public sector and facilitating private sector investment into UK infrastructure
- ensuring the economy is growing sustainably

Treasury's purpose - to focus on setting the right economic and fiscal policy for the UK, control public spending, and work on achieving strong and sustainable growth.

Treasury's vision - each member staff will play a full, productive and valued role in helping deliver the department's purpose, while working to ensure the Treasury operates as a high performing organisation.

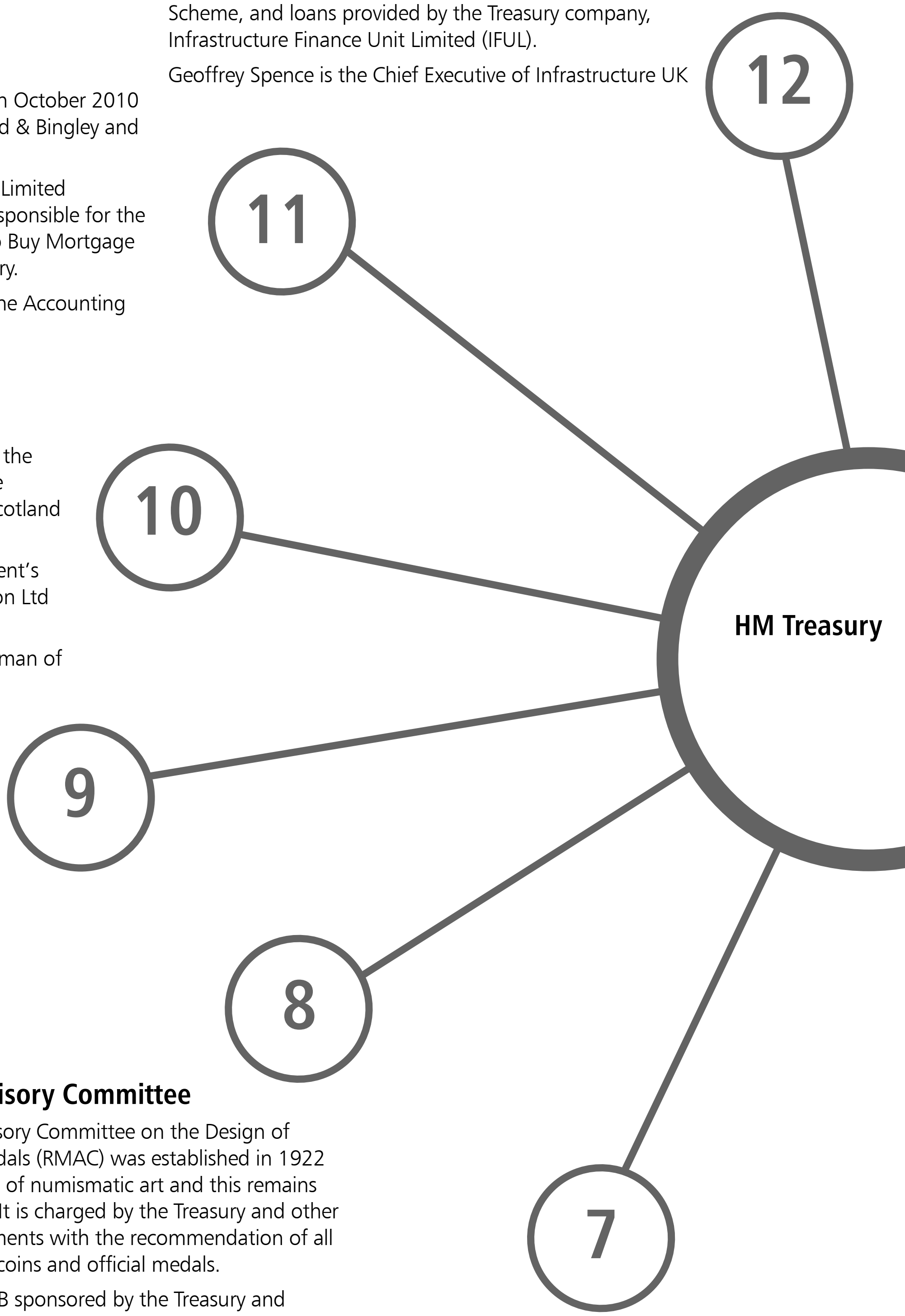
The department currently has three policy objectives:

- reducing the structural deficit in a fair and responsible way
- securing a growing economy that is more resilient, and more balanced between public and private sectors
- continuing the reform of the regulatory framework for the financial sector to avoid future financial crises

In addition the department's Executive Management Board, headed by Permanent Secretary Nick Macpherson, has set a further corporate objective to:

- build a great Treasury that operates as a high performing organisation in collaboration with its strategic partners

The Treasury Group - bodies consolidated



Infrastructure UK and IFUL

Infrastructure UK is a unit within the Treasury that works on the UK's long term infrastructure priorities and secures private investment. It is responsible for coordinating and simplifying planning. Delivering the UK Guarantees Scheme, and loans provided by the Treasury company, Infrastructure Finance Unit Limited (IFUL).

Geoffrey Spence is the Chief Executive of Infrastructure UK

UK Asset Resolution Ltd (UKAR)

UKAR is the holding company established in October 2010 to bring together the businesses of Bradford & Bingley and NRAMplc.

In October 2013, UKAR Corporate Services Limited (UKARcs), a subsidiary of UKAR, became responsible for the administration of the government's Help to Buy Mortgage Guarantee Scheme on behalf of HM Treasury.

Richard Banks, the Chief Executive, is also the Accounting Officer.

UK Financial Investments Ltd (UKFI)

Established in 2008 as part of the UK's response to the financial crisis, UKFI is responsible for managing the government's shareholdings in the Royal Bank of Scotland Group plc and Lloyds Banking Group plc.

UKFI is also responsible for managing the government's 100% shareholding and loans in UK Asset Resolution Ltd and its subsidiaries.

James Leigh-Pemberton, who is the Executive Chairman of UKFI, holds the position of Accounting Officer.

UK Debt Management Office (DMO)

Established as an Executive Agency of the Treasury in 1998, the DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

The DMO's Chief Executive Officer is Robert Stheeman, and he is also its Accounting Officer.

Royal Mint Advisory Committee

The Royal Mint Advisory Committee on the Design of Coins, Seals and Medals (RMAC) was established in 1922 to raise the standard of numismatic art and this remains its primary concern. It is charged by the Treasury and other government departments with the recommendation of all new designs for UK coins and official medals.

It is an advisory NDPB sponsored by the Treasury and the Royal Mint's Chief Executive, Adam Lawrence, is its Accounting Officer.

Help to Buy (HMT) Ltd

Help to Buy (HMT) Ltd is a Treasury owned company formed in September 2013. A service level agreement exists between Help to Buy (HMT) Ltd and UKAR relating to UKAR's responsibilities regarding the delivery of the government's Help to Buy Mortgage Scheme

within the Treasury's annual accounts

1 Financial Services Compensation Scheme (FSCS)

A single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it.

The FSCS is operationally independent from the Treasury and Mark Neale, the Chief Executive, has been appointed as the Accounting Officer for the Scheme.

2 Money Advice Service (MAS)

Established as an independent body, MAS' aim is to provide information to the public on financial matters, including on how the UK financial system works and personal financial management.

The Chief Executive and Accounting Officer is Caroline Rookes.

3 HM Treasury UK Sovereign Sukuk plc

HM Treasury UK Sovereign Sukuk plc is the special purpose vehicle set up to issue the UK's debut sovereign Sukuk (Islamic bonds).

4 Office for Budget Responsibility (OBR)

Created in 2010 to provide independent and authoritative analysis of the UK's public finances, the OBR is an advisory NDPB sponsored by the Treasury.

The OBR's Chairman, Robert Chote, is also its Accounting Officer.

5 Office of Tax Simplification (OTS)

Created in 2010 to provide the government with independent advice on simplifying the UK tax system, the OTS is an independent office of the Treasury.

James Bowler, the Treasury's Director General for Tax and Welfare, is the Accounting Officer.

6 Sovereign Grant

The Treasury is responsible for the upkeep of the Royal Finances and the Sovereign Grant payment to support HM The Queen in Her official duties. Introduced in 2012 this funding replaced the Civil List and 3 Grants-in-Aid for travel, communications and information, and the maintenance of the Royal Palaces.

The Keeper of the Privy Purse and Treasurer's office has overall responsibility for the Sovereign's financial affairs. This post is currently held by Sir Alan Reid KCVO, who is also the Accounting Officer for the Sovereign Grant.

Ministerial responsibilities

The Rt Hon George Osborne MP
Chancellor of the Exchequer and First Secretary of State

The Chancellor of the Exchequer has overall responsibility for the work of the Treasury and is the government's chief financial minister.

He is supported by:

- the Chief Secretary to the Treasury
- the Financial Secretary to the Treasury
- the Exchequer Secretary to the Treasury
- the Economic Secretary to the Treasury
- the Commercial Secretary to the Treasury

The Rt Hon Greg Hands MP
Chief Secretary to the Treasury

- public expenditure including
  - spending reviews and strategic planning
  - in-year spending control
  - public sector pay and pensions
  - Annually Managed Expenditure (AME) and welfare reform
  - efficiency and value for money in public service
  - procurement
  - capital investment
  - infrastructure deals
- HM Treasury interest in devolution to Scotland, Wales and NI

David Gauke MP
Financial Secretary to the Treasury

- deputising for the Chancellor at Ecofin
- EU Budget and wider EU issues
- strategic oversight of the UK tax system including direct, indirect, business, property and personal taxation
- corporate and small business taxation
- European and international tax issues
- departmental minister for HM Revenue and Customs and the Valuation Office Agency
- overall responsibility for the Finance Bill
- personal savings and pensions policy
- the Government Actuary's Department

Damian Hinds

Exchequer Secretary to the Treasury

- childcare policy
- tax credits and child poverty
- charities, the voluntary sector and gift aid
- environment and transport taxation, North Sea oil, gas and shipping
- energy policy and climate change
- excise duties, including excise fraud and law enforcement
- gambling duties
- housing and planning
- the Royal Mint
- Crown Estate and the Royal Household
- parliamentary deputy on public spending issues

Harriett Baldwin MP

Economic Secretary to the Treasury (City Minister)

- banking and financial services reform and regulation (at home and in the EU) including the PRA
  - financial stability
  - City competitiveness
  - bank lending and access to finance
  - Help to Buy
  - financial conduct and the FCA
  - asset management
- RBS, Lloyds and UKFI
- bank taxes
- asset freezing and financial crime
- retail financial services, including consumer finance, financial advice and capability, working with the DWP Pensions Minister
- Equitable Life
- delivery of pensions reforms
- foreign exchange reserves and debt management policy, National Savings and Investments and the Debt Management Office
- departmental minister for HM Treasury Group
- women in the economy

Jim O'Neill

Commercial Secretary to the Treasury

- Northern Powerhouse
- city devolution
- infrastructure policy
- Infrastructure UK
- corporate finance, including public corporations, public private partnerships, PFI, and sales of government assets
- better regulation and competition policy
- industiral strategy
- working with Lord Maude and UKTI to promote the UK as a destination for foreign direct investment

2014-15 Highlights

April
Gift Aid and digital giving consultation response published

May
New Director General, public spending and finance announced

June
Mansion House speech launches the Fair and Effective Markets Review

First UK-China Financial Forum held

Bingo duty reduction comes into effect

July
Five Treasuries conference held (Australia, Canada, Ireland, New Zealand and United Kingdom)

August
UK Guarantee Scheme announces support of - Speyside Biomass Power project

Chief Secretary holds a Facebook Q&A

September
Renminbi bond issuance

Scottish Referendum takes place

October
50th Anniversary of the Government Economic Service

Cross Whitehall Staff Survey

November
Government waives £1m VAT on the Tower of London poppies installation

December
Publication of the department's corporate improvement plan, Building a Great Treasury

National Infrastructure Plan 2014 published

Autumn Statement 2014

Lloyds Trading plan launched

January
Pension Wise announced

£1m of LIBOR fines contributed to Royal Navy charities

February
Treasury begins new multi supplier ICT contract

New powers for the Financial Policy Committee confirmed

March
Agreement reached for the sale of the UK government's interest in Eurostar

Design announced for the new £1 coin

Whole of Government Accounts published
Budget 2015

Executive Management Board

Permanent Secretary
Nick Macpherson

Second Permanent Secretary
John Kingman

Directors General
Mark Bowman International and EU
James Bowler Tax and Welfare
Dave Ramsden Chief Economic Adviser
Charles Roxburgh Financial Services
Julian Kelly Public Spending and Finance

Directors
Kirstin Baker Group Finance
James Bowler Strategy, Planning and Budget
Katherine Green Corporate Services

Director led groups

Ministerial and Communications
Nick Macpherson, Permanent Secretary
Responsible for decision making, coordination and management of the department, and communications with media and the public

Economics
Dave Ramsden, Director General
Responsible for UK economic analysis, surveillance, and professionalism

Financial Stability
Lowri Khan, Director
Responsible for ongoing stability issues and resolution of financial interventions

Financial Services
Gwyneth Nurse, Director
Katharine Braddick, Director
Responsible for financial services regulatory framework and financial markets policy issues

Public Services
Catherine Frances, Director
Lindsey Fussell, Director
Responsible for oversight of major public service expenditure

Business and International Tax
Mike Williams, Director
Responsible for business tax, indirect taxes and international tax

Personal Tax, Welfare and Pensions
Beth Russell, Director
Jean-Christophe Gray, Director
Responsible for personal tax, welfare, labour market, and HMRC/DWP expenditure, pensions and savings

Strategy, Planning and Budget
James Bowler, Director
Responsible for defining forward strategy, work programme, the Budget, and short-term priority policy projects

Corporate Centre
Kirstin Baker, Group Finance Director
Katharine Green, Director Corporate Services
Enabling the Treasury to deliver by managing and developing corporate policies and processes including: correspondence and public enquiries, HR, estates, IT, domestic finances and commercial activities, as well as the implementation of departmental change programmes

Fiscal
James Richardson, Director
Responsible for fiscal strategy, funding and debt management, and monitoring fiscal position

Public Spending
David Allen, Director
Responsible for public spending control and embedding good governance and financial management across government

Enterprise and Growth
Susan Acland-Hood, Director Enterprise and Growth
Geoffrey Spence, Chief Executive, Infrastructure UK
Responsible for growth-related policy and expenditure including: infrastructure strategy and delivery, and public private partnerships (PPP)

Treasury Legal Advisors
Stephen Parker, Director
Responsible for provision of advisory and other legal services across the Treasury and certain other agencies and departments

International and EU
Jonathan Black, Director (Europe)
Shona Riach, Director (International Finance)
Robert Woods, Director (EU Analysis)
Responsible for advancing the UK's economic and financial interests internationally and in the EU

1 Strategic Report

This strategic report covers the Treasury's performance against its three core policy objectives, its corporate performance and the department's financial position at the end of the 2014-15 financial year.

To highlight particular areas of the department's work over the course of the year 'Spotlight' case studies have been included. These are complemented with clear signposts to where further and more detailed information can be found on the Treasury pages of gov.uk.

The Treasury's performance in 2014-15

The department is structured into 14 director-led groups, as set out on page 14, with each group working to achieve the department's core objectives.

The wider Treasury Group, shown on pages 8 and 9, consists of a number of related organisations which work in partnership to deliver the government's economic and fiscal strategy. Where appropriate each member of the Group has produced their own annual report reviewing their performance across the financial year and these may be found on their respective websites.[1]

With regard to the Treasury's own performance, the 2013-15 departmental business plan set out actions for delivery by the end of the last parliament. While managing multiple budget reductions, by the end of the 2014-15 financial year the department had completed 82% of the actions on time.[2]

Reducing the structural deficit in a fair and responsible way

The Treasury has been taking action to tackle the deficit, ensure taxpayers' money is spent responsibly and get the public finances back on track while protecting growth.

Since 2009, the UK economy and the public finances have been weaker than expected. However, the Office for Budget Responsibility's (OBR) forecast at Summer Budget 2015[3] showed the UK's recovery is well established with growth in 2015 and 2016 forecast to be 2.4% and 2.3% respectively.

Furthermore the same OBR forecast shows:

- borrowing is expected to fall to 3.7% GDP in 2015-16 and then to fall in each year of their forecast period. The public finances will return a surplus of £10 billion in 2019-20.

[1] http://www.fscs.org.uk/; http://www.moneyadviceservice.org.uk; http://budgetresponsibility.org.uk/; http://www.dmo.gov.uk/; http://www.gov.uk/government/organisations/office-of-tax-simplification; http://www.ukar.co.uk/; http://www.ukfi.co.uk/; https://www.gov.uk/government/organisations/royal-mint-advisory-committee; http://www.royal.gov.uk/TheRoyalHousehold/Royalfinances/Overview.aspx;

[2] http://transparency.number10.gov.uk/business-plan/8

[3] http://budgetresponsibility.org.uk/economic-fiscal-outlook-july-2015/

- the fiscal mandate, to balance the cyclically-adjusted current budget by the end of the third year of a rolling 5 year forecast horizon, will be achieved in the target year of 2017-18.
- Public sector net debt as a percentage of GDP will start falling in 15-16, meaning that the government is on track to meet its supplementary debt aim a year early, peaking at 80.8% of GDP in 2014-15 before falling thereafter over the forecast horizon.

Since 2010, the government has pursued a long-term economic plan that has halved the deficit as a share of GDP. For the first time since 2001-02, the national debt is falling in 2015 16, meeting the target set out in 2010. The UK was the fastest growing G7 economy in 2014, employment has reached record levels, and wages are rising above inflation.[4]

Spotlight: the Charter for Budget Responsibility

The government has published a draft **Charter for Budget Responsibility** (the "Charter")[4] formalising its commitment to reach an overall surplus and maintain it in normal times. The draft Charter sets out:

- a target for a surplus on public sector net borrowing in 2019-20, and a supplementary target for public sector net debt to fall as a share of GDP in each year from 2015-16 to 2019-20
- a target, once a surplus is achieved in 2019-20, to run a surplus each subsequent year as long as the economy remains in normal times

These targets will apply as long as the economy is not hit by a significant negative shock that reduces real GDP growth to less than 1% (on a rolling 4 quarter-on-4 quarter basis). If the OBR judge that the economy has been hit by a shock, the surplus rule will be suspended.

This will allow the automatic stabilisers to support the economy when they are needed. The framework therefore supports fiscal discipline in normal times, while ensuring that future governments will have the flexibility to respond appropriately to shocks.

Following a shock, the government of the day will be required to set a plan to return to surplus. This plan must include appropriate fiscal targets. The framework does not prescribe what the targets should be, allowing the government of the day to respond to the circumstances. However, the targets will be voted on by the House of Commons and assessed by the OBR.

A surplus in normal times is necessary to provide the government of the day with the fiscal space to allow appropriate action to be taken in the face of these shocks. The end goal must be to return the public finances to surplus, ensuring that long-term debt reduction continues.

The Charter will be laid before Parliament and voted on by the House of Commons in the autumn of 2015.

Tax receipts have not grown as strongly as the economy. The department continues to work closely with HMRC to maximise the tax yield and counter tax avoidance. The 2014 Autumn Statement introduced measures to counter those actions by some large multinational companies that see their profits diverted abroad in order to avoid paying taxes, while the July 2015 Budget included measures to tackle tax evasion, avoidance and tax planning, increase tax compliance, and address imbalances in the tax system.

[4] https://www.gov.uk/government/publications/charter-for-budget-responsibility-summer-budget-2015-update

In addition, measures were introduced to stop some banks which made large losses during the financial crisis from now using those losses to avoid paying corporation tax. The 'diverted profits tax' and the capping of profits that can be offset by carried forward losses were introduced as part of the 2015 Finance Bill and came into effect from 1 April 2015.

The Treasury continues to support departments in implementing their spending settlements and manage Annually Managed Expenditure through effective spending control and risk management.

Officials have worked with colleagues across Whitehall to identify in-year savings allowing the Chancellor to identify £3bn of departmental savings in 2015-16.[5] Further consolidation will be delivered in the autumn of 2015 following a rigorous Spending Review. This will look at all elements of public spending in order to create a more efficient public sector, while prioritising growth and promoting expenditure on public services for those who need them most.

Spotlight: the Equitable Life Payment Scheme

In May 2010 the government pledged to "implement the Parliamentary and Health Ombudsman's recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure".

Activity to trace policyholders for whom the Scheme had no address data or where there had been no response to mail sent to them, has been a focus of activity and since the Scheme began making payments in 2011 it has paid out over £1billion to around 86% of policy holders.[6, 7]

In the July 2015 Budget the Chancellor announced the Scheme would close to new claimants on 31 December 2015. A further effort to trace remaining policy holders due £50 or more would be undertaken. With Profits Annuitants will continue to receive annual payments under the Scheme for their lifetimes.

Securing a growing economy that is more resilient and more balanced between sectors

The Treasury has been taking action to build a national recovery and strengthen the UK economy as a whole.

Ahead of the March 2015 Budget the Chancellor outlined a set of long term economic plans for each region, including a Northern Powerhouse. The ambition is to raise the long-term growth-rate of slower growing parts of England to, at least, the rate currently forecast for the UK as a whole.

The March Budget itself announced further steps to create a national recovery. Including a mix of investments in transport, science and innovation, supporting enterprise, quality of life and tourism, flood defences, devolution in the regions and housing. A comprehensive list of investment across the UK can be found on page 45 of *Budget 2015*.[8]

The March Budget also included announcements to support a broad range of sectors: a new investment Allowance and reduction in supplementary tax charges on oil and gas companies to encourage further investment in the North Sea; investing up to £600 million to deliver better

[5] 'Chancellor announces £4bn of measures to bring down debt', HM Treasury, 4 June 2015.

[6] www.gov.uk/government/publications/equitable-life-payment-scheme-february-2015-progress-report/equitable-life-payment-scheme-february-2015-progress-report

[7] www.gov.uk/government/publications/summer-budget-2015

[8] https://www.gov.uk/government/topical-events/budget-2015

mobile networks; further investment in science and innovation including on digital currency technology, the Internet of Things, and on the infrastructure and cities of the future.

Spotlight: the Scotland analysis programme

Ahead of the September 2014 referendum, and to inform the debate about Scotland's constitutional future, the UK government undertook a programme of analysis designed to make a positive case for Scotland remaining in the UK.

Led by the Treasury, and informed by expert and legal opinion and scrutiny, the Scotland analysis programme examined how Scotland contributes to and benefits from being part of the UK, and how the rest of the UK benefits from its partnership with Scotland.

On 19 June 2014 the Treasury published the last of 16 papers which together formed the most rigorous and comprehensive analysis of Scotland's place in the UK ever undertaken. This final document, *United Kingdom, united future: Conclusions of the Scotland analysis programme*[9] summarised over 1,400 pages of analysis and the opinions of hundreds of independent experts and organisations.

On 18 September 84.6% of the Scottish electorate took part in the referendum with 55.3% voting no to the question "Should Scotland be an independent country?"

Treasury officials have been working closely with Scottish Office and Cabinet Office colleagues and the Smith Commission on the agreed package of new powers for the Scottish Parliament, while also working to deliver those powers devolved as part of the Scotland Act 2012, including stamp duty land tax, landfill tax, extended borrowing powers, new capital borrowing powers, and a new Scottish rate of income tax.

The Scotland Bill was introduced to Parliament on 28 May 2015, and discussions have begun on a revised fiscal framework for the Scottish Government, with the aim of completion by autumn 2015.

In December 2014, the Funding for Lending Scheme (FLS) was extended by one year to January 2016 to provide banks and building societies with continued certainty over the availability of cheap funding to support lending to small and medium-sized enterprises (SMEs).

Launched in mid-2012, the scheme has contributed to a substantial fall in bank funding costs which have in turn fed through to improvements in credit conditions for households and businesses. Since January 2014, the FLS has incentivised only lending to businesses, following improvements in household credit conditions.

A healthy and growing housing market is an important part of a healthy and growing economy. The Help to Buy: mortgage guarantee Scheme, launched in 2013 with the aim of increasing the supply of low-deposit mortgages for credit-worthy households, had supported mortgages with a value of £6.9bn by 31 March 2015. Help to Buy has been further expanded with the introduction of Help to Buy: ISA which will enable first time buyers who save via the ISA access to a bonus of up to £3000.

Since 2010 unemployment has fallen in every region and almost two-thirds of the UK-wide increase in private sector employment can be attributed to regions outside London and the South East. Output per head in the North West, North East, West Midlands and Wales grew faster than in London in 2013. Unemployment peaked lower and has fallen faster than in the past, and the OBR is forecasting unemployment to be 5.4% in 2015, falling to 5.1% in 2016 and 5.2% in 2017.

[9] https://www.gov.uk/government/publications/united-kingdom-united-future-conclusions-of-the-scotland-analysis-programme

As the recovery has become established, growth has been more broadly balanced across sectors. There has been widespread growth across all major sectors since the start of 2013. Manufacturing, construction and services all grew by 3% or more in 2014, the first time since records began in 1990.

After falling during the crisis, recent UK growth has been more investment rich with business investment increasing as share of GDP. Real business investment has increased from 9.0% of GDP in 2010 to 10.6% of GDP in 2014 and is forecast to continue to rise.

House price growth has moderated over the past year, having grown strongly during early 2014, with annual house price growth slowing to 5.5% in April 2015. Meanwhile, property transactions fell during the second half of 2014 and were 3.1% lower in May 2015 than a year earlier. The OBR forecasts house prices to grow by 5.7% in 2015, followed by 4.1% in 2016, before rising to 5.6% in 2020. Property transactions are forecast to fall by 1.7% in 2015 before growth picks-up, peaking at 5.5% in 2018.

Household balance sheets have continued to normalise as households have reduced their debt as a proportion of income to 145% in Q1 2015, having peaked at 169% in Q1 2008. While households take on debt over the forecast period they also accumulate assets, meaning household net wealth as a proportion of income is forecast by the OBR to increase from 8.3 times income in 2014 to 8.6 times income in 2020.

The UK was the fastest growing G7 economy in 2014, growing by 3.0%, its best performance since 2006, and the International Monetary Fund (IMF), Organisation for Economic Co-operation (OECD) and European Commission all expect growth to remain steady and robust over 2015 and 2016. The OECD is forecasting the UK to be the fastest growing G7 economy again in 2015, [10] while the ratings agency Standard and Poor's continues to rate the UK as AAA sovereign.

[10] OECD Economic Outlook', Organisation for Economic Co operation and Development (OECD), June 2015

Reform of the regulatory framework for the financial sector to avoid future financial crisis

Treasury has been working to replace the current system of financial regulation with a framework that promotes responsible and sustainable banking and competition in the banking sector and where regulators have greater powers to curb unsustainable lending practices.

Spotlight: Pension Wise – the government's pensions guidance guarantee

As part of the March 2014 Budget, the Chancellor of the Exchequer announced radical changes to how people access their pensions, from April 2015.

A public consultation concluded that those impacted by the changes have a right to free and impartial guidance – a pensions guidance service helping those considering accessing their pension savings to ask the right questions, given their individual circumstances and understand their options, and risks, enough to make an informed next step

As the majority of those who responded to the consultation said consumers would not trust guidance given by a person or organisation with a vested interest in selling a financial product or service, the Treasury was chosen to oversee implementation.

The department worked to tight delivery time scales to ensure the service was in place by 6 April 2015, when the policy change came into effect. To mitigate risk and manage this delivery, the programme was managed by a full-time, qualified, and experienced programme management team, with integrated policy, commercial and financial specialists.

The Pension Wise service provides free and impartial guidance, but does not recommend any products or make suggestions on what users should do with their money. The website[11] is the first port of call for information, with customers able to supplement the information here with either face to face consultations (provided by Citizens Advice branches) or phone appointments (with The Pensions Advisory Service).

In his June 2014 Mansion House Speech, the Chancellor launched the Fair and Effective Markets Review, a comprehensive review of standards in the wholesale financial markets.

Following updates in August and October 2014, the Review published its final report in June 2015 setting out 21 recommendations to:

- Raise standards, professionalism and accountability of individuals
- Improve the quality, clarity and market-wide understanding of FICC trading practices
- Strengthen regulation of FICC markets in the United Kingdom
- Launch international action to raise standards in global FICC markets
- Promote fairer FICC market structures while also enhancing effectiveness
- Promote forward-looking conduct risk identification and mitigation

A full implementation report to the Chancellor of the Exchequer and the Governor of the Bank of England will be provided by the Chairs of the Review by June 2016.

[11] https://www.pensionwise.gov.uk/

In February 2015 the government confirmed the Bank of England's Financial Policy Committee (FPC) would have new powers of direction of the housing market and a leverage ratio framework for Britain's banks, to guard against any future risks to financial stability.

The additional powers over the housing market are commonly held by the Bank's counterparts in other countries, and the powers to set the framework have been introduced after the Chancellor asked the FPC in 2013 to assess the full set of powers it needed in relation to the Leverage Ratio.

Spotlight: enhancing Britain's position as a global financial centre

As part of an objective to further enhance Britain's position as a global financial centre with a stable and trusted financial sector of its own, the Treasury has undertaken several initiatives over the course of 2014-15.[12]

On 25 June, Britain became **the first western country to issue an Islamic bond**, attracting orders of more than £2 billion from global investors for the sale of Sharia-compliant debt. The maiden Sukuk will pay out profits based on the rental income from 3 government owned properties in lieu of interest, which is forbidden under Islamic religious law. The size of the bond issued by HM Treasury was £200 million.

Ahead of the June launch, Treasury officials, along with colleagues from the Debt Management Office, embarked on a series of roadshows in meeting with potential investors in the Middle East, Asia and London.

In October 2014 Britain issued the world's **first and largest non-Chinese sovereign bond** in the Chinese currency, the offshore renminbi (RMB), with the proceeds being used to finance the government's reserves of foreign currency. This is in recognition of the increasingly prominent role that the RMB is playing in the global economy, including as a potential future reserve currency.

Three major banks were appointed to deliver the sale; Bank of China, HSBC and Standard Chartered. The size of the bond is RMB 3 billion, equivalent to around £300 million. The bond saw strong demand from a wide range of investors globally, with 85 orders totalling over RMB 5.8 billion.

These issuances have bolstered London's reputation for genuine innovation and leadership in these new capital markets. These successful issues have been recognised by winning multiple industry awards, for example:

- Islamic Finance News awarded HM Treasury's Sukuk Deal of the Year 2014;
- Global Capital awarded UK RMB the #1 deal in the category 'Emerging Market Currencies', while giving the Sukuk issuance the award for best sterling SSA deal

Economic, social and environmental sustainability

The Treasury is committed to applying the principles of sustainability to all aspects of its work.

A separate sustainability report covering how the department has met its Greening Government commitments and integrated sustainability into both policy making and delivery is attached as Annex B.

[12] The Sukuk issuance is included as part of the Treasury accounts while the renimbi bond is not.

The ‘Better Regulation’ agenda

A full report on the Treasury’s contribution to the Better Regulation agenda can be found at Annex C.

Transparency on performance

The department publishes a great deal of transparency information on the gov.uk website and via the Government Interrogation Spending Tool, [13] to allow the public and stakeholders an opportunity to assess its performance.

This information includes:

- workforce management data
- departmental spend over £25,000
- any exceptions to the cross government moratoria on spending
- senior officials’ travel expenses
- invoice payment times
- performance related pay information
- board members’ expenses
- Ministers’ meetings, hospitality, gifts, and overseas travel, and
- meetings the Permanent Secretary has with external organisation.

In addition, the 2013 Business Plan set out a number of key performance indicators for each of the 3 core objectives. The latest data for each of these can be found in the following table.

[13] http://www.gist.cabinetoffice.gov.uk/oscar/2013-14/hm-treasury/#area

Key Performance Indicator	2014-15	2013-14
Reduce the structural deficit		
Administration cost of supporting tax and spending policy (net RDEL expenditure for the Public Spending; Public Services; Business and International Tax; and Personal Tax, Welfare and Pensions groups)	£23.2m	£22m
Cyclically adjusted current deficit as a percentage of GDP[14]	2.4%	2.6%
Public sector net debt as a percentage of GDP	80.8% (July 2015 OBR forecast)	79.1% (March 2015 OBR forecast)
Departmental DEL outturn v forecast[2]	0.9% (2013-14)	0.9% (2012-13)
Overall impact of spending, tax, tax credit and benefit changes on households in 2015-16 as a percentage of 2010-11 net income	See Chart 2.B within *Impact on households: distributional analysis to accompany Budget 2015*[3]	See Chart 2.B within *Impact on households: distributional analysis to accompany Budget 2014*[4]
Secure a growing economy		
Administration cost of supporting macroeconomic and fiscal policy (net RDEL expenditure of the Office for Budget Responsibility and the following Treasury Groups: Economics; Fiscal; and Strategy, Planning and Budget	£20.5m	£20.3m
GDP per capita – latest quarter growth on corresponding quarter of previous year	2.2% (Q1 2015)	2.0% (Q1 2014)
Business investment as a share of GDP[5]	10.3% (2014-15)	10.1% (2013-14)
Employment Rate (% employed of the working age population 16-64)	73.0% (Jul–Sep 2014)	72.9% (Feb–Apr 2014)
Reform of the financial sector		
Administration cost of supporting international engagement and financial services policy (net RDEL expenditure of UK Financial Investments and the following Treasury Groups: International and EU; Financial Services; and Financial Stability	£34.6m	£18.0m
RBS[6]: The shareholding in RBS comprises of ordinary shares, B-shares and a single dividend access share (DAS). On 9 April 2014, the Government reached agreement with RBS to provide for the future retirement of the DAS for a total of £1.5 billion. In August 2014, the initial payment of £320 million was received, giving an outstanding DAS retirement payment of £1.18 billion.		
Number of shares:[7]	9,064,483,519	9,064,483,519
Value of shareholding	£32.0 bn	£29.6 bn
Cost of shareholding:	£45.8 bn	£45.8 bn
Lloyds Banking Group[6]: The shareholding in Lloyds comprises of ordinary shares. During 2014-15, HM Treasury disposed of 2.2 billion of these shares as part of a trading plan that commenced in December 2014, yielding £1.7 billion in cash proceeds.		
Number of shares:	15,551,779,542	17,771,118,604
Value of shareholding:	£12.2 bn	£13.3 bn
Cost of shareholding: (attributable to the shares held at the reporting date)	£5.8 bn	£7.0 bn

[1] Taken from the Office for Budget Responsibility's forecast for the economy and the public finances, as update each fiscal event.
[2] DEL forecasts contained in the Budget are management information. DEL outturn data is a national statistic.
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413877/distributional_analysis_budget_2015.pdf
[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293738/budget_2014_distributional_analysis.pdf
[5] Business investment data is frequently revised. This estimate is based on data as published on 30 June 2014
[6] Data relating to shareholdings in RBS and the Lloyds Banking Groups is as at 31 March 2014 and 31 March 2015. No shares were purchased in either year.
[7] The number of shares given includes a tenth of the RBS B shares as ten RBS B shares are equivalent to one RBS ordinary share.

Corporate performance

Changes in leadership

With a Ministerial reshuffle in July and further changes to ministerial portfolios as a result of the general election, there have been several changes in the Treasury's leadership through the 2014-15 financial year and again until the publication of this report.

In July 2014, Nicky Morgan MP left the Treasury to become Secretary of State for Education. David Gauke MP moved from his role as Exchequer Secretary to replace her as Financial Secretary, with Priti Patel MP joining the department as the new Exchequer Secretary.

In May 2015 the Prime Minister appointed 4 new ministers to the Department. The Right Hon Greg Hands MP became the Chief Secretary to the Treasury; Damian Hinds MP became Exchequer Secretary; Harriet Baldwin MP was appointed Economic Secretary (City Minister) and Jim O'Neill became the Commercial Secretary. David Gauke MP remained the Financial Secretary.

After 6 years of service to the Treasury Board as both Non Executive Board Member and Chair of the Audit Committee, Michael O'Higgins stepped down in September 2014. Richard Meddings, former Finance Director of Standard Chartered, has taken on both of Michael's roles.

Finally, changes to the senior management team saw Sharon White depart from her role as Second Permanent Secretary to become the Chief Executive at Ofcom and Julian Kelly joined EMB as Director General, Public Spending and Finance, having previously served the department as the Director of Public Spending. Further detail on changes to the governance of the department can be found in the Governance Statement.

Delivering the department's corporate objective

In July 2014 the department published *Building a great Treasury*,[14] a corporate improvement plan. It recognises that the Treasury has been through significant change over the past few years, and that the department has embedded a significant set of structural reforms so as to operate as a smaller, more nimble and responsive organisation.

Building a great Treasury also recognises the challenges the department faces and sets out how it will deliver innovative and professional policy making, underpinned by great stakeholder engagement, the right skills, excellent management and a supportive working environment.

The Treasury's Executive Management Board has agreed a small number of targeted actions to address these challenges:

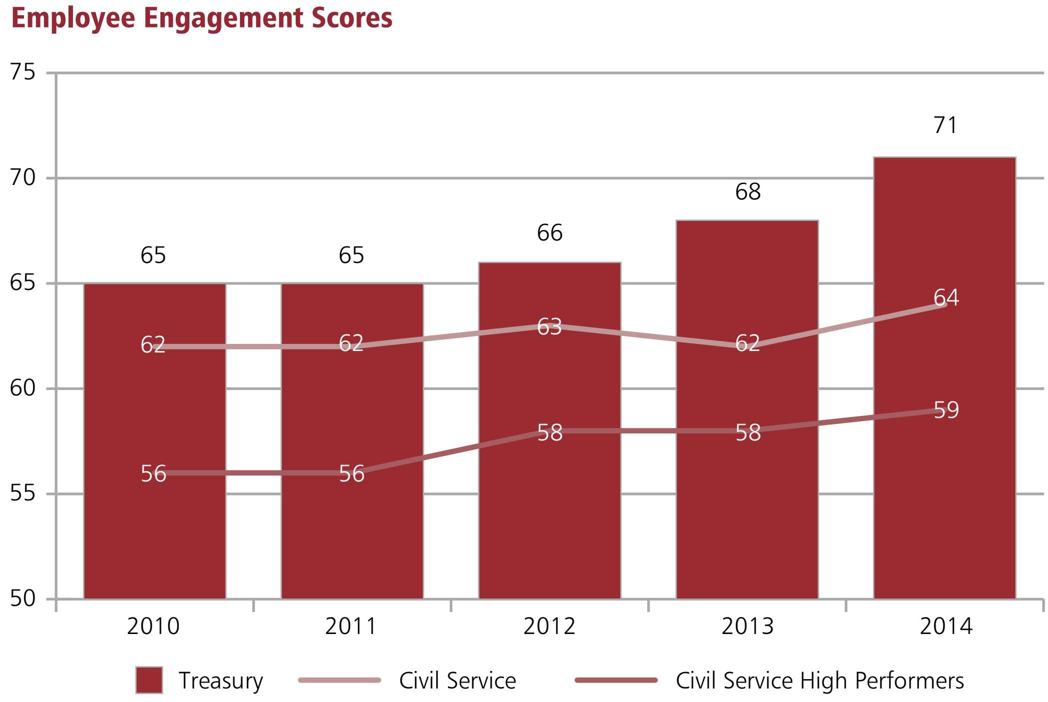
- introduce a professional policy development programme and a tailored induction programme for all new graduate entrants
- review the skills and depth of experience the department needs and determine how to meet any gaps
- benchmark the department's stakeholder relationships
- move internal management practices from good to great
- take steps to promote and support all forms of flexible working, and continue to challenge all forms of unconscious bias

[14] https://www.gov.uk/government/publications/hm-treasury-departmental-improvement-plan-building-a-great-treasury

Staff survey results

In October 2014 staff from 101 organisations completed the civil service wide staff survey, with 89% of Treasury staff taking part. This was an increase of 0.7% from 2013, and a 29% higher response rate than the civil service average.

The departmental highlights report[15] shows the staff engagement level has been steadily increasing for the last 4 years and is now 71%, up from 68% last year. Again this sets the Treasury well above the civil service average of 59%, and when just the highest performing organisations are considered, the department is 7% more engaged than our peers from this category.



In addition to measuring levels of engagement, the survey takes views on 62 core questions across 9 themes. The 3 that drive Treasury staff the most (leadership and managing change; my work; and my line manager) have remained the same since the survey began. Scores for each of these categories have improved slightly this year

Out of all 9 themes, Treasury's scores improved in 6, (my work, my line manager, my team, inclusion and fair treatment, pay and benefits and leadership and managing change) stayed the same in 1 (L&D) and dropped negligibly in 2 (organisational objectives and resources/workload). We are furthest ahead of the civil service average on leadership and managing change (+17%) and are +10% ahead of high performing departments in this theme.

Finally, the Treasury's senior management team were delighted this year by the 5% increase in the department's inclusion and fair treatment scores. Not only was the Treasury top in Whitehall on this theme but the positive results for each question saw a statistically significant increase.

The Treasury's workforce

The Treasury's workforce strategy ensures the department has the capacity and the capability to be high performing and effective. A detailed breakdown of the Treasury's workforce position at the end of the 2014-15 financial year is provided at Annex A.

[15] https://www.gov.uk/government/collections/staff-survey

Health, safety and well-being

The department actively promotes the health, safety and well-being of its staff, aware this helps to boost morale, staff engagement and performance. The department has continued to promote health and physical activity, including the *Cycle to Work* scheme, *Walk to Work* week and weekly lunchtime wellbeing walks.

Recruitment

The Treasury's recruitment team plays a key role in supporting the department in attracting and employing the best possible talent. Throughout 2014-15, and working in partnership with all the Treasury policy groups, Civil Service Recruitment, and the Civil Service Commission, the team has planned, developed and run a wide range of assessment, selection and recruitment activities,[16] including:

- Tailored campaigns for individual vacancies
- Two large scale campaigns to maintain a constant supply of key policy advisers at Range D, aiming to recruit both new graduates and those with post-university experience
- Interchange opportunities, including secondments and loans from and to other government departments and private sector partners
- Apprenticeship campaigns to bring young people into the department at entry level

The Treasury is especially proud of the success of the apprenticeship scheme. Since 2012, 41 apprentices have been recruited of which 15 have become permanent employees and continue to develop their skills and add real value to the department. Between April 2014 and March 2015, 25 apprentices have been recruited – an increase of 64% on the previous year. Viewing the apprenticeship scheme as a vital source of new talent, the department has plans to take on more apprentices in 2015-2016.

Diversity

The Treasury is committed to building diversity and inclusion in its workforce and is reviewing carefully its response to the civil service Talent Action Plan. This year EMB took an important decision to make the long standing Diversity and Inclusion Board a formal part of the department's governance structure as a visible senior commitment to engaging with staff and delivering improvements for all.

Diversity as at 31 March 2015 (31 March 2014) Gender

	Male	Female
Executive Management Board members and Group Directors	77.8 (77.8)	22.2 (22.2)
Senior Managers (SCS, not including EMB)	55.7 (55.0)	44.3 (45.0)
All staff	58.0 (57.3)	42.0 (42.7)

HR colleagues have worked with volunteers from an active set of staff driven networks to make progress across a range of activities.

[16] A full breakdown of the Treasury's recruitment activity can be found at Annex A

Area for focus	Progress
Disability	To better support disabled staff, research has been undertaken in collaboration with the Treasury's Disability Advisory Group to understand the issues facing disabled staff following last year's staff survey results, and practical issues with career progression. Agreed recommendations will be implemented in 2015-16. The departments operates a Guaranteed Interview Scheme and has a team specially trained in making reasonable adjustments.
Unconscious bias	All Treasury staff have completed e-learning on unconscious bias. In addition, over 90% of the department's SCS have attended a specialist 3 hour workshop on the issue. The Treasury's aim is to have 100% of the SCS complete this additional training and so further workshops have been arranged. Similar additional training was made available to managers below the SCS.
Flexible working	The Treasury is a keen supporter of flexible working and continues to promote alternative working patterns. In the 2014-15 financial year, case studies showcasing examples of working flexibly have been published, alongside the central guidance already available for staff. All staff have the capacity to work flexibly thanks to the department's IT provision, and recently handheld devices were configured to allow remote access to shared inboxes – invaluable to job sharers. Staff survey engagement scores for jobsharers rose 6% in 2014, 5% higher than the Treasury average.
Bullying and harassment	In the 2014 staff survey, 6% of staff reported having personally experienced discrimination in the previous 12 months, 8% of staff reported having personally experienced bullying or harassment. While these numbers have dropped since the 2013 survey, the senior management team isnot happy that such behaviour is still within the department. HR colleagues continued to run anti bullying and harassment awareness raising seminars through the year.
Mental well-being	The Mental Wellbeing Network has gone from strength to strength in its second year of existence. The department participated in a Time to Change organisational health check of its HR policies and is eagerly awaiting the results, which will be implemented in 2015-16.
Ethnicity	In September 2014, Treasury's senior management launched an initiative in collaboration with the Ethnic Minority Network to address issues on BAME staff's progression at middle management level. Staff are encouraged to participate a talent management exercise, take up the option of an SCS mentor and received detailed feedback from the annual appraisal process. This work will be continued in the coming year, with a review taking place at the mid-way point.
Outreach	The Treasury has further embedded its diversity outreach programme by participating in the Whitehall Internship Programme. The programme was announced in April 2011 as part of the Social Mobility Strategy, with the aim of providing internships in every Whitehall Department for people from under-represented groups. In 2014/15 the Treasury hosted 5 interns and 3 work experience students. Work with the National Mentoring Consortium, a programme that provides support to Black and Asian undergraduates planning managerial and professional careers has continued. This year 10 Treasury mentors have been trained and are taking part.
Development Programmes	In 2014/15 the Treasury continued to run a development programme, Prospects, for business support staff. This development programme has had good success in preparing business support staff for opportunities at the next level and in developing skills that are also valuable in current roles. To increase opportunities for staff additional places and an extra development centre were funded this year. Additionally the department Treasury has increased its participation in the "Positive Action Pathway" a civil service wide development programme for employees from under-represented groups.

Reward and recognition

The department has a policy to recognise those staff who have performed exceptionally in their roles through the payment of non-consolidated awards. Non-consolidated awards are paid in two circumstances:

- performance awards are linked to the annual staff appraisal system;
- special non-consolidated awards are paid to staff in-year to recognise specific contributions or pieces of work.

Due to the nature of the performance appraisal system, non-consolidated awards are paid in the year following the one in which the individual's performance was assessed as exceptional.

HM Treasury – performance awards payments (£)

	2014-15	2013-14	2012-13
Performance awards	583,611	546,443	541,819
Special non-consolidated awards	163,210	165,202	168,812

Overview of the Treasury's Finances

This section provides an overview of the finances of the Treasury Group and provides commentary on key balances included in HM Treasury's 2014-15 Annual Accounts in Chapter 6 of this document. The reporting entities within the department's accounting boundary are set out on Note 37 of the Annual Accounts.

Supply procedure and the departmental reporting cycle

The Treasury is accountable to Parliament for its expenditure. Parliamentary approval for spending plans is sought through the Supply Estimates presented to the House of Commons.

The Treasury published the main estimate for 2014-15 in April 2014 as part of the Central Government Supply Estimates – Main Supply Estimates. The department also applied for a supplementary estimate, details of which are available in the Central Government Supply Estimates – Supplementary Estimates, published in February 2015. These documents are in the public domain and can be accessed from the government website, www.gov.uk.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

Type of Spend	2014-15 Outturn £m	2013-14 Outturn £m
Total Estimates Resource Outturn	**(42,162)**	**10,435**
Total Budget Resource Outturn	**(49,685)**	**6,015**
Of which:		
Departmental Expenditure Limits (DEL)	125	(253)
Annually Managed Expenditure (AME)	(49,810)	6,268
Adjustments include:		
Non-supply income (Consolidated Fund Extra Receipts)	(64)	(32)
Net capital grant-in-kind	3	–
Restatements	–	386
Net (income)/expenditure after tax, per the Annual Accounts	**(49,746)**	**6,369**

Outturn is distinguished between expenditure against Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL comprises firm multi-year plans set in spending reviews. AME is more unpredictable, demand-led expenditure that cannot be reliably planned and is instead subject to review twice a year. Within DEL, the tables and narrative distinguish between administration costs and programme costs.

The primary reason for the difference between Estimate and Budget Resource Outturn was as a result of changes in the value of financial instruments, in particular the Bank of England Asset Purchase Facility Fund, and the sale of Lloyds Bank shares for £1.7 billion which was not included in the Estimate.

A detailed analysis of variances between Estimate Resource Outturn and Budget Resource Outturn is provided in the notes to the Statement of Parliamentary Supply in Chapter 6 and in the Core Tables in Annex D.

Resource spending in DEL and AME

HM Treasury's net AME expense was £7.5 billion less than the amount included in the Estimate. The group's more unpredictable expenditure is included within AME and large variances can arise as a result of changes in the value of financial instruments. The most significant variance relates to the increase in the fair value of the Bank of England Asset Purchase Facility Fund of £47.0 billion which was £7.0 billion more than forecast.

HM Treasury's DEL outturn was £29.8 million less than the amount included in the Estimate. The underspend mainly arose from the Treasury department underspending of £16.5 million across a range of predominantly non-pay areas. There was also additional income from a dividend of £7.4 million on Eurostar shares and additional interest income of £4.4 million for Infrastructure Finance Unit Limited.

Capital spending in DEL and AME

Net capital AME receipts were £3.2 billion more than in the Estimate. This was the net effect of the sale of Lloyds Bank shares of £1.7 billion which were not included in the Estimate, higher than forecast loan repayments and mortgage redemptions for UKAR of £0.6 billion, and higher than forecast loan repayments from Icelandic banks of £0.3 billion. Details of all loan repayments are included in Note 17 of the Annual Account.

HM Treasury's capital DEL spending was £11.5 million lower than in the Main Estimate. This was the result of £8.5 million of loan facilities to be provided by the IUK Investments companies having not been drawn down, and Infrastructure Finance Unit Limited's capital receipts being £2.2 million lower than forecast.

Commentary on key balances in the Accounts

Income and Expenditure

	2014-15		2013-14 (restated)	
	Core Treasury and Agencies £m	Group £m	Core Treasury and Agencies £m	Group £m
Total operating income	(263)	(761)	(463)	(1,159)
Staff costs	80	206	77	200
Other expenditure	635	1,308	359	954
Net operating expenditure/(income)	**452**	**753**	**(27)**	**(5)**
Capital grant in kind income	(325)	(325)	–	–
Capital grant in kind expenditure	320	328	–	–
Revaluation of financial assets and liabilities	(46,945)	(46,862)	12,942	12,994
Net gain on disposal of assets	(1,128)	(1,088)	(4,104)	(4,096)
Finance income and expenditure	(1,485)	(2,753)	(1,337)	(2,767)
Taxation	–	201	–	243
Net (income)/expenditure after tax	**(49,111)**	**(49,746)**	**7,474**	**6,369**

FCA and PRA Fine Income Trust Statement

HM Treasury receives fine income from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) which it must pay to the Consolidated Fund under the Financial Services and Markets Act (FSMA) 2000 and the Financial Services Act (FSA) 2012.

FCA and PRA fine income is not included in the balances above and instead separately disclosed in the Trust Statement, in line with the Government Financial Reporting Manual. As these amounts were previously included in Treasury's accounts, comparatives have been restated as detailed in Note 3 to the Annual Accounts.

Further information is provided in the Trust Statement in Chapter 7.

Staff Costs

Staff costs incurred by the Treasury Group have stayed broadly flat from 2013-14 to 2014-15. Further information about staff costs can be found in the Remuneration Report in Chapter 4 and in Note 6 of the Annual Account in Chapter 6.

Capital grants-in-kind

The capital grant-in-kind income and expenditure related to transfers of assets between HM Treasury and other government departments.

Eurostar: On 18 June 2014, the Department for Transport transferred the government's 40% stake in Eurostar International Ltd (EIL) to HM Treasury in advance of the intended sale of its stake in the company. It was transferred as capital grant in kind income at fair value of £325 million and classified as an asset held for sale. On 3 March 2015, an agreement was signed to sell the shareholding and redeem its preference share for a total of £757.1 million and the asset was revalued upwards as of this date. On 13 May 2015, the European Commission provided merger clearance for the EIL sale to proceed. The sale completed on 28 May 2015, and was derecognised in HM Treasury's accounts as of this date.

Business Finance Partnership (BFP): BFP was set up to increase the supply of capital through non-bank lending channels. The investments were made by IFUL, a company that is wholly-owned by HM Treasury and transferred on 30 June 2014 to the British Business Investments Limited, a company whose ultimate controlling party is the Department for Business, Innovation and Skills. The transfer was accounted for as £328 million capital grant in kind expenditure.

Revaluation of financial assets and liabilities: BEAPFF

The revaluation is driven by the **Bank of England Asset Purchase Facility Fund (BEAPFF)** which was set up to carry out purchases of gilts financed by the creation of central bank reserves to effect what is known as quantitative easing. The gilts are valued at market rates which are sensitive to fluctuations in interest rates. At 31 March 2015, the BEAPFF held £407 billion of gilts at market value. HM Treasury is exposed to the BEAPFF's fair value gains and losses as it has indemnified the Bank of England for any losses in operating the BEAPFF and is entitled to its profits. More details about the scheme are provided in Notes 21, 29.3.1 and 34.2 to the Annual Accounts.

Net gain on disposal of assets: sale of Lloyds shares

The Treasury's accounts include shareholdings in **Lloyds Banking Group** valued at £12.2 billion as at 31 March 2015. In December 2014, the government launched a trading plan designed to reduce the publicly-owned stake in Lloyds over a six-month period. A trading plan involves gradually selling shares in the market over time, in an orderly and measured way. HM Treasury disposed of 2.2 billion (2013-14: 9.8 billion) of its shares to 31 March 2015, reducing Treasury's stake in the bank from 40% originally to under 22%, and yielding £1.7 billion in cash proceeds and a cash gain of £400 million. The accounts show an accounting gain of just under £1.0 billion reflecting a reversal of previous impairments on the value of the shares.

Assets and liabilities

	2014-15		2013-14 (restated)	
	Core Treasury and Agencies £m	Group £m	Core Treasury and Agencies £m	Group £m
Available-for-Sale financial assets and assets held for sale	55,369	48,474	52,287	46,760
Loans and advances	38,648	4,892	44,495	7,048
Loans to banking customers	–	52,683	–	61,250
Derivative financial assets	36,438	39,400	230	4,846
Other assets	1,453	11,865	1,301	9,501
Total assets	131,908	157,314	98,313	129,405
Total liabilities	(2,013)	(26,828)	(1,579)	(31,763)
Net assets	**129,895**	**130,486**	**96,734**	**97,642**

Available for Sale financial assets and assets held for sale

Available-for sale assets include shares and investments in a number of banks and institutions including Lloyds Banking Group and Royal Bank of Scotland (RBS).

Lloyd's shares also saw an increase in their value during the year resulting in a fair value adjustment of £565 million. Total shares valued at £12,174 million were held as at 31 March 2015.

The RBS shares saw an increase in their value resulting in a fair value adjustment of £2,303 million. Total shares valued at £31,978 million were held as at 31 March 2015.

Further information on the shares are provided in Note 17 of the Annual Accounts.

Assets held for sale comprise the Treasury's shareholding of Eurostar valued at £757.1 million as at 31 March 2015. Further details regarding the shareholding are included in the capital grant paragraph above and in Note 18 of the Annual Accounts.

Loans and advances

Loans and advances, including loans to failed banks, has reduced to £4.9 billion (2013-14: £7.0 billion) due to redemptions and repayments during the year.

Loans to Banking Customers

UK Asset Resolution Limited (UKAR) is the holding company established to bring together the government-owned businesses of Bradford & Bingley plc (B&B) and NRAM plc (NRAM) through supporting customers with loans and mortgages. Loans to Banking Customers has reduced to £52.7 billion (2013-14: £61.2 billion) due to redemptions and repayments during the year. UKAR use derivatives and cash collateral in its business of providing loans. For further information see UKAR's Annual Report and Accounts or Note 20 to HM Treasury's Annual Accounts.

The Help to Buy: mortgage guarantee scheme

The Help to Buy: mortgage guarantee scheme was launched on 2 January 2014. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. In the event of a borrower defaulting on their mortgage, HM Treasury would be liable for a portion of net losses suffered following the sale of the property.

The scheme rules provide for a maximum contingent liability of £12 billion. As at 31 March 2015, maximum potential liabilities under this intervention are estimated to be £631 million (2013-14: £94.6 million). This is derived from the estimate provided by UKAR corporate services who administer the scheme. There are a small number of borrowers who are in arrears but the current assessment is that the likelihood of a claim is low. This is driven in part by increases in house prices which mitigate against lender losses.

HM Treasury UK Sovereign Sukuk Plc

In June 2014, the government became the first country outside the Islamic world to issue sovereign Sukuk, the Islamic equivalent of a bond. £200 million of Sukuk, maturing on 22 July 2019, was sold to investors based in the UK and in the major hubs for Islamic finance around the world.

UK Guarantee Scheme

The UK Guarantee scheme aims to kick start critical infrastructure projects that may have stalled because of adverse credit conditions. As at 31 March 2015, six projects were approved totalling an estimated £907.1 million of maximum potential liabilities (2013-14 £83.3 million). This included £884.6 million of outstanding principal and one year of unpaid interest of £22.5 million.

As part of the UK Guarantee Scheme, Treasury has also provided Transport for London a stand by refinancing facility of £750 million for the Northern Line Extension.

Long term liabilities

Long term liabilities mostly comprise debt securities in issue of £19,555 million issued by B&B and NRAM. The B&B and NRAM Groups issued securitised notes and covered bonds to securitise loans to customers and raise unsecured medium term funding. These have been reducing year on year as UKAR buys back these securities. Further details are provided in the Annual Report and Accounts of B&B and NRAM, copies of which are available on the corporate website of each of these companies

Long term liabilities also include non-current provisions of £460.2 million relating to Equitable Life Payment Scheme. The scheme is outlined above, and further details on the scheme are also available on the Equitable Life Payment Scheme website.

In May 2000, the Treasury entered into a 35 year Private Finance Initiative contract with Exchequer Partnership in respect of the department's headquarters building at 1 Horse Guards Road, London. A full valuation was carried out by the Valuation Office Agency in March 2015, and the provision of this serviced accommodation is recognised as an asset with a net book value of £83.9 million (2013-14: £61.2 million) in Note 14 of the Annual Accounts.

No other members of the Treasury Group have entered into PFI contracts.

Details of contingent liabilities reported under IAS 37 are disclosed in Note 34.1 of the Annual Accounts. Details of remote contingent liabilities, those that are disclosed under Parliamentary reporting requirements and not under IAS 37 can be found in Note 34.2 of the Annual Accounts.

Principle challenges and uncertainties

The department faces a number of operational challenges, the management of which are considered in the Governance Statement.

In addition, the Treasury Group is exposed to the following material financial risks:

- Credit risk arising from the financial interventions where Treasury has provided loans, advances and financial guarantees.

- Market risk arising from the financial interventions, including price risk, interest rate risk and foreign exchange risk.
- Financial risks arising from UKAR's mortgage business including credit risk, interest rate risk and foreign exchange risk.

Note 29 to the Annual Accounts outlines the nature and extent of credit risk and market risk arising from the Treasury Group's financial interventions, and how Treasury manages these risks. Note 30 to the Annual Accounts outlines the nature and extent of financial risks arising from the mortgage business through the consolidation of UKAR and how they are managed.

The Treasury in 2015-16

2015-16 will be an interesting and challenging year for the department, with considerable activity across all the department's policy areas.

As highlighted by the Chancellor's Mansion House speech in June 2015, asset sales will feature large on the Treasury's agenda, as will the UK's relationship with Europe, and the economic challenges this relationship presents.

At his 8 July 2015 **Summer Budget**, the Chancellor gave further details of issues facing the Treasury and his plans for addressing them, including:

- The introduction of the Charter for Budget Responsibility, a new fiscal framework, voted on by Parliament and to be reported on by the Office for Budget Responsibility
- The selling of the government's stake in RBS. Beginning in 2015, the government will dispose of at least three quarters of the its stake in RBS over the course of this Parliament
- The extension of the Lloyds Banking Group trading plan. Extended on 1 June 2015 for a further 6 months, the government will launch a further share sale, open to retail investors, in the next 12 months
- The sale of the government's remaining 14% shareholding in Royal Mail by the end of 2015-16, subject to achieving value for money
- The introduction of a National Living Wage from April 2016
- Changes to income tax, the continuing targeting of those who evade or avoid paying taxes, changes to inheritance tax rules, and the introduction of legislation to improve tax compliance among small businesses
- Welfare reforms, including the freezing of working age benefits for 4 years from 2016-17 to 2019-20, the maintenance of the triple lock on state pensions, and the reform of tax credits
- The delivery of a productivity plan for the UK

The Treasury Group will expand once again in 2015-16 reflecting the department's increasing operational responsibilities. The **Government Internal Audit Agency**, a new Executive Agency of the Treasury, was formally launched on 1 April 2015 and will help ensure the government and wider public sector provides services effectively. GIAA will be consolidated into the Treasury's accounts from 2015-16 onwards.

In addition, the Chancellor announced on 20 May 2015 the creation of **UK Government Investments,** a new government company wholly owned by the Treasury. The launch of UKGI will see UK Financial Investments become a subsidiary of this new company, joined by the

Shareholder Executive (currently a function of the Department for Business, Innovation and Skills). This new company will oversee the activities of both the Shareholder Executive and UK Financial Investments and will be consolidated into the Treasury's accounts in 2015-16.

The Treasury's own spending round settlement will be agreed and published following the Whitehall wide exercise in autumn 2015. Details of the settlement will be accompanied by the publication of the Treasury's Single Departmental Plan, part of the new performance framework for government. This document will set out strategic and operational objectives for 2015-20; include indicators to review performance, track implementation and monitor financial risk; and set out a timetable for fulfilling manifesto commitments over the next year.

Nick Macpherson
Permanent Secretary
15 July 2015

2 Governance Statement

The Treasury's governance arrangements exist principally to help the department manage its risks, both policy and operational, and are part of the Accounting Officer's systems of control.

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

This statement sets out the Treasury's administrative framework and how it addresses the many challenges faced as both the UK's economics and finance ministry and as a Whitehall department. It aims to explain the systems of control, provide insight into the dynamics between the Ministerial team who decide policy and the civil servants who deliver it, and provide a narrative as to the stewardship of public funds.

The Treasury's ministers

The Chancellor of the Exchequer and First Secretary of State, the Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is accountable to Parliament for all the policies, decisions and actions of the department, its Non Departmental Public Bodies and its arm's length bodies. While Treasury civil servants may exercise the powers of the Chancellor, the Chancellor remains responsible to Parliament for decisions made under his powers.

Within the Treasury the Chancellor has chosen to devolve responsibility for a defined range of departmental work to 5 ministers whose responsibilities can be found on pages 10 and 11.

The Treasury Board and its committees

The Treasury Board is the most senior of the department's oversight committees. Chaired by the Chancellor of the Exchequer in his role as lead minister in the department, it draws together ministerial and civil service leaders with experts from outside government. The Board provides support and challenge on the effective running and long term strategy of the Treasury as well as on the department's performance and risk management, and progress against delivery of its objectives and priorities.

While the Board does not decide policy or exercise the power of Treasury ministers it does advise on the operational implications and effectiveness of policy proposals and reflect on strategic plans. It also provides an opportunity for ministers, officials and non-executives to discuss the service the department provides to the ministerial team.

Although the Board did not meet during 2014-15, it delegated responsibility for oversight and scrutiny of the department to its Sub-committee, made up of the Non-Executive and the Executive Management Board. The Chancellor discussed the performance and effectiveness of the department when he met with both Baroness Hogg and the Permanent Secretary on several occasions.

Separately, to ensure departmental focus is in line with the long term strategy and priorities of all Treasury ministers, the Strategy Planning and Budget group run an exercise, at least quarterly, to confirm and cascade the department's collective priorities and pressures. This engages all 14 departmental groups and all Treasury ministers.

Membership of the Treasury Board at 31 March 2015 was as follows:

Ministerial members:

- Rt Hon George Osborne MP – Chancellor of the Exchequer (Chair)
- Rt Hon Danny Alexander MP – Chief Secretary to the Treasury
- David Gauke MP – Financial Secretary to the Treasury
- Andrea Leadsom MP – Economic Secretary to the Treasury
- Priti Patel MP – Exchequer Secretary to the Treasury
- Lord Paul Deighton – Commercial Secretary to the Treasury

Executive Board members:

- Nick Macpherson – Permanent Secretary
- John Kingman – Second Permanent Secretary
- Dave Ramsden – Chief Economic Adviser
- Kirstin Baker – Group Director, Finance

Non-Executive Board members:

- Baroness Sarah Hogg (Lead Non-executive) – Chairman for the Audit Committee for John Lewis Partnership; National Director for Times Newspapers; Trustee for the Lincoln Heritage Trust; Non-Executive Director BG Group; Member for the Takeover Panel
- Dame Amelia Fawcett – Chair of the Hedge Fund Standards Board; Non-Executive Director of State Street Corporation (Boston Massachusetts, USA); Non-Executive Director, Deputy Chair of Investment AB Kinnevik Stockholm Sweden); Chair of the Prince of Wales' Charitable Foundation; Non-Executive Director, Millicom International Cellular S.A.
- Michael O'Higgins (Chair of Audit Committee and Non-Executive Board member of HM Treasury – until 30 Sept 2014); Chairman, NHS Confederation; Non-Executive Director, Network Rail; Chairman, Investec Structured Products Calculus VCT plc
- Richard Meddings (from 1st July 2014). Non-Executive Director, Legal & General plc (December 2014 to current); Main Board Director (2002-2014) and Group Finance Director (2006-2014) Standard Chartered PLC. Non-Executive Director of 3i Group plc (2008-2014); Financial Reporting Review Panel in FRC and Board member of International Chambers of Commerce UK (2007 to current)

Changes to Board membership

Over the course of 2014-15 the Board membership changed due to Ministerial changes and some members leaving the Treasury.

On 9 April 2014 Sajid Javid MP left the Treasury to become Minister of State for the Department of Culture, Media and Sport. Nicky Morgan MP became the Rt Hon Nicky Morgan on her move to the role of Financial Secretary to the Treasury, and Andrea Leadsom MP joined the department as Economic Secretary to the Treasury and City Minister.

On 14 July 2014 the Rt Hon Nicky Morgan left the Treasury to become Secretary of State for Education. David Gauke MP moved from Exchequer Secretary to Financial Secretary and Priti Patel MP joined the ministerial team as Exchequer Secretary to the Treasury.

The Ministerial members of the Board changed again post year end, following the May 2015 general election and information on the Treasury's current ministerial team and their responsibilities can be found on page 10 and 11.

Michael O'Higgins' second term as a Non-Executive Board Member came to an end on 30 September 2014.

On her departure from the Treasury on 27 February 2015, Second Permanent Secretary Sharon White stepped down from the Board.

Treasury Board (Sub-committee)

The main Sub-committee of the Board is made up of the Non-Executive Board Members and the Executive Management Board,[1] joined by Edward Troup, the Tax Assurance Commissioner and Second Permanent Secretary at HMRC. Edward sits on the Sub-committee in a non-executive capacity to strengthen the relationship between the two departments.

The Sub-committee meets to consider the department's performance and key risks, and will also meet on an ad-hoc basis to discuss specific policy or Treasury Group related issues. They met 4 times in 2014-15, accepting apologies from Nick Macpherson, Edward Troup, Indra Morris, Charles Roxburgh and Kirstin Baker on 8 May 2014; Edward Troup and Julian Kelly on 31 July 2014; Mark Bowman on 6 November; and Sharon White and Kirstin Baker on 12 February 2015.

Over the year, the Boards considered a broad range of the policy and corporate issues facing the Treasury, including: departmental policy priorities and pressures; performance and risk management; Board effectiveness; Building a great Treasury; the Scotland Analysis programme; Europe; housing; strategic partnership; oversight of the Office for Budget Responsibility; recruitment and retention; capital markets; and the Treasury's working relationship with HMRC.

Nominations Committee

The Non-Executives meet with the Permanent Secretary in a closed session to consider senior succession planning within the department, and review the systems in place to identify and develop leadership potential. These meetings, which also consider the performance and remuneration of the senior management team, are known as Nominations Committee meetings.

The meetings of this small committee occur in advance of mid and end year performance appraisals and the Director of Corporate Services may be asked to attend. The Nominations Committee met twice in 2014-15 on 6 November 2014 and 12 February 2015. No apologies were received for either meeting.

Treasury Group Audit Committee

The Audit Committee supports the Permanent Secretary and his Additional Accounting Officers in their responsibilities for managing risk, control and governance. Members of the Committee

[1] The Executive Management Board is the Treasury's senior management team. See page 13 for further information.

are appointed by the Permanent Secretary. The Chair, who reports directly to the Permanent Secretary, is also a Non-Executive Member of the Treasury Board.

The membership of the Committee at the close of 2014-15 was:

- Richard Meddings (from 1st July 2014)[2]
- Mike Ashley – Non-Executive Director, and Audit Committee Chairman, Barclays Plc.; Board membership (and Chair of Audit and Risk Committee) of the Charity Commission; and Chair of the Government Internal Audit Agency (GIAA) Board. Previously Head of Quality and Risk Management and Board Member, KPMG Europe LLP
- Mary Hardy – Audit Committee Member, Institute of Chartered Accountants in England and Wales; Non-Executive Member, Defence Audit Committee; Non-Executive Member of the Board of the Royal Navy, and Chair of its Audit Committee
- Abhai Rajguru – Non-Executive Director, Leeds Building Society; Chairman, Alexander Rosse; Managing Partner, Pravara Capital LLP; Non-Executive Director, Tollers LLP; Governor, Northampton College

The Committee met 5 times in 2014-15, taking the opportunity for pre-meeting discussions with the National Audit Office on each occasion. The Chair of the Committee changed during the reporting period. Richard Meddings took over as chair from Michael O'Higgins before his departure at the end of his second term in September 2014.

Apologies were received from Mary Hardy for the May 2014 meeting and Mike Ashley for the March 2015 session.

Over the course of the year, as well as scrutinising the Treasury's financial management and balance sheet risks, the Audit Committee considered a wide range of issues relating to the department's framework of governance, risk management and control, including: Internal Audit planning; analytical models; corporate memory; arm's length bodies; the move to a new IT contract; the delivery of the 5 additional Accounts managed by the Treasury;[3] and additional work undertaken by Internal Audit on Purchase to Pay, Data Mining and Correspondence.

The role of Non-Executive Board Members

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

The Permanent Secretary and senior civil service

The Permanent Secretary of the Treasury, Nick Macpherson, is also its Accounting Officer. He is responsible and accountable to parliament for the organisation and management of the department, including its use of public money and stewardship of assets. He also has overall responsibility for the delivery of the aims and priorities of ministers and the decisions and actions taken by Treasury officials.

[2] For Richard Meddings' biography, please see page 36.

[3] Consolidated Fund; National Loans Fund; Contingencies Fund; Exchange Equalisation Account; Whole of Government Accounts.

Should he ever be directed by the Chancellor to take responsibility for the delivery of an aim, priority or action he believes is contrary to the principles of *Managing Public Money*[4] (the main guidance for Accounting Officers) he may seek a written direction to continue. No written directions have been sought in the Treasury during 2014-15, or indeed, through the life of the parliament.

John Kingman, Second Permanent Secretary, has oversight of the economics ministry functions of the Treasury, including financial services, growth and infrastructure, and co-chairs the Major Projects Review Group.

There are 5 Directors General (DG) in the Treasury who act as senior policy advisers to the Chancellor on specific areas: Mark Bowman, DG International and EU; Dave Ramsden, Chief Economic Advisor; Charles Roxburgh, DG Financial Services; James Bowler, DG Tax and Welfare; (appointed March 2015) and Julian Kelly, DG Public Spending and Finance (appointed in June 2014).

The Treasury is divided into 14 Director-led groups. Each Director has responsibility delegated to them from the Executive Management Board for the delivery of policy and management of risk within their group. They are also responsible for ensuring any policy or operational risks in their groups are shared across the department to help actively manage the cross-cutting risks facing the Treasury. The group structure and split of responsibilities as of 31 March 2015 can be found on page 13 of this report.

The Treasury's executive committees

The DGs and Permanent Secretaries make up the senior management team for the department, known as the Executive Management Board (EMB). They are joined on EMB by the Directors for Finance, Corporate Services, and Strategy, Budget and Planning, and this executive team take personal and corporate responsibility for the operational success of the department.

Indra Morris served as Director General, Tax and Welfare until she left the Department on 20 March 2015. Following an open competition James Bowler was announced as her successor at the end of March 2015.

Katherine Green was appointed as Corporate Services Director in December 2014 following the departure of Alison Cottrell.

EMB meets once a week to discuss corporate and policy issues, focusing its time on the management and coordination of the department as a whole. EMB also meets regularly for additional session where members will consider the strategic direction of specific Treasury policy areas.

An annual business planning process, overseen by EMB and cleared by Ministers, sets the department's priorities for the year ahead – focusing on the Treasury's core functions, ministerial priorities, and identified risks. The Board also ensures delivery against the department's work programme and allocates resources efficiently and effectively.

The **Strategy and Capability Board** (SCB), is a sub-committee of EMB established to support the senior management team in enhancing the department's strategy, delivery and capability. Members are the Directors for Finance, Corporate Services and Strategy, Budget and Planning, alongside the Second Permanent Secretary and the Director of Public Services. SCB meets fortnightly to discuss operational matters.

The **Investment Approvals Committee** (IAC), is a further sub-committee of EMB and will provide financial, commercial and business case approval for expenditure over £1 million.

[4] https://www.gov.uk/government/publications/managing-public-money

The Executive Management Board has 3 sub-committees looking specifically at risk. The **Economic, Fiscal and Operational Risk Groups** report directly to the Board and are each chaired by an EMB member.

The Treasury has demonstrated its commitment to diversity and inclusion by having an EMB level Diversity Champion for over 10 years. This year EMB built on this commitment by setting up the **Diversity and Inclusion Board** as a formal sub-committee of EMB. Chaired by Dave Ramsden, and with a Director level vice chair, the board meets monthly.

Additional Accounting Officers

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

Following Sharon White's departure from the department Julian Kelly was appointed as Accounting Officer for Whole of Government Accounts. Julian, on his arrival to EMB, had already taken on the Accounting Officer role for the Contingencies Fund.

Account name	Accounting Officer	Notes
Consolidated Fund (CF)	Nick Macpherson	The CF was first set up on 1787 and is akin to government's current account. It receives the proceeds of taxation and other government receipts.
National Loans Fund (NLF)	Nick Macpherson	The NLF was established in 1968 and is akin to the government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office and National Savings and Investments
Contingencies Fund	Julian Kelly	The Contingencies Fund is used to finance payments for urgent services in anticipation of parliamentary agreement and to provide funds temporarily to departments for working balances or meet other temporary cash deficiencies. All advances from the Fund must be repaid and where practical are recovered in the same financial year.
Exchange Equalisation Account (EEA)	Dave Ramsden	The EEA was established in 1932 to provide a fund that could be used, when necessary to regulate the exchange value of sterling. It holds, amongst other assets, the UK's reserves of gold and foreign currency assets and comprises the UK's official holdings of international reserves.
Whole of Government Accounts (WGA)	Julian Kelly	The WGA consolidates the audited accounts of around 4000 public sector organisations to produce a comprehensive, accounts based picture of the financial position of the UK public sector.

Group Internal Audit

Chris Wobschall, Group Head of Treasury Group Internal Audit, has provided an annual report on the adequacy and effectiveness of the Treasury Group's framework of governance, risk management and control to the Accounting Officer and Audit Committee.

In April 2013 the Group Internal Audit team became part of the cross-Whitehall Internal Audit Service (XDIAS), which in October 2014 became known as the Government Internal Audit Agency (GIAA), a shadow agency of the Treasury. In April 2015 GIAA became a full Executive Agency of the department.

The Treasury's Audit Committee challenged and approved the Internal Audit work programme throughout the year.

The Corporate Governance Code

As part of the preparation of this annual report, the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code[5] and is assured it complies fully with the principles of the Code.

The Treasury Board's terms of reference commits to the Board to meeting up to 4 times a year at the discretion of the Chair. While it has not been possible for the Board to meet during the 2014-15 financial year the commitment to remain compliant with the Corporate Governance Code remains.

In September 2013 the Permanent Secretary appeared before the Treasury Select Committee to explain the governance structure and arrangements practised by the Treasury. He emphasised the role of the Lead Non Executive Board member, who has been empowered to report direct to the Chancellor on the performance of the department. He went on to discuss the nature of the relationship between Treasury ministers, executives and non-executives which means there are many opportunities to discuss the performance of the Treasury without calling a full board.

Challenges met by the department in 2014-15

To draw together this section, consideration has been given to the four main areas in which the department has faced challenges over the course of the financial year: those which are faced by every government department; those which the Treasury has set itself in order to continually improve; those which the department face in partnership with others; and those which are driven by the Treasury's role as the UK's economics and finance ministry.

Departmental challenges

While delivering its priorities, the department must balance its responsibilities as a finance and economics ministry while living within its own spending review settlement. A firmly established annual **business planning process** is managed systematically by the Executive Management Board, in consultation with ministers, and produces an agreed work programme. Progress against the plan is monitored on a quarterly basis, alongside an assessment of risks to delivery.

Recognising that the financial crisis has receded and after reflecting on the challenges facing the department (including the size and shape of the senior management team), the Permanent Secretary decided to make changes to the **senior management structure** of the department and move to a single second permanent secretary model. This took effect at the end of February 2015.

Strong external challenge is essential to every department and to ensure there is sufficient expertise in all areas of the Treasury remit, the Non-Executive Board Member and Chair of Audit Committee recruitment sought financial experience relevant to the complexity of the department's Annual Report and Accounts. To ensure a smooth handover and good understanding of the departments needs there was a 3 months handover period and both Michael O'Higgins and Richard Meddings attended the September 2014 Audit Committee meeting.

In May 2010 the Prime Minister wrote to all government departments instructing them to become **more transparent and open** by releasing data on finance, resources and procurement in an open, regular and re-useable format. The Treasury publish regular monthly returns on i.e. spend data over £25k, government procurement card data, senior officials travel reports, travel hospitality and workforce management information. During the year, as part of

[5] https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments

our commitment to increase transparency, the Treasury asked group directors to consider what further data sets could be published and now publishes more information than it did last year.

The Treasury sets itself high standards on quality, quantity and timeliness of its **correspondence responses**. In the calendar year 2014, Treasury Ministers replied to 8,242 letters from MPs on behalf of their constituents. Only 52% of cases were answered within the Treasury's own 15 working days deadline, a decrease of 20 percentage points on 2013. A Director led improvement plan has been put in place to improve performance in 2015.

In February 2015, a clerical error meant that incorrect information regarding an ongoing regulatory decision by the Prudential Regulatory Authority was included in replies to a number of correspondence cases, and sent out under electronic signature. In response, a review was undertaken, led by a non-executive director, and supported by Internal Audit. The recommendations from the review will be implemented to ensure there is no recurrence of this error.

Recognising the need to be aware of and respond to **security threats** EMB is regularly briefed on, and discusses, the protective security threats to the Department and how it should minimise the risks. During this year the focus has been on:

- **cyber security threats**, in particular balancing cyber security restrictions with the drive to open up access to the internet and allow staff to use productivity enhancing applications. The Board is always mindful of ensuring its sensitive information is secure and staff work within the Civil Service Code. During the last year the US government Central Command's Twitter and YouTube accounts were hacked and the lessons learned from those incidents were implemented within Treasury
- **physical security** to ensure that the Treasury estate is appropriately protected in the light of the increased threats from self-organised groups and individuals
- improving business continuity and incident management preparedness. The Board participated in a **business continuity** exercise in December 2014 and lessons learned from that event are being implemented to improve the Departments business continuity preparedness

A briefing on all aspects of protective security is included in the departmental induction course and there is an annual requirement for all staff to complete the appropriate level of 'Responsible for information' e-learning training. Additionally, there is comprehensive guidance on all aspects of security on the departmental intranet and prompts on specific security topics are regularly broadcast as intranet new items and notices.

The Treasury routinely monitors and assesses its information and security risks in order to identify and address any weaknesses; security breaches are reported monthly to Directors. No protected personal data incidents were recorded in the department during 2014-15.

The department reviews its internal controls, processes and systems regularly and this was supplemented by an internal audit investigation of core systems following an **attempted fraud** in September 2014 whereby organised criminals attempted to establish a false bank account for a genuine supplier. The Audit Committee and EMB considered the issues raised by this incident and additional training for staff and improved processes have been put in place. The Treasury Group Director of Finance has provided assurance on the current processes.

Improvement challenges

The Treasury strives for continuous improvement, in its policies, organisation and staff. The **Departmental Improvement Plan**, *Building a great Treasury*, was launched in September 2014 and highly praised by the Cabinet Secretary during his challenge session with the department. It outlines targeted actions focussing on professionalising what the Treasury does and EMB actively monitor the progress of the actions.

By valuing and promoting training, the department shows staff it appreciates the department's strength comes from the calibre of its people and their **continuous professional development**. During the year the department has delivered both structured and unstructured training ranging from mandatory training on unconscious bias training and information security e-learning, to the professional development of staff via programmes such as Prospects and Catalyst.

The department introduced a more **planned approach to graduate recruitment** in 2014-15. It implemented a programme of university outreach alongside a national graduate recruitment campaign, which included a stand-alone recruitment website, bespoke branding, a series of visits and talks to ten universities, and online contact with the wider graduate population. The campaign attracted more than 1,700 applicants and led to over 80 offers of employment. Alongside this, the Apprenticeship scheme expanded and recruited 25 apprentices.

In line with **delivering better technology for government** from a wider variety of suppliers and ensuring value for money, the department moved from a single supplier for its IT services to a multi-supplier model. The procurement successfully engaged Small and Medium Enterprises (SMEs) and the department successfully transitioned to new services on time. The new multi-supplier model provides better performance and future flexibility along with reducing technology running costs by a third. In rolling out the latest mobile technology to all staff and providing new faster open Wi-Fi to all government staff and guests in our building, the department has ensured it remains at the front of the civil service reform agenda.

To ensure the **quality assurance of the Treasury's analytical models** is appropriate, the department continues to embed the recommendations of the Review of quality assurance of government analytical models and contributed to the one year on report which was published in March 2015. The Treasury also contributed to/led on publication of model quality assurance guidance, the Aqua Book, which is a cross government resource.

Updates on the ongoing quality assurance of models are provided to EMB twice yearly. Every business critical model is assigned a senior responsible owner (SRO). Each model SRO has reported on the quality assurance that has been applied to their model and has confirmed that, in their opinion, the quality assurance applied is appropriate and the model is either fit for purpose or will be when its development is complete. A further review of models used in wider Treasury business is due to complete in June 2015 and the recommendations will be taken forward over the course of the financial year.

Recognising the need to ensure ongoing effectiveness within the Group, the Treasury announced in May 2014 that Christine Farnish would lead an independent review into the **Money Advice Service** (MAS). The final report, published in March 2015 alongside the Government's response, found that MAS had made strong progress on debt advice since 2012 (and announced an additional £1 million each from the energy and water sectors to contribute towards debt advice), but sought continued improvement on MAS's wider approach, taking in to account developments in the provision of consumer financial guidance.

MAS and the Financial Conduct Authority (FCA) have committed to work together to address questions raised by the review about MAS's current focus and delivery models and the way MAS is run. Recommendations are due to be submitted to the Government in autumn 2015, and the Government has committed to set out next steps, (including any further legislative changes to MAS) before the end of the year.

Shared challenges

National Savings & Investments (NS&I) has been delivering the **Equitable Life Payment Scheme** on the Treasury's behalf. As of 31 May 2015 over £1 billion worth of payments had been issued to 902,508 policyholders. This means that 86% of policyholders have been sent their payment. Payments continue to be made and, as set out by the Financial Secretary to the Treasury in October 2013, the Payment Scheme is due to close in 2015.[6]

The Treasury also worked with NS&I to deliver the market-leading 65+ "Pensioner" Bond. 65+ Bonds have proven to be one of the most popular retail savings products ever launched, with over one million savers investing over £13 billion collectively. NS&I took a number of steps to prepare for the launch, including deploying around 730 additional members of staff, but in spite of these demand immediately reached unprecedented levels. Shortly after sales opened of 15 January, the NS&I website went offline for a short period. This was fully resolved overnight but added to very high call volumes which put considerable pressure on NS&I's call centres.

NS&I responded by quickly bringing in further staff and introducing an alternative sales process so that additional call handlers who did not have access to NS&I's transaction systems could still take calls and send out application forms, enabling customers to apply by post and have their interest paid from the date of their call.

Complaints from customers around launch were taken very seriously but overall numbers were low when set against the sales volumes. Over the four months that the Bonds were available, NS&I handled over 575,000 web sales and 245,000 phone sales in addition to postal applications. The bonds remained on sale until 15 May 2015, giving everyone who qualified and who wanted to invest, the opportunity to do so.

The department has continued to move into new areas of delivery during the last year and in 2014-15 it undertook the launch and delivery of **Pension Wise**, a new service to provide free and impartial guidance on pension choices. The service is delivered in partnership with the Pensions Advisory Service and Citizens Advice, Citizens Advice Scotland, Citizens Advice Northern Ireland and was in place for April 2015 when the pension freedoms came into effect.

Following one of the recommendations in the 2013 Financial Management Review, and in line with the Civil Service Reform plan to share services across Whitehall, the Treasury has set up an a single body responsible for the provision of all internal audit services to government departments. The **Government Internal Audit Agency** (GIAA) officially launched on 1 April 2015 as an Executive Agency of the Treasury, and was established in line with Managing Public Money and internal governance controls. GIAA ran in shadow form before its official launch, having been rebranded from the Cross Departmental Internal Audit Service (XDIAS) in October 2014.

A further recommendation of the 2013 Financial Management Review set a challenge to bring leadership of the Government Finance profession back to the Treasury. Julian Kelly, Director General, Public Spending and Finance, now has a **cross Whitehall leadership role to all finance professionals** and is responsible for driving up standards of financial management across Whitehall. He has a dotted line management relationship with the Directors and Directors General of finance in 17 departments and is responsible for ensuring that the finance community has the skills it needs to carry out its responsibilities.

Following the Prime Minister's announcement at the World Islamic Economic Forum in London in October 2013, the UK became the first country outside the Islamic world to issue sovereign Sukuk, the Islamic finance equivalent of bonds. **HM Treasury UK Sovereign Sukuk PLC** (the Special Purpose Vehicle solely owned by the government) subsequently issued the Sukuk on

[6] The HM Treasury 2014-15 Annual Account shows total payments made under the scheme, this is equivalent to payments cashed by recipients. The figures used above are the total payments issued which will be higher due to the natural time lag between issuance and redemption.

2 July 2014. £200 million of Sukuk certificates were sold to investors based in the UK and across major hubs for Islamic finance around the world. The certificates were priced in line with the yield on the equivalent maturity gilt and are due to mature on 22 July 2019.

Policy challenges

The **National Infrastructure Plan 2014**, published at Autumn Statement, set out a coherent vision for economic infrastructure in the UK, including delivery plans to 2020 in key sectors to provide transparency and clarity to investors and the supply chain on the Government's strategy to finance and deliver critical projects. The Plan set out a detailed strategy for coordinating and planning public and private investment in UK infrastructure and is underpinned by an infrastructure pipeline with over £460 billion of planned public and private investment to the end of the decade and beyond.

The **UK Guarantees Scheme** was implemented to avoid delays in infrastructure projects caused by shortage of long-term financing and to help infrastructure projects raise debt finance. The scheme uses the UK's sovereign credit rating to support infrastructure projects and it was extended in the 2013 Spending Review to 31 December 2016.

To date the Scheme has had more than 200 enquiries and currently has pre-qualified 40 projects. It has supported 19 projects (12 projects closed without the need for a guarantee, but Treasury provided an important backstop option for sponsors) that have now commenced construction and provided 6 guarantees and one standby refinancing facility totalling £1.7 billion. 4 guarantees totalling an estimated £907m were issued to infrastructure projects in 2014-15: the Mersey Gateway Bridge, the construction of ethane import terminal facilities at the INEOS refinery at Grangemouth in Scotland, a biomass combined heat and power (CHP) station in Speyside, and new facilities at Northampton University.

Given the impact on contingent liabilities, the UK Guarantee Scheme has been subject to scrutiny by the Treasury Board Sub-committee, the Executive Management Board and the Operational Risk Group. Additionally the National Audit Office have conducted an in-depth review of the scheme, publishing their findings in January 2015.

As part of its reform of the **Private Finance Initiative**, the government announced it would look to act as a minority equity co-investor in public private partnership projects implemented in accordance with **PF2 policy**, to increase transparency, to better align interests and encourage greater partnership working. The investments are funded by departments or procuring authorities and managed on a commercial basis by Infrastructure UK within the Treasury. During 2014-15 three investment agreements were signed, totalling £3.6m. These were made in the Education Funding Agency's Priority Schools Building Programme. Investment in a further three PF2 projects is currently expected during 2015-16.

The **Business Finance Partnership** (BFP) was set up in 2012 to increase the supply of capital to small and medium size enterprises (SMEs) through non-bank lending channels and, in the longer term, to help to diversify the sources of finance available to businesses. The Government's investment is matched with at least an equal amount from private sector investors, and lending is on fully commercial terms, including a return to the Treasury, with the Government having no role in individual lending decisions.

There are two strands to the Business Finance Partnership. The first strand, administered by the department, invested in funds that lend to medium sized businesses with a turnover below £500m. The second strand is administered by the Department for Business Innovation and Skills, and invests in non-traditional lenders that provide an alternative source of lending for small businesses with a turnover below £75m. The Treasury's assets were transferred to the British Business Investments Ltd, a company owned by the Department for Business Innovation and

Skills in June 2014 and ultimately the government Business Bank following its establishment later in 2014. The bank became fully operational in November 2014.

The Treasury had committed £863 million across 6 debt funds under the BFP Mid-Cap tranche, out of which £320 million had been disbursed leaving an outstanding commitment of £542.5 million at the date of transfer. The six investments were held by **Infrastructure Finance Unit Ltd** ('IFUL'), a public company limited by shares, which is 100% owned by HMT.

Recognising the continued importance of a healthy and growing housing market the Chancellor, in his 2014 Mansion House speech, announced that any mortgage lending limits introduced by the Bank of England would apply to all loans covered by the **Help to Buy mortgage guarantee scheme**. Following the Bank of England's introduction of a loan-to-income limit of 4.5 times on parts of lenders' mortgage lending, the rules for the Help to Buy: mortgage guarantee scheme have been amended to ensure that, from 1 October 2014, no new loans at or above 4.5 times borrowers' income can be included in the scheme.

At Budget 2015, the Government announced an expansion to the Help to Buy scheme with the **Help to Buy: ISA**. First time buyers who choose to accrue savings in a Help to Buy: ISA will be eligible for a government bonus of up to £3000, representing 25% of the balance in the savings account. The buyer will need to purchase a home in the UK with value capped at £450,000 for properties in London and £250,000 anywhere else in the UK. Existing rules will remain for cash ISAs and funds saved through the account will contribute towards an individuals' overall ISA cap. The Help to Buy: ISA bonus can be used in conjunction with the other Help to Buy schemes, Help to Buy: mortgage guarantee or equity loan.

The Help to Buy: ISA is designed to work with the grain of the existing ISA products and will be simple for savers to access and for savings providers to operate. The Treasury is working with banks and building societies in order to finalise the detailed scheme design and expect the Help to Buy: ISA to be available across many providers in the savings market from autumn 2015.

In December 2014, the **Funding for Lending Scheme** (FLS) was extended by one year to January 2016 to provide banks and building societies with continued certainty over the availability of cheap funding to support lending to small and medium-sized enterprises (SMEs). Launched in mid-2012, the scheme has contributed to a substantial fall in bank funding costs which have in turn fed through to improvements in credit conditions for households and businesses. Since January 2014, the FLS has incentivised only lending to businesses, following improvements in household credit conditions.

Budget 2013 announced the introduction of **Tax-Free Childcare** (TFC), a new policy to support parents in the decision to go out to work or work more, if they want to. The scheme, delivered in partnership with HMRC, will support up to 1.8m working families by providing up to £2,000 of child care support per child per year. TFC will be available through a simple online system to all eligible working parents, including the self-employed, with children up to 12 years old. The Childcare Payments Act, legislating for TFC, received Royal Assent in December 2014 and regulations have been laid. As announced on 1 July 2015, the Supreme Court has ruled that the government's proposals for delivering the scheme are lawful and TFC will be introduced from 2017. In the meantime, the current scheme Employer Supported Childcare will remain open to new entrants until TFC is launched.

As part of meeting its objective to reduce the national debt in this last year the Treasury has undertaken a programme of asset sales. In December 2014 the Chancellor set out the next stage of the government's plan to return **Lloyds Banking Group** to private ownership, and launched a trading plan to sell shares gradually into the market. The trading plan involves gradually selling shares in the market over time, in an orderly and measured way. As a result, over £12 billion has been raised from sales of Lloyds shares as at 2 July 2015, with the government's shareholding reduced to below 16%.[7]

Following a competitive sale process the government reached agreement for the sale of its entire interest in **Eurostar International Limited** for £757.1m in March 2015. Eurostar has, on closing of the sale of the Government stake, agreed to redeem HMG's preference share, which forms £172m of the final amount.

Statement by the Permanent Secretary

As Principal Accounting Officer, my review of the effectiveness of the system of control for 2014-15 was informed by assurances and feedback from executive managers across the Treasury 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 Board Members, internal and external audit, and other bodies such as the Office of the Civil Service Commissioners.

In addition, a number of parliamentary committees, including the Public Accounts Committee (PAC) have called witnesses from across the Treasury Group on key issues such as the whole of government accounts, the effective management of tax reliefs, improving tax collection, the role of the centre of government, financial sustainability of local authorities, Universal Credit and managing debt owed to government. The Treasury welcomes the oversight, challenge and scrutiny this process provides, responds positively to the recommendations it receives and implements them where appropriate.

For example, the July 2013 PAC report on the Equitable Life Payment Scheme received a Government response (Treasury Minute) published in November 2013, with 1 recommendation implemented and an alternative solution to a further recommendation. An update to Treasury Minutes - implementing Government accepted recommendations (March 2015) indicated that 3 of the 4 remaining recommendations had been implemented, with the remaining recommendation to be implemented in February 2016. Further details about the Treasury's interaction with Parliamentary Committees can be found in the Directors' report.

Particular assurances have been provided by:

- the Chief Executives of the Debt Management Office, the Financial Services Compensation Scheme, UK Financial Investments Ltd, UK Asset Resolution and the Money Advice Service, and Accounting Officers of the Office for Budget Responsibility, the Office of Tax Simplification, the Royal Mint Advisory Committee and the Royal Household
- the Treasury's Executive Management Board
- the Group Finance Director
- the Deputy Chief Economic Adviser on the quality assurance of business critical Treasury models
- the Head of the Treasury Legal Advisors, who has advised on outstanding legal and regulatory issues
- the Group Head of Internal Audit, who has provided reports to me and the Audit Committee throughout the period on: Correspondence, Purchase to Pay, Data Mining; Cyber Security; and the effectiveness of the risk management,

[7] The HM Treasury 2014-15 Annual Account quotes the number of shares sold and total amount recovered as of 31 March 2015.

control and governance framework for the Treasury Group. The Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations

Alongside these assurances, I have placed reliance upon the Group Head of Internal Audit's view that, based on the internal audit work of his team throughout 2014-15, he is able to provide moderate assurance over the risk management, control and governance framework relevant to the annual report and 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 Governance Statement.

The Treasury Group Annual Accounts are audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out in Chapter 5. The cost of the external audit is set out in Note 7 of the Annual Accounts in Chapter 6.

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

I have considered the evidence that supports this Governance Statement and I am assured the Treasury has a strong system of controls to support the Department's achievement of its policies, aims and objectives. I therefore have no disclosures of control weaknesses to make for the 2014-15 financial year outside the disclosure relating to the attempted fraud in September 2014.

Nick Macpherson
Permanent Secretary
15 July 2015

3 Directors' Report

This directors' report brings together the disclosures required of the Treasury's senior management. These relate to the day to day execution of the Treasury's business and covers such issues as transparency and scrutiny; financial information; sustainable development.

It also includes certain disclosures regarding the cost of pensions and of audit.

Transparency and scrutiny

The Treasury prides itself on welcoming scrutiny, whether from internal audit, the National Audit Office, Members of Parliament or members of the public.

Scrutiny by Internal Audit

An annual internal audit plan for the department is developed through consultation with the Treasury's senior management team. The 2014-15 programme was agreed by the Audit Committee in March 2014, and endorsed by Nick Macpherson in his role as Accounting Officer. The Committee agreed minor changes to the plan throughout the year reflecting changes in HMT's assurance needs, and by 31 March 2015 Internal Audit had completed 20 audit reports and 7 pieces of advisory work for the department.

Scrutiny by the public

Scrutiny of the department by the public comes in many forms, from formal consultations on policy proposals to the Treasury's engagement on social media platforms.

The Treasury was the first government department to have an online presence (with a website launched in 1994) and now publishes almost daily on the gov.uk website. The department's Twitter account has passed 200,000 followers and at the time of publication is the largest in Whitehall after the Number 10 account.

However the most popular form of engagement between the department and the public is direct correspondence. The department replied to 21,361 letters and emails in 2014-15. 8,242 of these were letters responded to by ministers, 13,119 were either letters or emails that received a response from officials.

In 2014-15, the department received 1,716 requests for information which were handled under either the Freedom of Information (FOI) Act or the Environmental Information Regulations. The Treasury met the statutory response deadlines in 94% of these cases. This was a slight, 2%, drop in performance from 2013-14.

The department publishes its FOI publication scheme and a disclosure log detailing FOI responses on the gov.uk website under *Publications*, sub-section *FOI releases*.

Scrutiny by Parliament

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

The latest statistics show Treasury ministers responded on or before the parliamentary deadlines in relation to 84% of the 927 ordinary written questions; 57% of the 787 named day questions; and 93% of the 357 Lords written questions tabled to the department in the 2014-15 parliamentary session.

The comparatively positive figure for ordinary written questions reflects work within the Treasury to improve timeliness and quality.

While the disappointing performance in relation to named day questions reflects the very tight Parliamentary deadlines typically 48 hours from receipt, we are committed to making improvements this session.

The Treasury introduced an all-electronic management system to process PQs in October 2014. This system has now bedded in successfully and will enhance our performance in the 2015-16 session.

In addition to questions from individual Members of Parliament, the department is answerable to several Committees. In 2014-15, colleagues appeared at the following sessions.

House of Commons Treasury Committee

Date of Hearing	Subject
July 2014	SME lending
September 2014	HM Treasury Annual Report and Accounts 2013-14
December 2014	Autumn Statement
Dec 2014	The UK's EU Budget Contributions
Jan 2015	Scottish devolution
Mar 2015	Budget

House of Commons Committee of Public Accounts

Date of Hearing	Subject
April 2014	Tax Reliefs
May 2014	Debt owed to Government
May 2014	Equitable Life (follow-up report)
July 2014	Central Government Landscape Review
October 2014	Whole of Government Accounts
October 2014	Off Payroll (follow-up)
October 2014	Infrastructure Investment; impact on consumer bills - follow-up
December 2014	Universal Credit: follow-up
January 2015	Effective management of tax reliefs
February 2015	Wrap-up report on tax: stock take on progress since 2010

Parliamentary and Health Service Ombudsman

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

At the time of publication the PHSO had not yet published their review of government complaint handling during 2014-15. This review will confirm how many Treasury related enquiries were received by the PHSO, how many complaints were accepted for investigation and if any of these were upheld.

The Treasury will provide an updated report on the PHSO's scrutiny of the department in its mid-year report.

Independent scrutiny – the National Audit Office

The department welcomes the NAO's objective and independent commentary on its work and is diligent in responding to recommendations made in NAO reports.

During the year the National Audit Office completed and published the following reports specifically relevant to the department:

- Centre of Government (June 2014)
- UK Guarantees Scheme for infrastructure (January 2015)
- The choice of finance for capital investment (March 2015)
- Centre of Government: an update (March 2015)
- Report of the Comptroller & Auditor General: Whole of Government Accounts 2013-14 (March 2015)

As of 31 March 2015, the following value for money studies were ongoing:

- Central government staff costs (June 2015)
- Financial institutions in government (summer 2015)
- Land disposals (summer 2015)
- The sale of Eurostar (autumn 2015)

Workforce reporting

Sickness absence

Sickness absence in the Treasury continues to be low compared with the average for government departments. In the 12 month period to December 2014 the number of absence days lost decreased compared to the same period in the previous year.

Mental and behavioural disorders, (including stress, anxiety, depression and other clinical mental disorders) remain the primary cause of long term absence but this has fluctuated over the course of the year.

Average days lost

	Jan – Dec 2014	Jan – Dec 2013
Government departments	7.4	7.6
Treasury and its agencies	3.6	4.1
Core Treasury	3.6	3.9

Days lost (in Treasury) to mental and behavioural disorders

	Jan – Dec 2014	Jan – Dec 2013
Total days lost	1,213	980
Long term absences days lost	906	800
Short term absences days lost	307	180

Staff with no sickness absence

	Jan – Dec 2014	Jan – Dec 2013
Treasury and its agencies	67%	63%
Core Treasury	70%	65%

There were 12 *Accident, Near Miss or Work Related Ill Health* reports, compared to 7 in the previous year. The reports detailed 8 falls (4 of which were due to ill health), 2 trips, 1 scald, 1 for fingers trapped in a door. None of these incidents met the criteria for reporting to the Health & Safety Executive under the *Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.*

In July 2014-15 an external contractor undertook a fire risk assessment at the Treasury's Horse Guards Road. The recommendations made by the risk assessor have been implemented.

Off Payroll Engagements

All government departments and their arm's length bodies that employ individuals 'off-payroll' for more than 6 months must report to HM Treasury on the financial arrangement, to make sure it is transparent and that the individual is paying the right amount of tax and national insurance.

Details of the off-payroll engagements for the Treasury, the Debt Management Office, the Office for Budget Responsibility and UK Financial Investments Ltd are shown in Annex A

All existing off-payroll engagements reported in Annex A have been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax. Where necessary, that assurance has been sought.

Protecting information

The Treasury routinely monitors and assesses its information and security risks in order to identify and address any weaknesses; security breaches are reported monthly to Directors. No protected personal data incidents were recorded in the department during 2014-15.

Summary of Protected Personal Data Related Incidents formally reported to the Information Commissioner's Office in 2014-15

Date of Incident	Nature of Incident	Nature of Data involved	Number of people potentially affected	Notification steps
Treasury has no incidents to report during 2014-15				
Further action on information risk	The department will continue to monitor and assess its information risks in order to identify and address any weakness and ensure continuous improvement of its systems			

Summary of Other Protected Personal Data Related Incidents in 2014-15

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

Financial Aspects

Payment of suppliers

In May 2010, the government introduced a 5 day target for Small and Medium sized Enterprise (SME) suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2014-15, the Treasury Group made 68.05% of all supplier payments within 5 days against a target of 90% (2013-14, 83.05%). The department has recognised the decline in the performance and is investigating, with a view to reversing it and improving payment processes to meet the target.

Publicity and advertising

The Treasury's communications during 2014-15 focused on ensuring the public and stakeholders understood changes to government economic and fiscal policy. The department continues to pursue a low cost communications approach, making full use of media relationships and social media.

Treasury's core tables

The Treasury has prepared core finance tables in line with the PES (2014) 11[1] paper entitled 'Guidance on the preparation of the 2014-15 Annual Reports and Accounts' while pre-adopting some of HM Treasury guidance for 2015-16 on streamlining of accounts.

These tables

- compare 2014-15 outturn figures against the original and final DEL budgetary control limits
- summarise total expenditure by the department and its agencies,
- provide a detailed breakdown of budgetary changes and outturn for 2014-15
- provide a more detailed analysis of administration costs included in Table 5.B by type of expenditure and by body
- analyse the capital employed by the Treasury and its agencies and reconciles to the Statement of Financial Position in the Annual Accounts

These tables may be found in Annex D of this report.

2014-15 Common areas of spending (£million)

		2014-15	2013-14
Spend by Budget type[2]	Voted resource DEL outturn, sub-total	114	(253)
	Voted resource AME outturn, sub-total	(49,813)	6,268
	Other expenditure outside DEL and AME	–	–
	Total spend	(49,685)	6,015
Spend by type of internal operation	Cost of running the estate (net), sub-total	13.3	15.0
	Cost of running IT (net), sub total	7.5	6.7
	Cost of corporate services, sub-total	9.1	12.3
	Policy and policy implementation, sub-total	92.6	(274.2)
	Other costs	–	–
	Total spend	122.5	(240.2)
Spend by type of transaction	Procurement costs, sub-total	91.2	83.8
	People costs, sub-total	69.8	67.2
	Grants, sub-total	52.2	38.8
	Other costs	15.4	–
	Total spend	228.6	189.8

[1] https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

[2] The control totals voted in Parliament and set out in the Department's Supplementary Estimates (https://www.gov.uk/government/collections/hmt-supplementary-estimates) are set for the HM Treasury Group on an eliminated basis to take account of transactions between group bodies.

When considering the HM Treasury group as a whole, expenditure reported against these control totals takes account of eliminations between Group bodies. Figures presented above, however, exclude the expenditure that would otherwise be reported for FSCS, MAS, Sovereign Grant and UKAR. This ensures that reporting is in-line with Quarterly Data Summary returns.

Staff pension costs

Staff pension costs are primarily employer contributions. The Treasury group pays contributions to the Principal Civil Service Pension Scheme (PCSPS). In addition, the FSCS, MAS, UKFI and the Royal Household operate defined contribution schemes. FSCS and Royal Household also operate defined benefit schemes. UKAR operates a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, defined contribution pension plans and post-retirement healthcare benefits. Full details can be found in Note 6.3 of the Annual Accounts.

Conflicts of interest

The register of ministers' interests are held by Parliament. Non-executive board members' interests are set out in this document. No executive members of the Board have flagged company directorships or other significant non-ex that may conflict with their management responsibilities. Relevant information is held by the department in a central register alongside mitigation measures taken.

Auditors

The Comptroller and Auditor General carries out the audit of the consolidated accounts of the Treasury Group.

These audits are conducted under the Government Resources and Accounts Act 2000, at an annual cost of £700,000 (2013–14, £753,000), of which £402,000 is notional.

The National Audit Office also performs other statutory audit activity, including value-for-money and assurance work. This totalled £9,000 in 2014-15.

Nick Macpherson
Permanent Secretary
15 July 2015

Statement of Accounting Officers Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the department to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2014 numbers 531 and 3314 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at Note 37 to the Annual Accounts).

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

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

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

HM Treasury has appointed the Permanent Head of the department as Accounting Officer of the department.

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

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

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

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

Nick Macpherson
Permanent Secretary
15 July 2015

4 Remuneration Report

The remuneration report covers the salaries, benefits and pension arrangements of ministers and senior managers. In particular, it provides detailed information on individuals' total remuneration including performance-related pay.

It also includes information on additional ministerial salaries borne by the Treasury and the fees received by Non Executive Board Members for their services.

Remuneration policy

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. It also advises the Prime Minister on the pay of the Senior Civil Service, including Permanent Secretaries. 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.

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

For the Permanent Secretary and Second Permanent Secretary, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining executive members of 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).*

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Further information about the work of the Civil Service Commissioners can be found at *civilservicecommission.independent.gov.uk*. The Permanent Secretary and Second Permanent Secretary are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. Other senior managers, including the Chief Executive of the DMO and Non-Executive Members of HM Treasury Board, are appointed by the Permanent Secretary.

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.

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

The following sections provide details of the remuneration and pension interests of the Ministers and most senior management (i.e. Board members) of the department. These disclosures have been subject to external audit.

Table 4.A: Ministers – single total figure of remuneration

Name	2014-15				2013-14			
	Salary and full year equivalent (FYE[1]) (£)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)	Total (nearest £1,000)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)	Total (nearest £1,000)
George Osborne Chancellor of the Exchequer	67,505	6,800[2]	22,000	96,000	68,169	6,800[2]	25,000	96,000
Danny Alexander[3] Chief Secretary to the Treasury	67,505	–	18,000	85,000	68,169	–	21,000	89,000
Sajid Javid Financial Secretary to the Treasury (to 8/04/14)	2,640 (FYE 31,680)	–	–	3,000	27,541	–	11,000	39,000
Nicky Morgan Economic Secretary to the Treasury (to 8/04/14) Financial Secretary to the Treasury (to 14/07/14)	10,327 (FYE 31,680)	–	2,000	13,000	11,046 (FYE 23,039)	–	4,000	15,000
David Gauke Exchequer Secretary to the Treasury (to 14/07/14) Financial Secretary to the Treasury (from 15/07/14)	29,004 (FYE 31,680)	–	10,000	39,000	23,039	–	8,000	31,000
Priti Patel[3] Exchequer Secretary to the Treasury (from 15/07/14)	15,289 (FYE 22,375)	–	6,000	21,000	–	–	–	–
Andrea Leadsom[3] Economic Secretary to the Treasury (from 9/04/14)	21,816 (FYE 22,375)	–	7,000	29,000	–	–	–	–
Lord Deighton[3] Commercial Secretary to the Treasury	N/A	–	N/A	–	N/A	–	N/A	–

[1] FYE – Full Year Equivalent.

[2] Relates to the full-year occupancy of the official Chancellor's residence and is capped at 10% of gross pay. The 2013-14 Benefit in kind has been restated due to an error in its calculation. A revised P11D form showing the correct figure was provided to the Chancellor.

[3] Following the general election in May 2015, Danny Alexander and Lord Deighton left HM Treasury. Priti Patel was appointed Minister of State for Employment at the Department of Work and Pensions and Andrea Leadsom was appointed Minister of State at the Department of Energy and Climate Change. The new ministerial team is comprised of George Osborne, Chancellor of the Exchequer; Greg Hands, Chief Secretary to the Treasury; David Gauke, Financial Secretary; Damian Hinds, Exchequer Secretary; Harriet Baldwin, Economic Secretary; and Jim O'Neill, Commercial Secretary.

Table 4.B: Senior management – single total figure of remuneration[4]

Name	2014-15					2013-14				
	Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)[5]	Total (£'000)	Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000) (Restated)[6]	Total (£'000)
Nick Macpherson[7] Permanent Secretary	180-185	15-20	–	N/A	200-205	180-185	0-5	–	20,000	200-205
John Kingman Second Permanent Secretary	155-160	0-5	–	23,000	180-185	155-160	0-5	–	35,000	190-195
Sharon White Second Permanent Secretary (to 27/02/15)	135-140 (FYE 150-155)	0-5	–	62,000	200-205	135-140 (FYE 135-140)	10-15	–	33,000	185-190
Mark Bowman Director General, International and EU	120-125	0-5	–	34,000	155-160	40-45 (FYE 120-125)	0-5	–	8,000	50-55
Dave Ramsden Chief Economic Adviser & Head of the Government Economic Service	125-130	0-5	–	27,000	155-160	125-130	0-5	–	53,000	180-185
Julian Kelly Director General, Public Spending & Finance (from 1/06/14)	95-100 (FYE 115-120)	10-15	–	137,000	245-250	–	–	–	–	–
Indra Morris Director General, Tax and Welfare (to 20/03/15)	125-130[8]	0-5	–	52,000	180-185	125-130	0-5	–	64,000	190-195

[4] Salaries and pensions relate to the Treasury Executive Management Board. They do not include DMO or arm's length bodies (UKFI, OBR, MAS, UKAR and FSCS).

[5] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

[6] Pension benefits figures are provided by MyCSP, which administers the PCSPS Scheme. The 2013-14 pension benefits for two members, Indra Morris and Alison Cottrell, have been restated following updated calculations from MyCSP.

[7] Nick Macpherson chose not to be covered by the Civil Service pension arrangements during the reporting year, as he opted out of the PCSPS Scheme in 2013-14.

[8] Indra Morris left the Board on 20 March 2015, but as part of her transfer to another government department, HM Treasury covered her full year's salary to 31 March 2015.

Name	2014-15					2013-14				
	Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)[10]	Total (£'000)	Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000) (Restated)	Total (£'000)
Charles Roxburgh[9] Director General, Financial Services	140-145	10-15	–	N/A	155-160	140-145	0 - 5	–	N/A	140-145
James Bowler Director, Strategy, Planning and Budget (to 20/03/15) Director General, Tax and Welfare (from 21/03/15)	105-110	10-15	–	72,000	185-190	95-100	0-5	–	18,000	115-120
Alison Cottrell Director, Financial Services and Corporate Services (to 8/12/14)	65-70 (FYE 95-100)	5-10	–	19,000	90-95	90-95	10-15	–	26,000	130-135
Katherine Green[11] Director, Corporate Services (from 9/12/14)	15-20 (FYE 50-55)	0-5	–	28,000	40-45	–	–	–	–	–
Kirstin Baker[12] Director, Finance and Commercial	50-55	0-5	–	26,000	75-80	50-55	0-5	–	90,000	140-145

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.

Pay multiples

	2014-15	2013-14
Band of Highest Paid Director's Total Remuneration (£'000)	200-205	180-185
Median Total (£)	40,193	38,619
Remuneration ratio	5.0	4.7

[9] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

[10] Charles Roxburgh does not participate in the PCSPS Scheme.

[11] Katherine Green works part-time at 0.6 FTE.

[12] Kirstin Baker works part-time at 0.6 FTE.

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

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

Remuneration ranged from £17,000 to £201,000 (2013-14, £16,000-£197,000). The highest paid director received remuneration of 5.0 times (2013-14, 4.7) the median remuneration of the workforce, which was £40,193 (2013-14, £38,619).

The banded remuneration of the highest-paid director in HM Treasury in the financial year 2014-15 was £200-205,000 (2013-14, £180-185,000). In 2014-15, no employees (2013-14, one) received remuneration in excess of the highest-paid director.

The increase in the remuneration ratio by 0.3 is due to the highest paid Director being awarded a discretionary bonus during 2014-15 which, when previously offered, he had chosen to forego. His aggregate remuneration, after taking into account pension contributions, was unchanged between 2013-14 and 2014-15.

Salary

'Salary' includes gross salary; performance pay or bonuses paid during the year (as detailed in table 6.B); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. As performance pay is awarded in arrears, the amounts payable, for performances during the 2014-15 financial year are not yet known and will, therefore, be disclosed in the 2015-16 accounts. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are also shown.

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 Director Generals 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.

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 (£67,060 from 1 April 2014) and various allowances to which they are entitled are borne centrally. Ministers in the House of Lords do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in kind

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 in Table 6a above for the Chancellor of the Exchequer relate to heating, lighting and other expenses of his official residence at 11 Downing Street which are chargeable to tax under s163 of the Income and Corporation Taxes Act 1988. The benefit in kind is capped at 10% of gross salary. 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, asit is not practicable to disclose individual amounts.

Additional ministerial salaries borne by HM Treasury

HM Treasury also bears the following ministerial salaries:

Table 4.C: Additional ministerial salaries

Official title	Name	2014-15 Salaries £000	2013-14 Salaries £000
Prime Minister	David Cameron	75-80	75-80
Chief Whip (Commons)	Michael Gove (from July 2014)	20-25	–
	Sir George Young (to July 2014)	5-10	30-35
Deputy Chief Whips (Commons)	Greg Hands	30-35	15-20
	Don Foster	15-20	5-10
Chief Whip (Lords)	Lord Taylor of Holbeach (from August 2014)	75-80	–
	Baroness Anelay of St John's (to August 2014)	45-50	115-120
Deputy Chief Whip (Lords)	Lord Newby	70-75	70-75
Lords in Waiting (8 posts, of which 3 unpaid)		455-460	425-430
Government and Assistant Government Whips (14 posts, of which 1 unpaid)		235-240	260-265

Lords in waiting continuing at 31 March 2015 included: Lord Ashton of Hyde, Baroness Garden of Frognal, Lord Bourne of Aberystwyth, Lord Gardiner of Kimble, Baroness Williams of Trafford, Lord Wallace of Saltaire, Lord Popat of Harrow, and Baroness Jolly.

Government and Assistant Government whips continuing at 31 March 2015 included: Anne Milton MP, Mark Lancaster MP, David Evennett MP, John Penrose MP, Gavin Barwell MP, Harriet Baldwin MP, Alun Cairns MP, Andrew Selous MP, Therese Coffey MP, Mel Stride MP, Ben Wallace MP, Damian Hinds MP, Tom Brake MP, and Lorely Burt MP.

Following the general election in May 2015, a government reshuffle took place. Further information on the new appointments to Her Majesty's Government, including Lords in Waiting and Government and Assistant Government Whips, is available on GOV.UK.[13]

[13] www.gov.uk/government/news/her-majestys-government-12-may-2015.

Pension benefits

Table 4.D: Treasury Ministers' pension benefits

Name	Accrued pension at age 65 as at 31/3/15 £'000	Real increase in pension at age 65 £'000	CETV at 31/3/15 £'000	CETV at 31/3/14 £'000	Real increase in CETV £'000
George Osborne Chancellor of the Exchequer	5-10	0-2.5	81	61	6
Danny Alexander Chief Secretary to the Treasury	5-10	0-2.5	74	58	5
Sajid Javid Financial Secretary to the Treasury (to 8/04/14)	0-2.5	0-2.5	12	12	–
Nicky Morgan Economic Secretary to the Treasury (to 8/04/14) Financial Secretary to the Treasury (to 14/07/14)	0-2.5	0-2.5	8	6	1
David Gauke Exchequer Secretary to the Treasury (to 14/07/14) Financial Secretary to the Treasury (from 15/07/14)	2.5-5	0-2.5	36	27	3
Priti Patel Exchequer Secretary to the Treasury (from 15/07/14)	0-2.5	0-2.5	4	–	2
Andrea Leadsom Economic Secretary to the Treasury (from 09/04/14)	0-2.5	0-2.5	6	–	4
Lord Deighton Commercial Secretary to the Treasury	N/A	N/A	N/A	N/A	N/A

Ministerial pensions

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).

Those ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of member contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

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 from age 65. Pensions are re-valued annually in line with Pensions Increase legislation. From 1 April 2014 members pay contributions between 8.4% and 17.9% depending on their level of seniority and chosen accrual rate.

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.

In line with reforms to other public service pension schemes, it is intended to reform the Ministerial Pension Scheme in 2015. The new scheme will be a Career Average pension scheme, have an accrual rate of 1.775%, revaluation based on the change in prices, a Normal Pension age equal to State Pension age and a member contribution rate of 11.1%.

Table 4.E: Senior management pension benefits

Name	Accrued pension at pension age as at 31/3/15 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/15 £'000	CETV at 31/3/14 (Restated)[14] £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (To the nearest £100)
Nick Macpherson[15] Permanent Secretary	N/A	N/A	N/A	1,266	N/A	–
John Kingman Second Permanent Secretary	40-45	0-2.5	526	484	10	–
Sharon White Second Permanent Secretary (to 27/02/15)	45-50 plus lump sum of 55-60	2.5-5 plus lump sum of 0-2.5	711	635	39	–
Mark Bowman Director General, International and EU	30-35 plus lump sum of 95-100	0-2.5 plus lump sum of 5-10	473	428	19	–
Dave Ramsden Chief Economic Adviser & Head of the Government Economic Service	40-45 plus lump sum of 130-135	0-2.5 plus lump sum of 2.5-5	777	719	18	–
Julian Kelly Director General, Public Spending & Finance (from 1/06/14)	30-35 plus lump sum of 30-35	5-10 plus lump sum of 5-10	445	340	82	–
Indra Morris Director General, Tax and Welfare (to 20/03/15)	25-30	2.5-5	276	235	21	–
Charles Roxburgh[16] Director General, Financial Services	N/A	N/A	N/A	N/A	N/A	N/A

[14] CETV figures are provided by MyCSP, which administers the PCSPS Scheme. The 2013-14 CETV figures for five members have been restated following updated calculations from MyCSP. The members affected are Sharon White, Dave Ramsden, Indra Morris, James Bowler and Alison Cottrell.

[15] Nick Macpherson chose not to be covered by the Civil Service pension arrangements during the reporting year, as he opted out of the PCSPS Scheme in 2013-14.

[16] Charles Roxburgh does not participate in the PCSPS Scheme.

Name	Accrued pension at pension age as at 31/3/15 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/15 £'000	CETV at 31/3/14 (Restated) £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (To the nearest £100)
James Bowler Director, Strategy, Planning and Budget (to 20/03/15) Director General, Tax and Welfare (from 21/03/15)	25-30 plus lump sum of 80-85	2.5-5 plus lump sum of 5-10	359	305	35	–
Alison Cottrell Director, Financial Services and Corporate Services (to 8/12/14)	25-30	0-2.5	384	353	13	–
Katherine Green Director, Corporate Services (from 9/12/14)	10-15 plus lump sum of 35-40	0-2.5 plus lump sum of 2.5-5	148	129	15	–
Kirstin Baker Director, Finance and Commercial	20-25 plus lump sum of 65-70	0-2.5 plus lump sum of 2.5-5	320	290	15	–

Civil Service pensions

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 Pensions Increase legislation. Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% 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 hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on 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% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (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% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

New Career Average pension arrangements will be introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme.

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

Cash Equivalent Transfer Values

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. 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 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer or, in the case of Ministers, the Exchequer. 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-Executive Board Members and Independent Members of the Audit Committee

Table 4.F: Fees

Name	2014-15 Fee range (£000)	2014-15 Benefits in kind (rounded to nearest £100)	2013-14 Fee range (£000)	2013-14 Benefits in kind (rounded to nearest £100)
Non-Executive Board Members:				
Richard Meddings (from 01/07/14)	10-15[17]	–	–	–
Michael O'Higgins (to 30/9/14)	5-10[17]	–	10-15[17]	–
Dame Deirdre Hutton (to 30/9/13)	–	–	0-5	–
Baroness Hogg	10-15	–	10-15	–
Amelia Fawcett	5-10	–	5-10	–
Independent Members of Audit Committee:				
Richard Meddings (Chair) (from 01/07/14)	–	–	–	–
Michael O'Higgins (to 30/9/14)	–	–	–	–
Mike Ashley[18]	5-10	–	5-10	–
Janet Baker (to 31/7/13)	–	–	0-5	–
Mary Hardy	5-10	–	5-10	–
Abhai Rajguru	5-10	–	5-10	–

Source: HM Treasury

In 2014-15 Baroness Hogg, Amelia Fawcett and Richard Meddings all donated their fees to charity.

Nick Macpherson
Permanent Secretary
15 July 2015

[17] In addition to their roles as Non-Executive Board Members, Richard Meddings and Michael O'Higgins also served on the Audit Committee during the year. They both received an uplift of £0-5000 to reflect their membership of the Audit Committee. The fees disclosed here reflect their total remuneration in both capacities.

[18] Mike Ashley was appointed as Non-Executive Board Member of the shadow Government Internal Audit Agency in 2014-15, an executive agency of HM Treasury that launched on 1 April 2015. His banded remuneration for the year in that capacity was £5,000-10,000.

5 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 and of its Departmental Group for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2014. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the 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, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2015 and of the Department's net expenditure and Departmental Group's net expenditure 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Please see my report on pages 73 to 100.

Sir Amyas C E Morse
Comptroller and Auditor General
17 July 2015

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

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

Summary

Scope of this report

1. This is my fifth report on HM Treasury's Annual Report and Accounts. The purpose of my report is to provide an overview of:

- the context in which I have carried out my audit of the Treasury's 2014-15 financial statements; and
- details of my assessment of audit risk arising from the Treasury's major financial stability and wider economic support schemes - this includes the approach I have taken to the risks that have been the focus of my audit effort.

Scope of financial audit

2. The purpose of an audit is to enhance the degree of confidence that intended users have in the financial statements. This is achieved by the expression of my opinion which reports whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. I also express an opinion on the regularity of the entity's income and expenditure (i.e. whether they accord with Parliamentary intention). Under the Government Resources and Accounts Act 2000, I am required to audit, certify and report on the financial statements of HM Treasury.

3. I applied the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. Appendix One gives more detail on my approach to determining materiality and the materiality levels applied to my audit of HM Treasury's financial statements.

4. My audit approach is risk based, informed by my understanding of HM Treasury's activities and my assessment of the risks associated with the financial statements. This focusses my audit on the areas of highest risk, such as those affected by significant accounting estimates or management judgement. These areas are defined as significant risks. The risk relates solely to the risk of material misstatement in the presentation of the financial statements or risk of material irregularity. This means a business or operational risk, on its own, is not sufficient to be considered a significant risk, although there may be overlap between the two.

5. I have identified three significant risks for my audit, which are set out in Part One and Two of this report. These are; the production of the Group accounts and the valuation of HM Treasury's loans to Icesave and UK Asset Resolution (UKAR):

- **Production of the Group accounts** – the consolidation process is complex, due to the differing activities of HM Treasury, UKAR and the Financial Services Compensation Scheme (FSCS). This means the format of the financial information underlying their accounts differs. HM Treasury has also introduced new processes and a new format for collecting consolidation information and so there is an increased inherent risk and level of challenge associated with the consolidation.

- **Valuation of HM Treasury's loan to Icesave** – this is subject to inherent uncertainty, as the assets from which the loan will be repaid are in Iceland and denominated in Icelandic Krona. There have been capital limits in place over Krona which have restricted repayment of the loan. Recoveries have consequently been less than forecast in recent years. The recoverability of the loan, and any associated write-down, is therefore subject to significant management judgement and represents a significant risk.
- **Valuation of HM Treasury's loan to UKAR and the mortgages supporting the loan** – the cash flows associated with repayment of mortgages raised by UKAR are subject to significant uncertainty, due to associated impairments. Though UKAR and the Office of Budgetary Responsibility have forecast full repayment, the valuation of HM Treasury's loan to UKAR, which is dependent on recovery of the underlying mortgages, is also uncertain and I therefore concluded that there is a risk that the loan may need to be impaired due to the timing of repayments from UKAR.

6. The other areas of the accounts are not deemed to represent significant risks for my audit. This is because their size is not material to the accounts or because their valuation is not subject to management estimation or judgement.

7. My audit opinion on the financial statements considers the regularity of transactions but does not consider whether HM Treasury's activities represent value for money. I have statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. In addition to the findings of my financial audit, this report draws on observations from my wider work on HM Treasury and reports to Parliament on my scrutiny of public spending.

Key findings

8. **The number of bodies within the scope of HM Treasury's financial statements continues to grow.** There continue to be two bodies in the group, in addition to HM Treasury, that are significant to my audit: FSCS and UKAR. The size of the group has increased during 2014-15 to include three new companies.[1] The group will continue to grow in 2015-16, to include the Government Internal Audit Service, which was formally launched on 1 April 2015; and the creation of UK Government Investments which will combine UK Financial Investments with the Shareholder Executive under the control of HM Treasury. This reflects HM Treasury's expanding operational responsibilities.

9. **The most significant changes to HM Treasury's financial stability schemes are repayment of loans of £2.2 billion; UKAR's sale of part of its mortgage book for £2.7 billion; and the £36.2 billion increase in the value of the Bank of England Asset Purchase Facility Fund derivative due to an increase in gilt prices, offset by cash transfers.** HM Treasury has also disposed of Lloyds shares, as part of the trading plan announced in December 2014. This raised proceeds of £1.7 billion in 2014-15. The main residual elements of HM Treasury's financial stability interventions are the loans to NRAM and Bradford & Bingley, valued at £34.3 billion and the investments in Royal Bank of Scotland, valued at £32.0 billion.

10. **HM Treasury continues to support the wider economy, with the expansion of the Help to Buy Mortgage Guarantee Scheme and the UK Guarantee Scheme.** The Help to Buy Guarantee Scheme will provide up to £12 billion of guarantees under the Scheme, making this a significant intervention by the UK Government in the housing market. However, as only

[1] HM Treasury UK Sovereign Sukuk plc – which issued £200 million of Sukuk (Islamic bonds); and two companies that will hold investments in the Private Finance 2 scheme, which is the successor to the private finance initiative.

£631 million of lending had been guaranteed at 31 March 2015, this is yet to be a significant element of HM Treasury's financial statements. Six guarantees have been issued under the UK Guarantee Scheme. These are valued at £113.5 million with an exposure of up to £884.6 million, excluding interest; HM Treasury has also provided a loan commitment of £750 million to the Greater London Authority in relation to the Northern Line extension to Battersea. So far no claims in relation to the guarantees have been received and HM Treasury has assessed that it is not probable that any guarantees will be called upon at 31 March 2015.

11. **HM Treasury continues to actively manage its Statement of Financial Position.** During 2014-15, HM Treasury received the transfer of the Department for Transport's holding in Eurostar, worth £325 million. It completed the sale of the holding for £757.1 million in May 2015. HM Treasury set up HM Treasury UK Sovereign Sukuk plc, a special purpose vehicle set up to issue the UK's first sovereign Sukuk (Islamic bonds), which issued £200 million Sukuk and has been designated for consolidation. The £328 million HM Treasury element of the Business Finance Partnership has been transferred to British Business Investments Limited, which is part of the Department for Business, Innovation & Skills. HM Treasury also received £1.4 billion of fines from the financial services industry in 2014-15,which are now accounted for in separate trust statement acccounts.

12. **HM Treasury's Statement of Financial Position will continue to fluctuate through 2015-16 and beyond.** HM Treasury's Statement of Financial Position will be affected by: continued sales of Lloyds Banking Group shares and of UKAR's mortgage book; the recently announced programme of sales of Royal Bank of Scotland shares; and the expansion of the Help to Buy programme to include the issuance of Help to Buy Individual Savings Accounts, which will provide enhanced savings options for first time buyers supplemented with government support. This reflects HM Treasury's continued drive to normalise the functions of the UK's financial sector while supporting the wider economy and is part of the government's wider plan to realise value from its assets following the May 2015 election.

Conclusions

13. I completed my audit in line with my planned audit approach and have issued clear opinions on HM Treasury's 2014-15 financial statements. In reaching these opinions I am satisfied that I have obtained sufficient appropriate evidence that the key risks I identified have not led to material misstatement in the financial statements. Further details of these risks can be found in the remainder of this report.

Part One

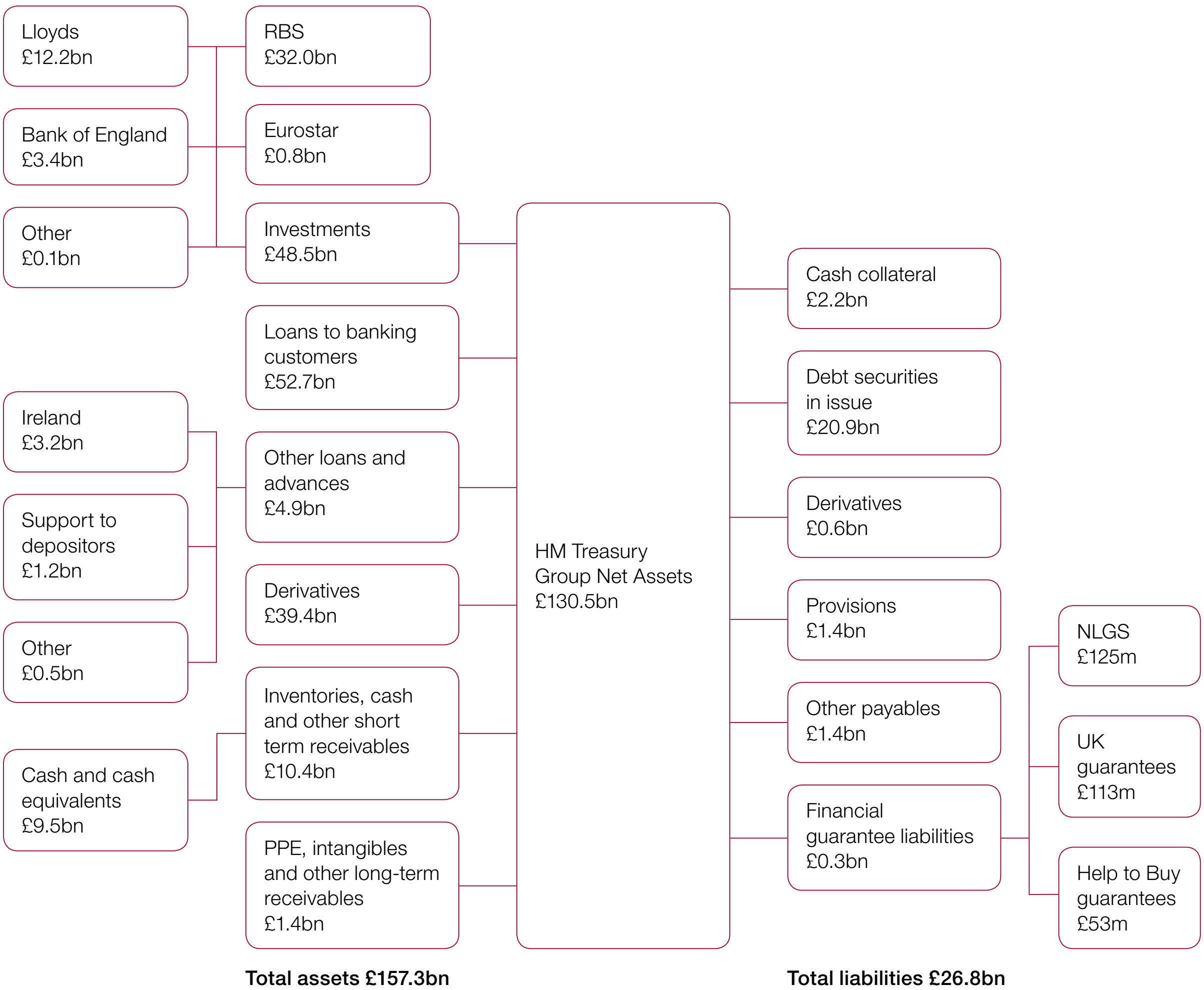
Context

1.1 HM Treasury (the Treasury) is the UK's economics and finance ministry with overall responsibility for public spending. The Treasury's financial statements show the Statements of Comprehensive Net Expenditure, Financial Position and Cash flows and Changes in Equity of the Treasury and the Debt Management Office (the parent) and all bodies within Treasury's departmental boundary (the group),[2] as defined by the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2014.

1.2 According to the Statement of Financial Position, the Treasury group has net assets of £130.5 billion (**Figure 1**).

Figure 1

HM Treasury Group Statement of Financial Position as at 31 March 2015



Notes

1 Other loans and advances are stated net of £34.3 billion of loans provided by the Treasury and FSCS to Bradford & Bingley and NRAM eliminated on consolidation.

2 Investments are stated net of the Treasury's £7.0 billion investment in UKAR eliminated on consolidation.

3 Deposit guarantees are stated net of £391m provided by the Treasury to Bradford & Bingley and NRAM eliminated on consolidation.

4 Contingent liabilities of £13.3 billion (£8.9 billion of which are eliminated on consolidation) of financial guarantees are disclosed in the accounts but not recognised in the Statement of Financial Position.

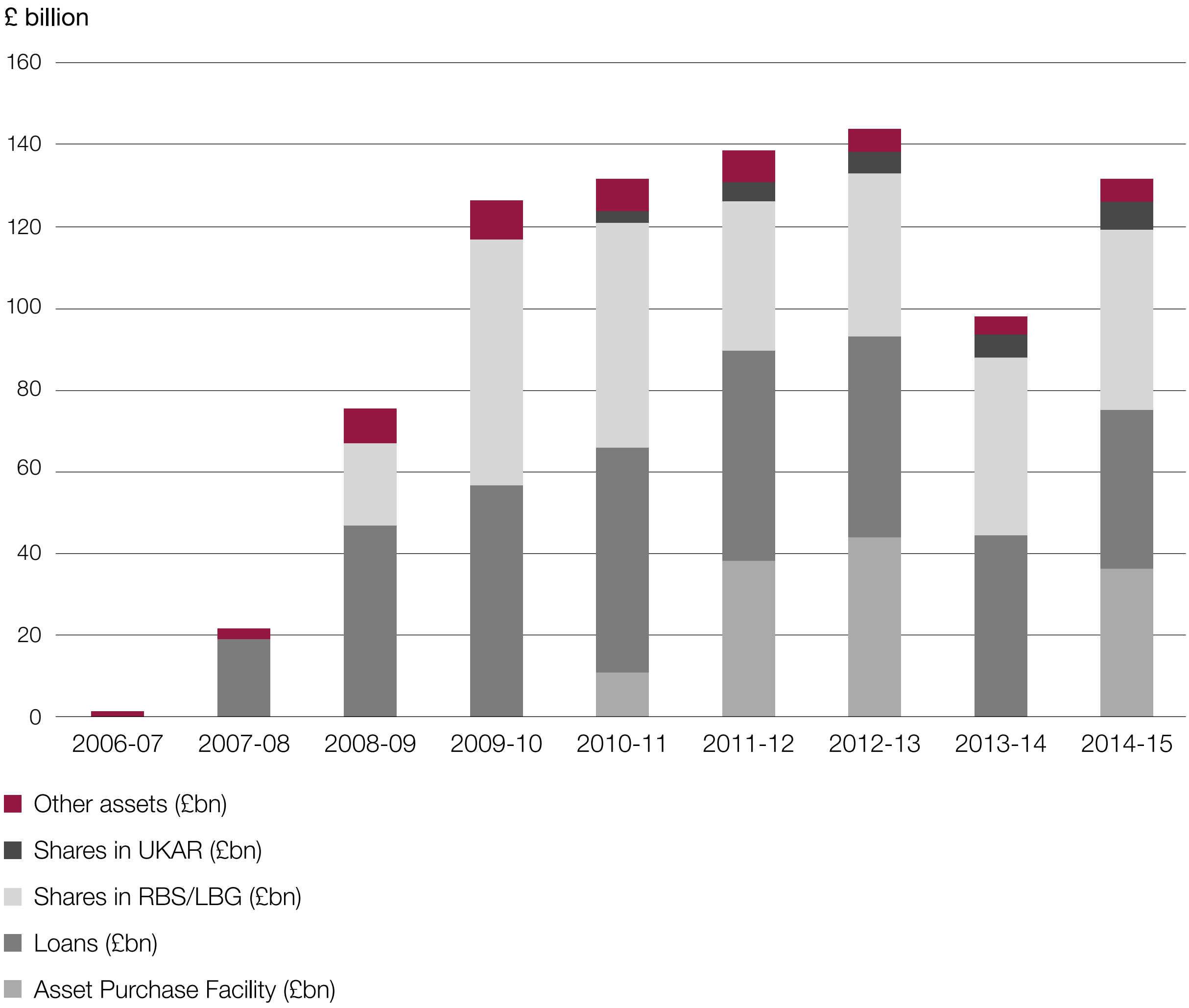
Source: National Audit Office analysis of HM Treasury *Annual Report and Accounts 2014-15*

[2] The Office for Budget Responsibility, UK Financial Investments Ltd, Infrastructure Finance Unit Ltd, Financial Services Compensation Scheme, Money Advice Service, UK Asset Resolution Group (including Bradford & Bingley and its subsidiaries, NRAM and its subsidiaries and UK Asset Resolution Corporate Services Ltd), Help to Buy (HM Treasury) Ltd, HM Treasury UK Sovereign Sukuk plc, IUK Investments Ltd and IUK Investments Holdings Limited.

1.3 The derivatives, loans and advances and investments relating to core Treasury are analysed further in **Figure 2**. This demonstrates that movements in the Treasury's gross assets are largely due to changes in the value of the Bank of England Asset Purchase Facility Fund (BEAPFF).[3]

Figure 2

HM Treasury core gross assets



Note

1 Figures represent gross assets of Core Treasury.

Source: National Audit Office analysis of HM Treasury Annual Report and Accounts

1.4 In addition to the Treasury, there are two bodies in the group that are significant to our audit (**Figure 3**): the Financial Services Compensation Scheme (FSCS); and the UK Asset Resolution group (UKAR).

- FSCS was established under the Financial Services and Markets Act 2000 to provide compensation to customers of authorised financial services firms that are unable, or likely to be unable, to pay claims against them. Compensation paid by FSCS is recovered from the administrators of failed financial services firms and recovered from the financial services industry through an annual levy. In addition to accounting for levies and compensation, the most significant balances in the FSCS accounts are the loans from the Treasury to finance compensation paid

[3] The BEAPF accounts for the financial impacts of the Bank of England's quantitative easing programme.

during the financial crisis, totalling some £15.8 billion at 31 March 2015, and the related receivables to recover this compensation, of some £16.0 billion.

- UK Asset Resolution was established to facilitate the management of the closed mortgage books of the nationalised Northern Rock (now known as NRAM) and Bradford & Bingley banks. The most significant transactions in the UKAR accounts are mortgages and other loans to customers, totalling some £52.7 billion at 31 March 2015.

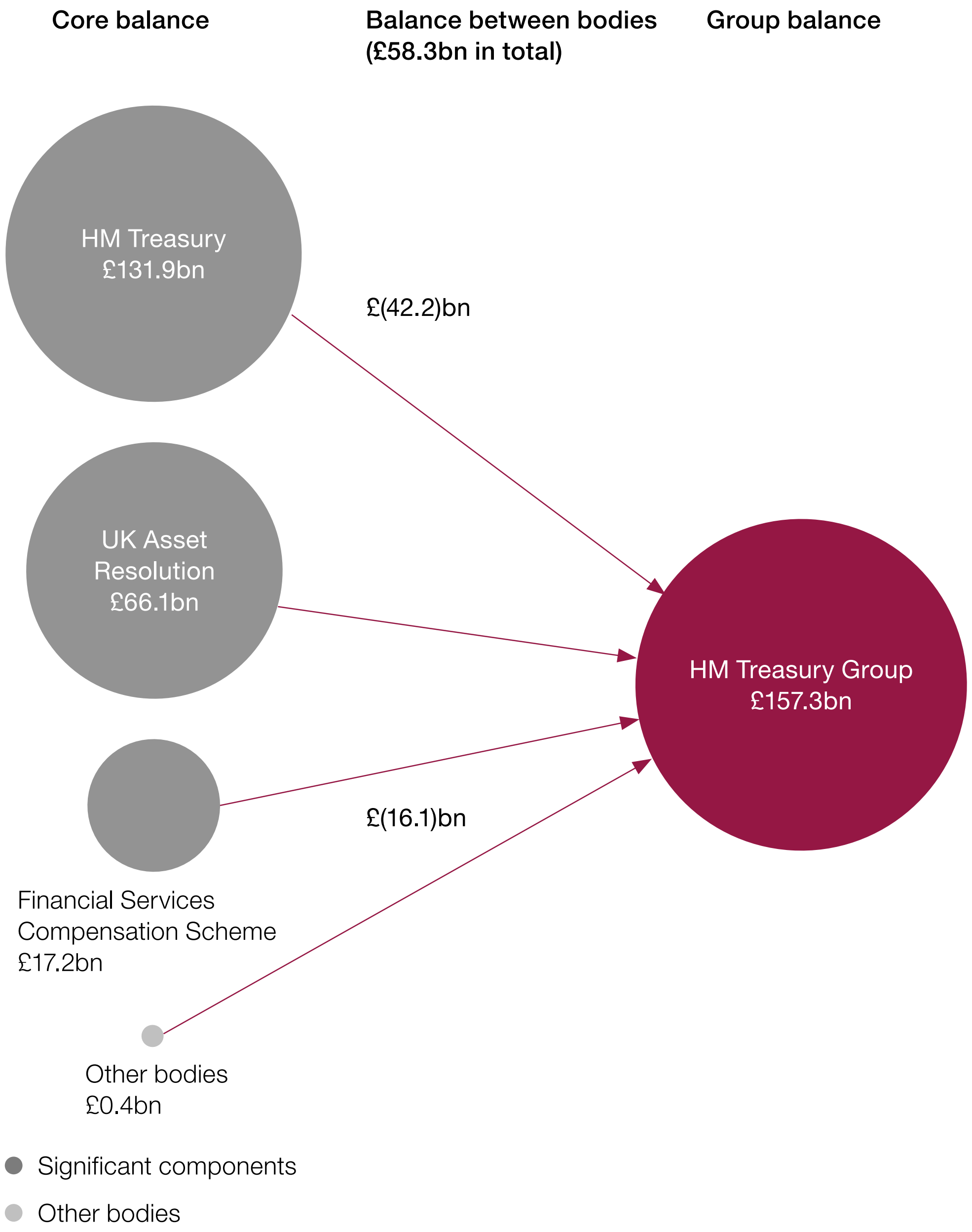
1.5 The Treasury has set up three new companies in 2014-15.[4] These include HM Treasury UK Sovereign Sukuk plc, a body set up to issue the UK's first sovereign Sukuk (Islamic bonds), and two companies in relation to the Private Finance 2 scheme. These have been designated for consolidation, highlighting the changing nature of the Treasury group. The group will change further in 2015-16 as the Treasury's activities evolve. For example, the Government Internal Audit Agency was created as a new Executive Agency of the Treasury from 1 April 2015 and, as disclosed in the accounts, the Chancellor has announced that the Shareholder Executive (currently a function of the Department for Business, Innovation and Skills) will be brought together with UK Financial Investments under a new Treasury owned company, UK Government Investments. These will be consolidated in the Treasury's accounts from 2015-16.

1.6 The group accounts are produced by summing the balances and transactions across all of the bodies, adjusting for any intra-group transactions (see **Figure 3**). The key intra-group transactions are the loan balances between the Treasury, FSCS and UKAR, and the NRAM and Bradford & Bingley guarantees between the Treasury and UKAR.

[4] HM Treasury UK Sovereign Sukuk plc, IUK Investments Ltd and IUK Investments Holdings Limited.

Figure 3

HM Treasury Group Statement of Financial Position – Bodies with the largest assets



Notes

1 Figures represent gross assets of individual components at 31 March 2015.

2 The Treasury Group figure is net of intra-group eliminations.

Source: National Audit Office analysis of HM Treasury *Annual Report and Accounts 2014-15*

Audit risk

1.7 The consolidation process is complex, due to the differing activities of the components of the Treasury, UKAR, FSCS and the continued expansion of the group. As the group includes government bodies, a bank and financial services company respectively, the format of the financial information underlying each of the group bodies' accounts varies significantly. In previous years, the Treasury found it challenging to identify the appropriate adjustments and eliminations that should be made to form the group accounts, as detailed understanding is required about each component. The Treasury has introduced new processes and a new format for the collection of consolidation information to reflect recent changes that have been made to the group structure, particularly with the inclusion of UKAR. This increased the inherent risk and level of challenge associated with the consolidation further during 2014-15.

1.8 Due to these complexities, I assessed that the production of the Group accounts represented a significant risk of material misstatement for my audit of the consolidated group.

Audit approach

1.9 My audit approach addressed this significant risk through my review of the consolidated accounts model that underpins the Group financial statements. This involved examining evidence, such as the consolidation returns from the bodies, to ensure that sufficient and appropriate evidence had been collected by the Treasury from the component bodies. I also used the consolidation returns to support my review of the transactions and balances between bodies in the group that should be eliminated and my testing of the arithmetic accuracy of the consolidation. I have taken assurance from the audit opinion provided by the auditors of UKAR and from my own audit of FSCS.

Financial stability support

1.10 Between 2007 and 2010, the Treasury made a series of large financial interventions to support UK banks. Support (**Figure 4**) was provided in the form of:

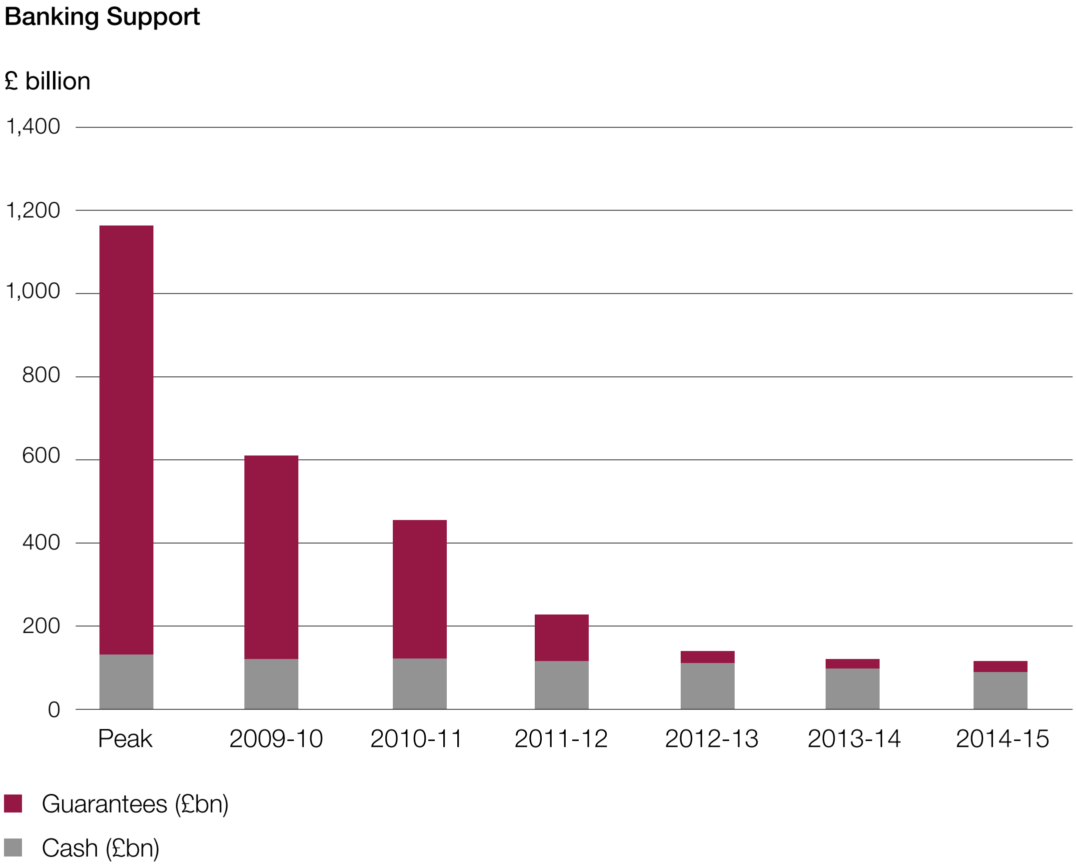
- Cash - direct cash support such as loans made to a range of financial institutions and the purchase of shares in two large banks, RBS and Lloyds Banking Group (Lloyds), are recognised as assets in the Statement of Financial Position.
- Guarantees - guarantees do not involve direct cash support but expose the Treasury to potential liabilities if the guarantees are called.[5]

1.11 Since 2007, the Treasury's interventions to maintain financial stability and support wider economic growth have dominated its financial statements. The costs associated with running the administrative functions of the Treasury are relatively insignificant to the accounts in comparison.

1.12 The balances associated with these support mechanisms have steadily decreased as loans are repaid, shares are sold and guarantees are extinguished. This pattern is expected to continue in the coming years as the Treasury's interventions in the financial sector unwind and enabling it to focus on its role in managing the economy. I provide further comment on financial stability support in Part Two.

[5] Under accounting standards, the guarantee liability (a representation of the risk to which the Treasury is exposed which is usually equal to the fee received for provision of the guarantee) is measured at fair value upon initial recognition and then subsequently recorded at amortised cost in the Statement of Financial Position. The maximum exposure to losses due to the guarantees is disclosed as a remote contingent liability under Managing Public Money.

Figure 4
Financial stability support to banks



Notes

1 Cash support refers to the cash investment in shares and loans to banks.

2 Investment in shares includes losses on the basis of sales proceeds received to date.

3 Guarantees represent contingent liabilities and financial commitments to banks.

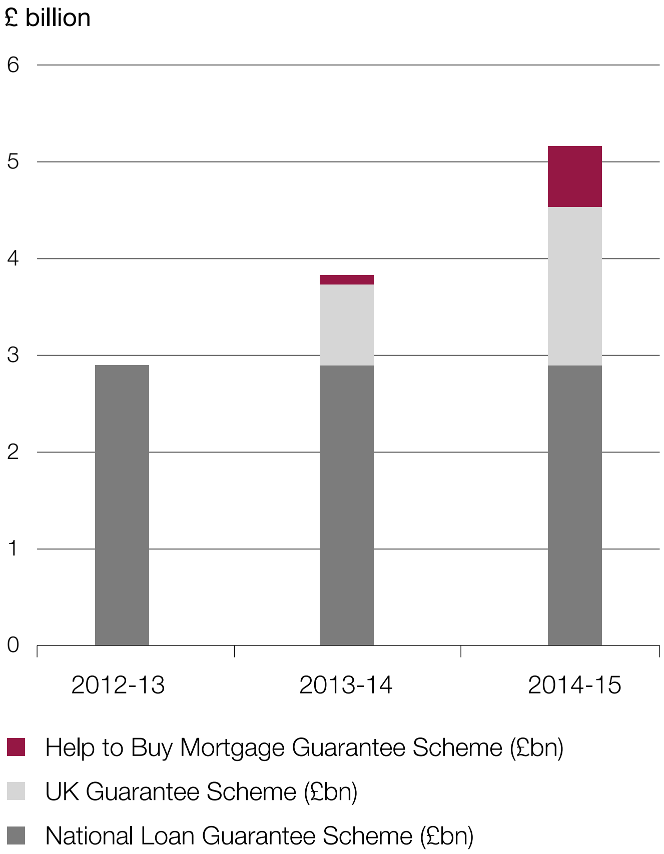
Source: National Audit Office analysis

Wider economic support

1.13 Following the stabilisation of the financial sector, the Treasury has focussed on schemes to support the wider economy. Under the majority of these schemes the Treasury has provided guarantees or indemnities rather than direct cash support. This means that the support schemes' impact on the Statement of Financial Position is limited, at present, but the maximum liability to which the Treasury is exposed is increasing (**Figure 5**).Over the coming years these guarantees will become the dominant feature of the Treasury's financial statements. Due to their nature, the likelihood of guarantees being called upon is closely linked to the UK's economic performance which means that the Treasury's financial exposure will be correlated with macroeconomic risk. I provide further comment on the wider economic support initiatives in Part Three.

Figure 5
Wider economic support schemes

Financial guarantees related to economic growth



Notes

1 Figures represent maximum exposure through contingent liabilities.

2 UK Guarantee Scheme also includes commitments to provide loans.

3 The graph shows guarantees external to government; the Treasury also has indemnified the Bank of England Asset Purchase Facility.

Source: National Audit Office analysis

Statement of Financial Position focus

1.14 These interventions, together with the activities of FSCS and UKAR, illustrate that the main financial risks for the Treasury are derived from its Statement of Financial Position, rather than the income and expenditure reported in the Statement of Comprehensive Net Expenditure. In addition, the size and significance of FSCS and UKAR, together with the operations of the majority of the financial stability and wider economic support interventions, the majority of which are run by external parties on behalf of the Treasury, means that the core department needs to manage a range of diverse partners to control the Group's finances.

1.15 It is important that the Treasury's approach to financial management can address the financial risks that these items represent, particularly as the investments in banks; UKAR's mortgage book; the UK Guarantee Scheme; and the Help to Buy Mortgage Guarantee Scheme are long term in nature and will be in place for many years.

1.16 During the coming years, the Treasury's Statement of Financial Position will continue to fluctuate. The Treasury will continue its programme of sales of investments in Lloyds and UKAR and the Chancellor announced the initiation of a programme of sales of RBS in June.[6] Together with the continued expansion of the Treasury's guarantee schemes and the introduction of the Help to Buy Individual Savings Account scheme announced in March 2015,[7] the nature and extent of the Treasury's assets and liabilities will continue to represent its major financial risks for the foreseeable future.

Parliamentary control totals over resources

1.17 The impact of the Treasury's Statement of Financial Position is also shown in its Statement of Comprehensive Net Expenditure and outturn against its Parliamentary Supply Estimate.[8] The most significant items of income and expenditure in the accounts are derived from the financial interventions, for example interest on loans totalling some £2.5 billion, gains on disposal of shares of just over £1.0 billion and fair value movements on derivatives of £46.9 billion.

1.18 The Treasury has a negative capital Annually Managed Expenditure control total, due to the treatment of the capital payments on its loans and disposal of shares which also results in a negative Net Cash Requirement. Outturn against each of the voted Parliamentary control totals is reported in the Statement of Parliamentary Supply and is subject to my opinion on regularity every year. The Treasury has not breached any of the control totals for this financial year.

[6] https://www.gov.uk/government/speeches/mansion-house-2015-speech-by-the-chancellor-of-the-exchequer

[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413899/Help_to_Buy_ISA_Guidance.pdf

[8] Supply Estimates provide income and expenditure, both capital and resource, on an accruals basis and cash requirements for each government department. The supply received is voted by Parliament and authorised under the Supply and Appropriation Act for the financial year. The amounts voted under the Supply and Appropriation Act are known as parliamentary control totals. These control totals can be amended during the year through the Supplementary Estimates but spending cannot be carried forward to the next financial year unless it is included in a subsequent Estimate.

Part Two – Financial stability schemes

2.1 This Part of the Report provides an overview of the audit risks arising from the Treasury's significant financial stability schemes and the impact on my audit approach.

2.2 Following the closure of the Asset Protection Scheme[9] and Credit Guarantee Scheme,[10] which exposed the Treasury to contingent liabilities and other support of more than £1,000 billion at their peak,[11] unwinding of the financial stability schemes has continued through 2014-15.

2.3 The most significant changes are the further £5.7 billion repayment of loans,[12] with £0.9 billion of this relating to the Icesave statutory debt, and £2.7 billion relating to the sale of a portfolio of mortgages by UKAR, which is part of a broader strategy to divest its mortgage servicing activities further.[13] The Treasury has also disposed of Lloyds shares, as part of the trading plan announced in December 2014.[14] This has generated proceeds of £1.7 billion, with further sales anticipated. The Treasury's shareholding fell below 20% in May 2015.

2.4 The main residual elements of the Treasury's financial stability interventions are its loans to NRAM and Bradford & Bingley, which were brought under the control of UK Asset Resolution in 2010, and the Treasury's remaining holdings of shares in Lloyds and RBS.

2.5 As announced in the March Budget 2015,[15] the government plans to sell a further £9 billion of Lloyds shares in 2015-16 and the Chancellor announced in his annual Mansion House speech on 10 June 2015[16] that the Government will begin to sell off its stake in RBS. UKAR has also announced a major sale of £13 billion of assets held from the nationalisation of Northern Rock. The Treasury will also receive dividend income from Lloyds from 2015-16, following Lloyds' announcement that it will pay a dividend for the first time in six years.[17] I plan to publish a report on the government-owned banks which will cover these sales.

Loans

2.6 During the financial crisis some financial institutions could no longer guarantee that they had sufficient funds to repay depositors, which meant that their customers' cash was at risk. To counter this and provide support and confidence in the UK banking sector, the Treasury provided loans to UK banks and the FSCS, which administered the Government backed compensation scheme for deposits that could not be repaid.

2.7 Under the control of UKAR, NRAM and Bradford & Bingley continue to benefit from significant support in the form of loans from the Treasury. Bradford & Bingley and NRAM continue to run-down their mortgage books, but are closed to new business. The loans provided to these banks, which total some £34.3 billion, are being recovered by the Treasury through the income and capital repayments generated by the winding down of the banks' residential mortgage books, as illustrated by **Figure 6**. These total some £52.7 billion. In October 2014, £2.7 billion of these mortgages were sold off to Commercial First Group, to accelerate the wind-down process. Plans to sell off a further £13 billion were announced in the March 2015 Budget,

[9] The Asset Protection Scheme was an insurance based scheme that provided coverage for banks that had significant exposure to bad loans during the financial crisis. The NAO reported on the Scheme in December 2010. http://www.nao.org.uk/report/hm-treasury-the-asset-protection-scheme/

[10] The Credit Guarantee Scheme was part of the Government's actions to support the banking sector in October 2008. The purpose of the scheme was to help restore confidence by making available, to eligible institutions, a government guarantee of new debt issuance.

[11] Comptroller and Auditor General, HM Treasury Annual Report and Accounts 2011-12, HC 46, HM Treasury, July 2012, Chapter 8, Figure 3

[12] This £5.7 billion is reflected in the Treasury's Core accounts, which gives the most complete reflection of the transations in relation to these schemes.

[13] http://www.ukar.co.uk/media-centre/press-releases/2015/18-03-2015?page=2

[14] https://www.gov.uk/government/news/government-to-sell-part-of-its-remaining-shareholding-in-lloyds-through-a-trading-plan

[15] March 2015 Budget https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf

[16] https://www.gov.uk/government/speeches/mansion-house-2015-speech-by-the-chancellor-of-the-exchequer

[17] Lloyds have announced that they will pay a dividend of 0.75p per share for the full year 31 December 2014 http://www.lloydsbankinggroup.com/globalassets/documents/investors/2015/2015feb27_lbg_dividend_arrangements.pdf

which the government plans to use to pay down national debt. UKAR currently forecasts that it will repay all of the loans to HM Treasury by 2024, or 2026 under the Prudential Regulation Authority's stress scenario. Full repayment of the loans is supported by UKAR's 2014-15 accounts, which demonstrate that UKAR's assets exceed its liabilities.

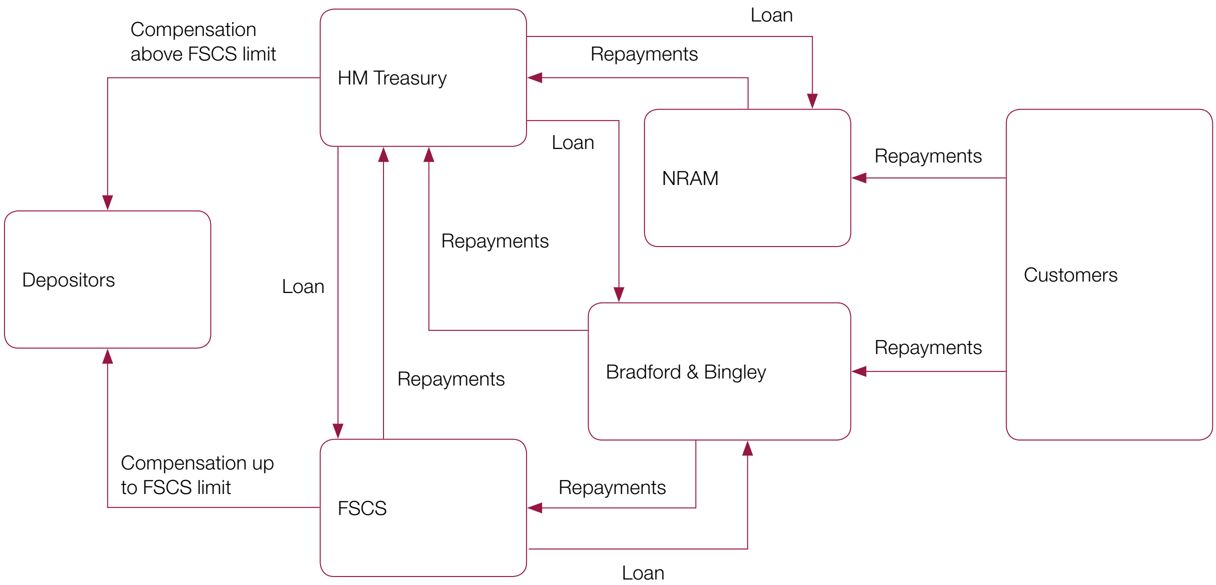
2.8 The Treasury and FSCS are recovering the loans used to pay compensation to depositors in other financial institutions, totalling some £15.8 billion, through the administrators of the failed institutions and by imposing levies on industry to cover any shortfall in the FSCS elements. During 2014-15, the FSCS repaid its loans issued by the Treasury in respect of the Heritable, London Scottish Bank and Icesave banks. The core and group accounts reflect different values for the loans. The loan to FSCS for the compensation paid out up to the FSCS depositors' limit, and the statutory debt for the amount above this limit, are included in the core accounts. Recoveries are received from the administrators for both loans.

2.9 FSCS can recover any shortfall in its element of the loans (i.e. the amounts paid out up to the depositors' limit) not recovered from administrators from levy payers. In 2014-15, FSCS has recovered more from levy payers than the shortfall that it anticipated. It has, therefore, used this excess to repay more of its loan from the Treasury. However the group accounts reflect that this balance will ultimately be repaid to levy payers if the amounts currently forecast are recovered from the failed banks. As the FSCS loans are intra-group transactions, these loans are then eliminated when preparing the group accounts.

2.10 There is also £389.5 million outstanding on the Treasury's loan to Dunfermline Building Society. The Treasury receives recoveries in respect of this loan from the administrator. Any shortfall is then raised from levy payers via FSCS, subject to a cap. This cap represents the cost that FSCS would have incurred had the Treasury not intervened. FSCS made a first payment of £100 million towards the cap in 2014-15.

Figure 6

Cash flows associated with loans to Bradford and Bingley and Northern Rock Asset Management



Notes

1 The Treasury has provided loans to NRAM and Bradford & Bingley and a working capital facility to Bradford & Bingley.

2 FSCS has provided Bradford & Bingley with a loan to pay compensation to depositors.

Source: National Audit Office analysis

2.11 The total value of loans outstanding is recorded as an asset in the Treasury accounts and is measured at amortised cost. At the year end this totalled £38.6 billion, which was a reduction of £5.8 billion compared with the prior year. This movement comprises £5.7 billion repayments, £60.3 million impairment reversals, £3.7 million foreign exchange movement, and £128 million amortisation of the loans, with £939 million being earned as interest on the loans during 2014-15. No interest is charged on the statutory portion of the loans.

Audit risk

2.12 I assessed that the valuation of the UKAR loan represented a significant risk of material misstatement for my audit of the Treasury's individual financial statements and the consolidated group. This is because the repayment of loans by UKAR will be made over the next 10 to 15 years, using the cash flows from interest payments and redemptions of residential mortgages held by Bradford & Bingley and NRAM. If the cash flows from these mortgages are insufficient to repay the loans from the Treasury, then this may indicate a need for the Treasury to reduce their carrying value.[18] This is because the cash flows associated with the UKAR mortgages, and any associated impairment are subject to significant judgement. Thus, I consider it a risk for my audit opinion that the UKAR loan will not be paid back in full to the Treasury.

2.13 I have also assessed that the valuation of the Treasury's statutory debt recoverable from Icesave is subject to inherent uncertainty. This is because the assets from which the loan will be repaid are in Iceland and denominated in Icelandic Krona. There have been capital limits in place over Krona which have restricted the repayments being made and recoveries have subsequently been less than forecast in recent years. The recoverability of the loan, and any associated impairment, is therefore subject to significant management judgement and so represents a significant risk. In 2014-15, the Treasury recovered £928 million from Landsbanki in respect of the loan and £446 million of the statutory debt is outstanding at year-end.

2.14 The other loan balances, including the FSCS Icesave debt, are not deemed to be a significant risk. Although there is uncertainty around the level of funds to be distributed from winding down the business where loans are recoverable directly from the administrators of failed institutions, these balances are not of a significant size. If there are insufficient recoveries from administrators to repay loans by FSCS, FSCS is able to levy the industry for any shortfall and thus the FSCS loans are fully recoverable.

Audit approach

2.15 My audit approach addressed this significant risk through my review of the Treasury's financial models, assumptions and judgement made by management which underpin the valuation of the loans in the Treasury's financial statements. This involved examining the evidence to support the recoverability of the loans, the assumptions made by management and the expected timing of cash flows. I have also taken assurance from the audit opinion provided by the auditors of UKAR.

Investments in Royal Bank of Scotland and Lloyds Banking Group

2.16 During the financial crisis, the Treasury injected capital of £66.3 billion into RBS and Lloyds, by purchasing shares. This ensured that they would have sufficient capital to continue trading. As well as purchasing ordinary shares in both banks, the Treasury subscribed to 51 billion non-voting B shares in RBS and received one enhanced Dividend Access Share (DAS) as part of the arrangements for RBS's participation in the Asset Protection Scheme. The DAS was created to prevent any return of capital to shareholders or payment of dividends without first paying the Treasury a preferential dividend by conferring upon holders of B shares an additional dividend over that paid to ordinary shareholders.

[18] UKARs 2014-15 results announcement, http://www.ukar.co.uk/media-centre/press-releases/2015/16-06-2015?page=1

2.17 The Government is committed to returning the banks to private ownership. In December 2014, it announced that it would dispose of further Lloyds shares, as part of a trading plan.[19] HMT has raised over £1.7 billion in 2014-15 under the trading plan. In April 2014, RBS announced that it had reached agreement with the Treasury and the European Commission for the future retirement of the DAS for some £1.5 billion. The first payment to the Treasury of £320 million has been made and the timing of the final payment is at RBS's discretion. In the Mansion House Speech[20] on 10 June 2015, the Chancellor announced that the Treasury will start disposing of its shares in RBS.

Figure 7

Shareholding in RBS and Lloyds at 31 March 2015

Type of share	Number of shares (percentage shareholding)	Share price (pence)	Value (£m)
Lloyds ordinary shares	15,552m (22%)	78.28	12,174
RBS ordinary shares	3,964m (64%)[3]	340	13,479
RBS B shares[2]	51,000m	34	17,340
RBS Dividend Access Share	1	n/a	1,159[1]

Notes

1 Valuation of RBS Dividend Access Share is based on the retirement agreement between RBS and the Treasury.

2 10 RBS "B" shares convert into 1 ordinary share.

3 The Treasury now has 79% of the economic ownership of RBS.

Source: HM Treasury *Annual Report and Accounts 2014-15*

2.18 As shown by **Figure 7**, the value of ordinary shares of £13.5 billion in RBS and £12.2 billion in Lloyds represents their market price at 31 March 2015. The RBS B shares are convertible to ordinary shares at a ratio of 10:1 and their value of £17.3 billion at 31 March 2015 is therefore based on the market price of ordinary shares on this date. The Lloyds sales, as part of a trading plan, resulted in the recognition of an accounting profit of £1.0 billion in 2014-15. **Figure 8** sets out the accumulated transactions and financial statement impacts of the sales of Lloyds shares.

[19] https://www.gov.uk/government/news/chancellor-extends-successful-lloyds-trading-plan

[20] https://www.gov.uk/government/speeches/mansion-house-2015-speech-by-the-chancellor-of-the-exchequer

Figure 8
Lloyds share sale: calculation of accounting profit

Sale date	Shares sold (million)	Purchase price[1] (pence)	Sale price (pence)	Net gain/ (loss) (£m)	Previous impairments (£m)	Profit on disposal recognised in Statement of Comprehensive Net Expenditure in-year[2] (£m)
17 September 2013	4,282	174.46	75.0	(4,259)	6,032	1,774
26 March 2014	5,555	126.92	75.5	(2,857)	5,184	2,328
1 January 2015 to 31 March 2015	2,219	58.30	78.5	449	539	989
Total	**12,056**			**(6,667)**	**11,755**	**5,091**

Notes
1 The Treasury account for share sales on a "first in, first out" basis. This means the purchase price is based on the average price paid for the shares sold on each date. The purchase price is adjusted to recognise the price of the shares on completion of the transaction.
2 Profit on disposal includes selling costs and rebates.

Source: National Audit Office summary of HM Treasury calculations for the purposes of the accounts

Audit risk

2.19 The ordinary shares have a market price so, although they are a material balance in the accounts and have been the subject of significant public interest over the last few years, their valuation and calculation of any profit or loss on disposal is not subject to management estimation or judgement and I do not consider there to be a significant risk of material misstatement for my audit. This also applies to the RBS B shares which are valued on the basis of the share price for ordinary shares. There is a broader risk associated with the future disposals of shares in RBS and Lloyds, however, as the Treasury needs to ensure that the sales represent value-for-money. I considered the value obtained by the Treasury in making the first two sales of shares in Lloyds in my report in March 2014[21] and my report on the 2013-14 accounts.

UK Asset Resolution

2.20 Apart from the shareholdings in RBS and Lloyds, the main residual elements of the Treasury's financial stability interventions are the outstanding loans to NRAM and Bradford & Bingley. UKAR is the holding company for the nationalised NRAM and Bradford & Bingley banks.

2.21 The repayment by UKAR of the outstanding loans from the Treasury, which total some £34.3 billion, is through cash flows from interest payments and redemptions of residential mortgages held by Bradford & Bingley and NRAM, totalling £52.7 billion. The most significant liabilities, excluding UKAR's outstanding loans from the Treasury, are debt securities totalling £20.9 billion issued by the former banks to raise funds backed by their assets, primarily mortgages.

2.22 During the year, UKAR accelerated the on-going process of winding down the closed mortgage books of Bradford & Bingley and NRAM by selling a portfolio of mortgages and buying back some of the former banks' market traded debt securities.

2.23 In October 2014, UKAR sold £2.7 billion of mortgages to Commercial First, part of a consortium of investors led by JP Morgan. The price obtained represented a small premium of about 2% (£55 million) over the book value of the mortgages.

2.24 In January 2015, UKAR bought back £277 million of outstanding subordinated debt that had been sold to investors by Bradford & Bingley and NRAM. The subordinated debt carried relatively high rates of interest of up to 13%. This reflected the fact that the debt holders would

[21] http://www.nao.org.uk/report/hm-treasurys-2013-14-annual-report-accounts/

have to bear losses before other types of borrowing by the former banks. However, due to the increasing capital strength of UKAR it was very unlikely that the subordinated debt would ever suffer losses. The benefit of retaining the subordinated debt, rather than buying it back with much cheaper government funding, was therefore limited.

2.25 In March 2015, the Chancellor of the Exchequer announced a major UKAR asset sale involving Granite, a securitisation vehicle established by Northern Rock in 2001. At the same time, UKAR is exploring options for the disposal of its mortgage servicing activities. In May 2015, it announced that it had redeemed €2 billion of outstanding bonds that had been issued to investors by NRAM. I plan to report on these transactions as part of a report on the government-owned banks during 2015-16.

Part Three – Wider economic support

3.1 Since 2009, the Treasury has introduced a number of initiatives to support the wider economy. This part of the report provides an overview of my assessment of the risk of material misstatement for my audit arising from three of the most significant direct support interventions that impact on the Treasury's financial statements. These will be increasingly important to the Treasury's financial management in the coming years. These are the Help to Buy Guarantee Scheme; the UK Guarantee Scheme and the Quantitative Easing programme.

Help to Buy Mortgage Guarantee Scheme

Background

3.2 The Help to Buy Mortgage Guarantee Scheme is now in its second year, having launched in January 2014. The Scheme will run until 2020 and allows lenders to purchase a guarantee where a borrower has a deposit of between 5% and 20%. The guarantee offers lenders the option to purchase a guarantee that lasts for seven years and will cover the loss suffered by the lender down to 80% of the property value, net of recoveries, minus the first 5% (Figure 9). The Treasury's maximum exposure will be limited to £12 billion on mortgage lending of up to £130 billion over the life of the scheme.

3.3 Loans made under the mortgage guarantee scheme must meet certain eligibility criteria, including:[22]

- the property must be a UK property with a purchase price of £600,000 or less;
- the mortgage must be a residential and repayment mortgage;
- the mortgage is for the buyer's only property and not for buy-to-let or commercial properties; and
- borrowers will have to pass credit and affordability checks.

3.4 The Treasury charges a commercial fee to lenders in return for issuing the guarantee. The fee covers all expected losses under the guarantee, the administration costs and a cost of capital. Thee fee complies with the European Commission guidance on state aid and Treasury reviews the fee annually to take account of changing economic conditions. For 2014-15, the Treasury has left the Scheme fees unchanged.

3.5 The Bank of England's Financial Policy Committee monitor the Scheme and report annually in October. Specifically, they provide advice on whether the fee and house price cap remain appropriate and make recommendations on its size or the fees to be charged, though any changes are the Treasury's responsibility.

3.6 In his letter of October 2014 to the Chancellor, the Governor of the Bank of England, Mark Carney, confirmed that the Committee had assessed that:

- the scheme does not pose a material risk to financial stability
- the scheme has not been a material driver of recent house price rises; and
- the key parameters of the scheme (the house price cap and fee charged to lenders) remain appropriate

[22] Further eligibility criteria are detailed in the scheme rules, which are available at www.gov.uk/government/publications/help-to-buy-mortgage-guarantee-scheme-rules

Figure 9

Example Help to Buy Mortgage Guarantee Scheme calculation

Issue of guarantee

95% loan to value mortgage taken out on property worth £100,000.

Purchaser provides 5% deposit **£5,000**

Lender provides 95% mortgage **£95,000**

HM Treasury provides 15% guarantee **£15,000**

Purchaser defaults

The purchaser defaults on the mortgage and the lender raises **£65,000** through repossession of the property. Without a guarantee, the loss to the lender would be **£30,000**.

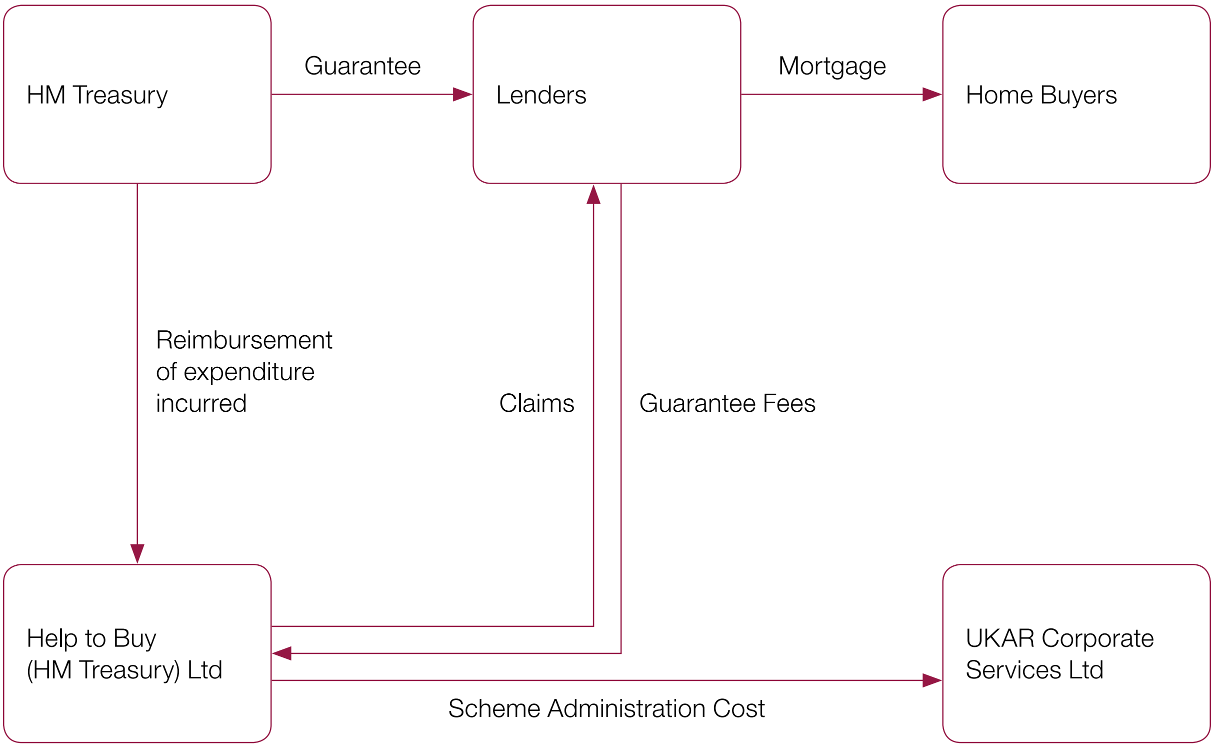
£15,000 guarantee

But lender takes first 5% of loss **£750**

In total, the government has guaranteed **£14,250** or 14.25% of the value of the property

Source: National Audit Office

Figure 10
Administration of the Mortgage Guarantee Scheme



Source: National Audit Office

3.7 The following table **(Figure 11)** gives a summary of the key data relating to the MGS and the financial guarantee liability recognised in the financial statements.

Figure 11
Help to Buy Mortgage Guarantee Scheme Data

	2014-15	2013-14	Total (outstanding)
Number of guarantees[1]	39,578	7,299	46,877
Financial Guarantee liability (£m) at 31 March 2015	45.4	7.7	53.1
Maximum Exposure (£m)	536	95	631

Notes

1 So far no claims in relation to the guarantees have been received.

2 Differences between financial years will arise due to redemption of mortgages, claims being made in relation to the guarantees and amortisation on the financial guarantee liability.

Source: National Audit Office analysis of UKAR monthly reporting data from May 2015

Changes in the housing market

3.8 The mortgage guarantee scheme is a targeted intervention designed to improve availability of access to mortgages for borrowers with small deposits in the wake of the financial crisis. The number of lenders signing up to the Scheme has steadily increased since 2013-14 and as of

31 March 2015 there were 13 financial institutions offering mortgages backed by a Help to Buy guarantee. These 13 institutions include many of the largest and well known high street banks. Since the launch of the scheme, there has been an increase in the availability of high loan to value products offered by non-scheme lenders with rates comparable to those offered Help to Buy mortgages.

3.9 The amount covered by the Treasury on each guarantee is based on the loss incurred by the lender where there is a default and the outstanding balance of the mortgage cannot be recovered through the sale of property. The ability of the lender to recover the full mortgage balance will depend on the sale price of the property which can be greatly influenced by regional house price movements. The ONS publishes monthly statistics on house prices and as **Figure 12** shows, the average UK house price has risen by £21,000 in the period that the mortgage guarantee scheme has been in operation. Any rise in house prices, if realised by a lender on a sale as result of default, will reduce the amount of loss incurred by the lender and also the Treasury.

Figure 12
Average UK house price

Source: Office for National Statistics, available at: www.ons.gov.uk/ons/taxonomy/index.html?nscl=House+Price+Indices

Uptake and administrative costs

3.10 The scheme limit of £12 billion was expected to support around 570,000 mortgages over its three year life. The Treasury chose to base the fees on a 50% uptake rate (285,000 mortgages). The fees as a minimum need to cover scheme's administration costs, all successful claims by lenders and provide an adequate cost of capital to the Treasury.

3.11 As at 31 March 2015, in the 15 months that the Scheme has been in operation, the total number of mortgages supported by Scheme was 46,877, 61% less than the expected uptake at the outset of the scheme, pro-rated for 15 months, of 118,750 mortgages. The fees as a minimum need to cover scheme's administration costs, all successful claims by lenders and provide an adequate cost of capital to the Treasury. The Treasury has the power to adjust future lender fees to ensure that the scheme remains self financing and that they cover all administrative costs and lender claims. The fee can be reset each calendar year to take account of changing scheme volumes and updated economic conditions.

3.12 Scheme administration costs up to 31 March 2015 were approximately £8.1 million. The number of mortgages in arrears and default at the year end were 64 and 6 respectively whilst total lender fees receivable for the 15 month period were £58.9 million. Whilst the number of mortgages issued under the scheme is currently less than predicted, it is difficult to conclude on the self-financing aspect of the Scheme as the guarantees issued by the Treasury may be called upon at any time during the seven years that the guarantee is provided for. Furthermore as interest rates start to rise above their current historically low levels, mortgage payments may increase resulting in a likely rise in the number of claims made by lenders, although any losses for the Treasury are likely to be offset by rises in house prices. For this reason it is also too early to conclude on the overall value for money of the Scheme.

Audit risk

3.13 Given the £12 billion scheme limit, the Help to Buy Mortgage Guarantee Scheme represents a potential significant intervention in the housing market. However, as only £58.9 million of guarantees based on fees received had been issued at 31 March 2015, I concluded that there was not a significant risk of material misstatement for my audit this year as the number of guarantees issued has not reached a material level.

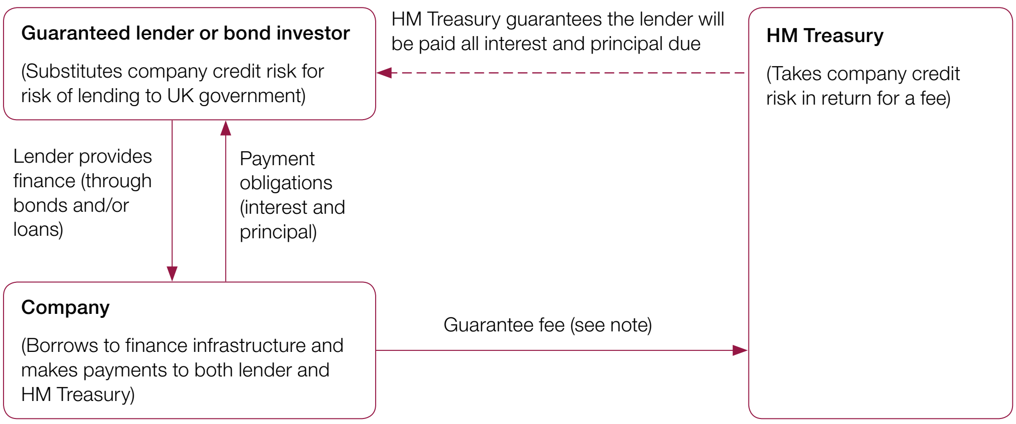
UK Guarantee Scheme

Background

3.14 The UK Guarantee Scheme (UKGS) aims to prevent infrastructure projects being delayed or cancelled by difficulties in obtaining debt financing. The scheme aims to meet its objective is by utilising the Government's credit rating to provide protection against default for the lenders to the projects. It achieves this through an irrevocable and unconditional guarantee from the Treasury to support a specified loan or bond issued by the project company delivering the particular infrastructure project. This means that lenders or bond investors are able to issue debt with confidence that the Treasury will compensate them in full for the guaranteed debt if the project company is unable to finance the interest and principal.

3.15 In return for the guarantee, the Treasury is paid a fee by the project company (**Figure 13**). Under the Guarantee Scheme the Treasury assumes the full rights associated with being a lender, for example the power to take recovery action against the defaulter. HMT can guarantee up to £40 billion of finance under the Scheme.

Figure 13
How the Scheme works



Note
1 The company agrees to reimburse HM Treasury for any payments under the UK Guarantees Scheme. HM Treasury and the company document various bilateral rights.

Source: National Audit Office

3.16 The Treasury has established five main criteria for determining eligibility which are that a project must be:

- nationally significant;
- ready to start construction;
- financially credible;
- dependent on a guarantee to start; and
- good value to the tax payer.

3.17 The Treasury employs a team of experienced commercial specialists to undertake an assessment of project risk based on due diligence and other techniques used by commercial infrastructure lenders and rating agency methodologies. In practice, the Treasury considers many infrastructure projects with construction risk are likely to be non-investment grade. To comply with European State Aid guidance on the issue of guarantees by member states, the Scheme is not intended to provide subsidised loans to infrastructure projects. To ensure this, the Treasury charges each infrastructure project company a market-oriented fee. The fee is determined by the Treasury's assessment of project risk and prevailing market prices for equivalent risks. The Treasury's accounts recognise a financial guarantee liability for each guarantee that is signed equal to the net present value of the fees payable for the guarantees, providing that the fee is an accurate reflection of the risk of the underlying project. The maximum exposure to losses, based on the amount of debt guaranteed and unpaid interest, is disclosed as a remote contingent liability under Managing Public Money.

3.18 As at 31 March 2015, six guarantees have been issued under the Scheme, with four of these being issued in 2014-15 **(Figure 14)**. This has led to the recognition of a receivable for fees of £107.3 million, a financial guarantee liability of £113.5 million (based on undiscounted fees of £150.4 million) and a contingent liability of £884.6 million at 31 March 2015. The Treasury has also provided a loan commitment, under the Scheme, of £750 million to the Greater London Authority in relation to the Northern Line extension to Battersea and a commitment to provide a financial guarantee of £80 million for Countesswells, a housing development. So far no claims in relation to the guarantees have been received and the Treasury has assessed that it is not probable that any guarantees will be called upon at 31 March 2015.

3.19 Around a further 40 projects have been declared as pre-qualified and therefore the Treasury's exposure is likely to increase substantially in future years.[23] The most significant project that is under consideration is the Hinkley Point C nuclear power station.

Audit risk

3.20 The Treasury's announcement that it will provide up to £40 billion of guarantees under the Scheme means that it is likely to be material to the accounts in the future. However, as only £884.6 million of guaranteed debt had been issued at 31 March 2015 I concluded that there is no significant risk of material misstatement for the 2014-15 accounts arising from the UK Guarantee Scheme. Given the significant estimates and judgements required for the Scheme, particularly around the probability of a guarantee being called where the Treasury will need to ensure that they have a rigorous ongoing process to monitor projects, I will revisit my risk assessment in future years.

[23] https://www.gov.uk/government/publications/uk-guarantees-scheme-prequalified-projects/uk-guarantees-scheme-table-of-prequalified-projects

Figure 14

UK Guarantee Scheme timeline

	Date	Project Name	Sector	Scheme Status
2013-14	April 2013	Drax Power	Energy	Signed (£75 million)
	December 2013	Sustainable Development Capital - UK Energy Efficiency Investments Fund	Transport	Signed (£8.8 million)
	November 2013	Northern Line Extension[1]	Transport	Signed (£750 million)
2014-15	April 2014	Mersey Gateway Bridge	Transport	Signed (£257 million)
	August 2014	Ineos Grangemouth Ethane Import and Storage Facilities	Transport	Signed (€285 million/£226 million)
	August 2014	Speyside CHP Plant	Energy	Signed (£48.2 million)
	November 2014	University of Northampton	Education	Signed (£292 million)
2015-16	Not signed	Countesswells	Housing	Approved (£80 million)

Note

1 The Northern Line Extension project is a loan commitment, not a guarantee.

Source: National Audit Office analysis of Government Scheme Data

3.21 I reported to Parliament on the value for money of the UK Guarantee Scheme in January 2015. This considered the rationale and implementation of the scheme, the Treasury's approach to measuring and managing taxpayer risks and how the Treasury derives the price of guarantees and the role of financial market indicators. This report considered all of the guarantees issued to date, with the exception of the University of Northampton and Speyside. While I found that the Treasury has a formal governance process and employs commercial specialists to determine the pricing of the guarantees, I questioned whether this approach can measure long-term risks to taxpayers reliably. The Treasury should ensure that its eligibility criteria for this Scheme includes a rigorous and objective assessment that guarantees are needed. The Treasury needs to report to Parliament on the level of risk associated with the guarantees and should develop an additional pricing methodology based on appropriate capital charge. The scheme is currently under review and the Treasury is considering these recommendations.

Quantitative Easing

3.22 In early 2009, the Bank of England initiated a programme of asset purchases (often referred to as quantitative easing) to stimulate demand by boosting the money supply. The programme is run through the Bank of England Asset Purchase Facility Fund Limited (BEAPFF), a wholly owned subsidiary of the Bank of England. Under the programme, the Bank made a loan to BEAPFF, backed by a claim on the Bank's balance sheet. BEAPFF used this loan to buy assets held by investors, mainly gilts, and effectively injected money directly into the economy (**Figure 15**).

3.23 The BEAPFF is indemnified by the Treasury against losses and the Treasury will receive any profits generated by selling the assets back to the market or holding them to maturity. This agreement is accounted for as a derivative contract[24] and recognised as an asset for the Treasury. The balance represents the amount that would be due from BEAPFF should the scheme be unwound completely at the year-end, in effect the difference between the value of the assets and liabilities of BEAPFF at 31 March 2015. As the assets held by BEAPFF are gilts, the value on the derivative will change as gilt prices move and interest is accrued.

[24] Defined as a financial instrument or other contract whose value changes in response to the change in a specified variable that 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 is settled at a future date.

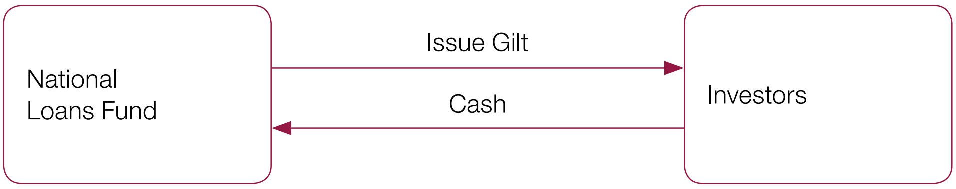
3.24 Until January 2013, coupons (interest) paid on gilts were held by the BEAPFF. During 2012-13, the Treasury and the Bank agreed to a revised indemnity to require excess cash to be transferred between BEAPFF and the Treasury to enable more efficient cash management across government. £42.4 billion was transferred by 31 March 2014 and a further £10.7 billion during 2014-15, offsetting movements in the value of the derivative.

3.25 The financial statements recognised a derivative asset of £36.4 billion at 31 March 2015 and an increase in value of £46.9 billion is recognised in the Statement of Comprehensive Net Expenditure relating to the value of the derivative, which is offset by cash transfers of £10.7 billion.

Figure 15
Quantitative Easing

1 Standard Gilt Issuance

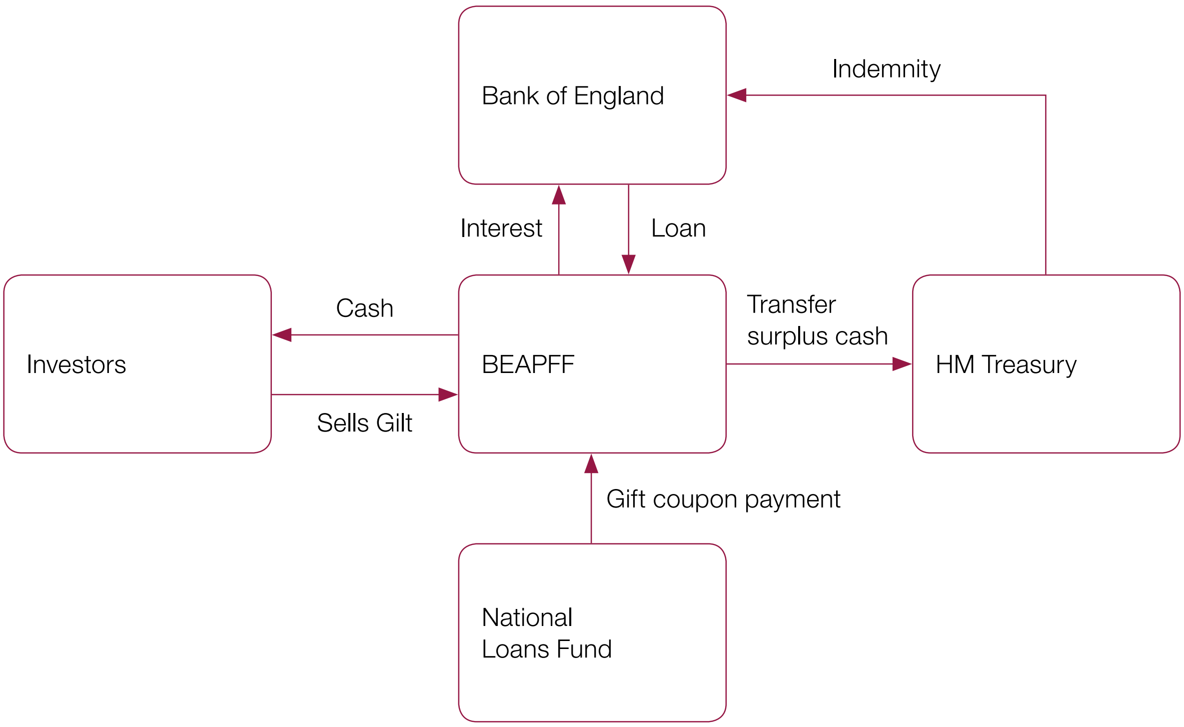
Gilts were liabilities of the National Loans Funds and held as assets by investors.



2 Quantitative Easing

The BEAPFF purchases gilts from investors using a loan from the Bank of England. The Gilts become assets for BEAPFF. They remain liabilities for the NLF.

Treasury indemnify any Bank of England losses and receive any gains. This results in a derivative in Treasury's account. The value of the derivative is reduced as gilt interest is transferred.



Source: National Audit Office analysis

Audit risk

3.26 Although the value of the derivative and its associated fair value movements are significant and the instrument is volatile, its valuation is based on quoted market prices and cash transactions with few management assumptions. It is therefore not subject to significant estimates or judgements. As a result I concluded that there was no significant risk of material misstatement arising from the quantitative easing indemnity this year.

Business Finance Partnership, National Loans Guarantees Scheme and Funding for Lending Scheme

Background

3.27 The National Loans Guarantees Scheme (NLGS) was introduced in March 2012, to reduce the cost of bank loans and help businesses access cheaper finance. This was then superseded by the Funding for Lending Scheme (FLS), which provides funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance.[25] Both schemes are designed to increase lending, with the scope of the FLS being scaled back and incentives being introduced to encourage lending to primarily small and medium sized businesses.

3.28 The Business Finance Partnership (BFP) was set up to invest £1.2 billion in increasing lending to small and medium-sized businesses, to encourage private sector investment.[26] The Treasury element of this scheme (£328 million) was transferred in June 2014 from Infrastructure Finance Unit Limited (IFUL) to British Business Investments Limited, part of the Department for Business, Innovation and Skills (BIS). This has led to the Treasury recognising £328.2 million as a capital grant-in-kind, to reflect that the Treasury no longer has the rights to cash flows associated with this investment.

Audit risk

3.29 I concluded that there is no significant risk of material misstatement for the 2014-15 accounts arising from these schemes. NLGS is not considered a risk, as it is not open for new guarantees and so there has been no new activity during 2014-15, and FLS is not reflected in the Treasury's accounts, as it is administered by the Bank of England. As the BFP is no longer held by the Treasury, there is no risk to the Treasury's accounts.

[25] Supply http://www.bankofengland.co.uk/markets/Pages/FLS/default.aspx

[26] https://www.gov.uk/government/policies/making-it-easier-to-set-up-and-grow-a-business--6/supporting-pages/encouraging-private-sector-investment

Part Four – New Developments

4.1 There have been several new developments in the Treasury during 2014-15 and so I have considered the impact of these on the accounts, when conducting the audit.

4.2 The Department for Transport's (DfT) holding in Eurostar, worth £325 million, was transferred to the Treasury in June 2014. The valuation of the holding is not material to the accounts and so there is no significant risk associated with this investment. The Treasury agreed to sell this holding for £757.1 million in 2015-16, as announced in March 2015. I plan to consider this transfer in further detail in a value for money report on the government's holding in Eurostar.

4.3 In 2014-15, the Treasury received £1.4 billion of fines from the financial services industry, mostly in relation to foreign exchange misconduct by the banks. In 2013-14, the fines were disclosed in the Treasury accounts, however as they have now reached a material level, a separate trust statement has been produced to account for these in accordance with the requirements of the Government Financial Reporting Manual. The prior year figures in the Treasury's accounts have therefore been restated to remove the fines and I have issued a separate report on the trust statement.

4.4 In March 2015, the Treasury announced that it would be expanding its assistance to first time buyers in the housing market by launching a range of Help to Buy Individual Savings Accounts.[27] This programme is designed to support those who are saving deposits for their first home and will provide a government bonus of 25% of the amount saved by each individual within the scheme up to a maximum of £3,000 per person. This is likely to be a popular scheme for first time buyers and will impact on the accounts due to the accumulation of the government bonus as the savings grow.

4.5 The Treasury announced[28] in Budget 2014 that all individuals with defined contribution pension savings would be offered free and impartial guidance at the point of retirement. In its July response to the Budget consultation, it was announced that the Treasury would hold overall responsibility for delivery of this service through a website, face to face and telephone sessions. The Treasury spent £21.9 million to develop and set up the service in 2014-15, and ensure it was ready across all three channels from April 2015, when the new pension freedoms commenced. This is immaterial to the accounts in 2014-15 and will continue to impact the accounts in future years, as the Treasury are overseeing the whole policy. In the longer-term, the ongoing running costs of this guidance will be funded through levies raised by the Financial Conduct Authority (FCA) instead of by the Treasury.

Sir Amyas C E Morse
Comptroller and Auditor General
17 July 2015

National Audit Office
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[27] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413899/Help_to_Buy_ISA_Guidance.pdf

[28] http://www.parliament.uk/business/publications/research/briefing-papers/SN07042/pensions-the-guidance-guarantee

Appendix One: Materiality

I applied the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. I consider the primary users of this account to be Parliament, however the accounts will be of general interest to others, in particular the general public and media given the accounts contain disclosures on flagship financial stability interventions and wider economic support schemes.

In my professional judgement, the main source of interest in the financial statements of the Treasury is the Statement of Financial Position (SoFP) as this is where the impact of the Treasury's financial stability interventions and wider economic support schemes can be seen, whereas the most significant transactions in the Statement of Comprehensive Net Expenditure are derived from movements in the fair value of the schemes in the SoFP. As the vast majority of the SoFP balances are assets my professional judgement is that gross assets should be used as my materiality base.

The schemes and interventions contained within the financial statements have been subject to significant public interest. As a result I consider the Treasury account to be highly sensitive so apply 0.5% of gross assets, to give a lower materiality and therefore a lower tolerance for error. As a result the materiality for the financial statements as a whole was set at £786 million for the group and £659 million for the parent (the Treasury and agencies).

As well as quantitative materiality there are certain matters that, by their very nature, would influence the decisions of users if not corrected. These included, for example, salary information of ministers and senior management disclosed in the Remuneration Report and any expenditure incurred without authority. Assessment of any such misstatements would take into account these qualitative aspects as well as the size of the misstatement.

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

I agreed with the Treasury Corporate Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £250,000, as well as differences below that threshold that in my view, warranted reporting on qualitative grounds, including irregular transactions.

6 Annual Accounts 2014-15

Statement of Comprehensive Net Expenditure
for the period ended 31 March 2015

		2014-15		2013-14 (Restated)	
	Note	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
		£000	£000	£000	£000
Income from sale of goods and services	5	(19,086)	(19,086)	(22,166)	(22,166)
Other operating income	5	(243,971)	(741,808)	(440,383)	(1,136,763)
Total operating income		**(263,057)**	**(760,894)**	**(462,549)**	**(1,158,929)**
Staff costs	6	79,739	206,104	77,228	199,814
Purchase of goods & services	7	154,604	377,330	147,802	379,713
Depreciation & impairments	8	(50,959)	(198,201)	38,128	67,254
Provisions	24	447,929	771,222	107,494	222,649
Other operating expenditure	9	83,768	357,834	64,567	284,649
Total operating expenditure		**715,081**	**1,514,289**	**435,219**	**1,154,079**
Net operating expenditure/(income) before financing		**452,024**	**753,395**	**(27,330)**	**(4,850)**
Capital grant in kind income	10	(325,000)	(325,000)	–	–
Capital grant in kind expenditure	10	320,437	328,205	–	–
Finance income	11.1	(1,494,570)	(2,953,773)	(1,346,182)	(2,991,769)
Finance expenditure	11.2	9,184	200,783	9,333	224,061
Revaluation of financial assets and liabilities	12.1	(46,945,376)	(46,862,391)	12,942,215	12,993,744
Net gain on disposal of assets	13	(1,127,589)	(1,087,696)	(4,103,902)	(4,095,566)
Net (income)/expenditure before tax		**(49,110,890)**	**(49,946,477)**	**7,474,134**	**6,125,620**
Taxation		–	200,780	–	243,391
Net (income)/expenditure after tax		**(49,110,890)**	**(49,745,697)**	**7,474,134**	**6,369,011**
Net administration (income)/expenditure		140,159	142,146	125,396	126,700
Net programme (income)/expenditure		(49,251,049)	(49,887,843)	7,348,738	6,242,311
		(49,110,890)	**(49,745,697)**	**7,474,134**	**6,369,011**
Other comprehensive net (income)/expenditure					
Items that may be reclassified subsequently to net operating expenditure:					
Net gain on assets recognised in reserves	12.2	(4,480,613)	(3,578,322)	(8,440,207)	(7,599,700)
Net gain on assets transferred from reserves and recognised as income in year	12.2	902,826	910,594	1,486,702	1,486,703
Net loss/(gain) in hedging reserve		–	(45,688)	–	27,203
Items that will not be reclassified to net operating expenditure:					
Revaluation of property, plant & equipment		(35,613)	(35,613)	–	–
Actuarial loss on pension scheme liabilities		–	(85,878)	–	(1,781)
Net comprehensive (income)/expenditure for the year		**(52,724,290)**	**(52,580,604)**	**520,629**	**281,436**

Notes on pages 106 to 180 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2015

	Note	2014-15 Core Treasury and Agencies £000	2014-15 Group £000	2013-14 (Restated) Core Treasury and Agencies £000	2013-14 (Restated) Group £000	2012-13 (Restated) Core Treasury and Agencies £000	2012-13 (Restated) Group £000
Non-current assets							
Property, plant and equipment	14	154,187	184,974	112,480	147,746	116,286	157,227
Intangible assets	15	9,743	51,762	11,717	55,845	12,655	60,976
Trade and other receivables due after more than one year	16	301,615	722,687	284,775	220,076	362,296	245,115
Available-for-sale financial assets	17	54,612,414	47,717,423	52,287,404	46,760,225	48,646,006	43,885,326
Loans and advances	19	38,648,338	4,892,357	44,495,114	7,047,645	49,046,130	7,705,901
Loans to banking customers	20	–	51,692,892	–	60,407,602	–	66,479,439
Loan hedging asset	20.2	–	456,326	–	296,818	–	469,811
Derivative financial assets expiring after more than one year	21	–	2,801,345	–	4,593,048	–	6,113,819
Total non-current assets		**93,726,297**	**108,519,766**	**97,191,490**	**119,529,005**	**98,183,373**	**125,117,614**
Current assets							
Cash and cash equivalents	22	853	9,486,206	994	7,862,334	9,284	9,059,000
Inventories		12,634	13,138	8,463	8,991	16,232	16,720
Trade & other receivables due within one year	16	973,317	937,062	882,262	897,084	974,178	545,017
Assets classified as held for sale	18	757,100	757,100	–	–	–	–
Loans to banking customers	20	–	989,631	–	841,900	–	1,062,900
Loan hedging asset	20.2	–	11,400	–	12,000	–	5,463
Derivative financial assets expiring within one year	21	36,438,001	36,599,376	230,112	253,345	44,274,590	44,541,186
Total current assets		**38,181,905**	**48,793,913**	**1,121,831**	**9,875,654**	**45,274,284**	**55,230,286**
Total assets		**131,908,202**	**157,313,679**	**98,313,321**	**129,404,659**	**143,457,657**	**180,347,900**
Current liabilities							
Trade and other payables due within one year	23	(175,037)	(825,801)	(148,954)	(803,123)	(406,542)	(705,505)
Provisions due within one year	24	(503,109)	(880,666)	(23,609)	(147,392)	(290,569)	(443,339)
Cash Collateral	21	–	(2,185,839)	–	(3,119,250)	–	(4,824,837)
Debt securities in issue	25	–	(1,392,123)	–	(371,238)	–	(481,857)
Derivative financial liabilities expiring within one year	21	–	(18,427)	–	(28,445)	–	(58,909)
Total current liabilities		**(678,146)**	**(5,302,856)**	**(172,563)**	**(4,469,448)**	**(697,111)**	**(6,514,447)**
Non-current assets plus net current assets		**131,230,056**	**152,010,823**	**98,140,758**	**124,935,211**	**142,760,546**	**173,833,453**
Non-current liabilities							
Trade and other payables due after one year	23	(191,820)	(606,301)	(162,469)	(308,400)	(168,820)	(338,572)
Provisions due after more than one year	24	(460,329)	(504,337)	(586,249)	(630,374)	(579,559)	(638,614)
Financial guarantees	26	(682,582)	(291,262)	(657,885)	(206,859)	(763,158)	(256,598)
Debt securities in issue	25	–	(19,554,626)	–	(25,514,802)	–	(29,795,153)
Derivative financial liabilities expiring after one year	21	–	(551,579)	–	(417,596)	–	(705,054)
Other financial liabilities	27	–	(17,110)	–	(215,295)	–	(206,380)
Total non-current liabilities		**(1,334,731)**	**(21,525,215)**	**(1,406,603)**	**(27,293,326)**	**(1,511,537)**	**(31,940,371)**
Assets less liabilities		**129,895,325**	**130,485,608**	**96,734,155**	**97,641,885**	**141,249,009**	**141,893,082**
Equity							
General fund	SoCTE	106,406,191	112,687,415	76,858,421	82,481,998	128,326,779	132,834,405
Available-for-sale reserve	SoCTE	23,442,479	16,391,454	19,864,692	13,723,726	12,911,188	7,610,728
Revaluation reserve	SoCTE	46,655	46,655	11,042	11,042	11,042	11,042
Hedging reserve	SoCTE	–	239,647	–	193,959	–	221,162
Pension reserve	SoCTE	–	(2,226)	–	(88,104)	–	(89,354)
Merger Reserve	SoCTE	–	1,122,663	–	1,122,663	–	1,122,663
Non-shareholder's funds	SoCTE	–	–	–	196,601	–	182,436
Total equity		**129,895,325**	**130,485,608**	**96,734,155**	**97,641,885**	**141,249,009**	**141,893,082**

Notes on pages 106 to 180 form part of these accounts.

Nick Macpherson
Permanent Secretary
15 July 2015

Statement of Cash Flows

for the period ended 31 March 2015

	Note	2014-15 Core Treasury and Agencies £000	2014-15 Group £000	2013-14 (restated) Core Treasury and Agencies £000	2013-14 (restated) Group £000
Cash flows from operating activities					
Net operating (income)/expenditure before financing	SCNE	452,024	753,395	(27,330)	(4,850)
Adjustment for non-cash transactions	22.1	(399,532)	515,221	(157,255)	557,875
Changes in working capital other than cash		7,393	44,214	172,267	606,648
Additions and repayments of loans from banking customers		–	(6,413,764)	–	(5,957,000)
Proceeds on sale of loans to banking customers		–	(2,471,235)	–	(308,700)
Use of provisions	24	94,349	163,985	367,764	526,836
UKAR derivative and other financial instrument cashflows		–	112,573	–	259,300
Corporation tax paid		–	283,923	–	158,370
Net cash flows from operating activities		**154,234**	**(7,011,688)**	**355,446**	**(4,161,521)**
Cash flows from investing activities					
Receipt of cash from HMT derivative financial instruments		(10,737,487)	(10,737,487)	(31,102,264)	(31,102,264)
Proceeds from sale of shares held in financial institutions		(1,898,084)	(1,846,520)	(7,411,061)	(7,411,061)
Proceeds from sale and redemption of investment securities and other financial assets		–	(1,032,535)	–	(750,203)
Proceeds from sale of non-financial assets		–	(14,534)	–	(10,000)
Purchase of non-financial assets		9,384	27,430	1,400	12,772
Net cash outflows from debt securities in issue		–	3,995,939	–	3,180,900
Receipt of interest, dividend and other finance income		(1,366,575)	(2,957,714)	(1,219,937)	(2,941,104)
Payments of interest and other finance expenditure		9,184	200,783	9,333	224,061
Additions to financial assets		30,807	230,807	1,091,153	1,091,755
Repayments of financial assets		(5,741,735)	(1,818,766)	(5,740,471)	(958,497)
Net excess of pension contributions over costs		–	–	–	118
Net cash inflow from investing		**(19,694,506)**	**(13,952,597)**	**(44,371,847)**	**(38,663,523)**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		(3,608)	(3,608)	(3,798)	(3,798)
Advances from the Contingencies Fund		(10,000)	(10,000)	–	–
Repayments to the Contingencies Fund		10,000	10,000	–	–
Capital element of payments in respect of on-balance sheet PFI contracts		2,090	2,090	1,942	1,942
Issuance of Sukuk		–	(200,000)	–	–
Net cash flows from financing		**(1,518)**	**(201,518)**	**(1,856)**	**(1,856)**
Net increase in cash and cash equivalents before adjustments		**19,541,790**	**21,165,803**	**44,018,257**	**42,826,900**
Payments of amounts due to the Consolidated Fund		(10,771,200)	(10,771,200)	(31,135,982)	(31,135,982)
Excess cash paid to the Consolidated Fund		(8,770,731)	(8,770,731)	(12,887,584)	(12,887,584)
Net (decrease)/increase in cash and cash equivalents after adjustments	**22**	**(141)**	**1,623,872**	**(5,309)**	**(1,196,666)**
Cash and cash equivalents at the beginning of the period	SoFP	994	7,862,334	9,284	9,059,000
Cash movement from Core to Group in year		–	–	(2,981)	–
Cash and cash equivalents at the end of the period	**22**	**853**	**9,486,206**	**994**	**7,862,334**

Notes on pages 106 to 180 form part of these accounts.

Statement of Changes in Equity

for the year ended 31 March 2015

Core Treasury and Agencies

	General Fund[1]	Available-for-Sale Reserve[2]	Revaluation Reserve[3]	Hedging Reserve[4]	Pension Reserve[5]	Merger Reserve[6]	Non-controlling interests	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2014	**76,926,180**	**19,864,692**	**11,042**	**–**	**–**	**–**	**–**	**96,801,914**
Prior year adjustment	(67,759)	–	–	–	–	–	–	**(67,759)**
Restated Balance at 01 April 2014	**76,858,421**	**19,864,692**	**11,042**	**–**	**–**	**–**	**–**	**96,734,155**
Net income after tax for the year	49,110,890	–	–	–	–	–	–	49,110,890
Other comprehensive income	–	3,577,787	35,613	–	–	–	–	3,613,400
Change in CFERs payable to the Consolidated Fund	(30,564)	–	–	–	–	–	–	(30,564)
CFERs paid to the Consolidated Fund	(10,771,200)	–	–	–	–	–	–	(10,771,200)
Excess cash payable to the Consolidated Fund	(853)	–	–	–	–	–	–	(853)
Excess cash paid to the Consolidated Fund	(8,769,737)	–	–	–	–	–	–	(8,769,737)
Consolidated Fund Standing Services	3,608	–	–	–	–	–	–	3,608
Other movements	5,626	–	–	–	–	–	–	5,626
Balance at 31 March 2015	**106,406,191**	**23,442,479**	**46,655**	**–**	**–**	**–**	**–**	**129,895,325**

Group

	General Fund[1]	Available-for-Sale Reserve[2]	Revaluation Reserve[3]	Hedging Reserve[4]	Pension Reserve[5]	Merger Reserve[6]	Non-controlling interests	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2014 (restated)	**82,549,757**	**13,723,726**	**11,042**	**193,959**	**(88,104)**	**1,122,663**	**196,601**	**97,709,644**
Prior year adjustment	(67,759)	–	–	–	–	–	–	(67,759)
Restated Balance at 01 April 2014	**82,481,998**	**13,723,726**	**11,042**	**193,959**	**(88,104)**	**1,122,663**	**196,601**	**97,641,885**
Net expenditure after tax for the year	49,745,697	–	–	–	–	–	–	49,745,697
Other comprehensive income	–	2,667,728	35,613	45,688	85,878	–	–	2,834,907
Change in CFERs payable to the Consolidated Fund	(30,564)	–	–	–	–	–	–	(30,564)
CFERs paid to the Consolidated Fund	(10,771,200)	–	–	–	–	–	–	(10,771,200)
Excess cash payable to the Consolidated Fund	(853)	–	–	–	–	–	–	(853)
Excess cash paid to the Consolidated Fund	(8,769,737)	–	–	–	–	–	–	(8,769,737)
Consolidated Fund Standing Services	3,608	–	–	–	–	–	–	3,608
Other movements[7]	28,466	–	–	–	–	–	(196,601)	(168,135)
Balance at 31 March 2015	**112,687,415**	**16,391,454**	**46,655**	**239,647**	**(2,226)**	**1,122,663**	**–**	**130,485,608**

[1] The General Fund represents the total assets less liabilities to the extent that the total is not represented by other reserves and financing items. It includes retained earnings held by UKFI, UKAR, MAS, FSCS and the Sovereign Grant, and share capital reserve.

[2] The Available-for-Sale Reserve comprises the cumulative net change in the fair value of the group's available-for-sale investments. Net fair value movements are recycled to the Statement of Comprehensive Net Expenditure (SCNE) if an underlying available-for-sale investment is either derecognised or impaired beyond the accumulated gains recognised in the reserve.

[3] The Revaluation Reserve records the unrealised gain or loss on revaluation of assets.

[4] The Hedging Reserve is used to record gains and losses arising from foreign exchange hedges.

[5] The Pension Reserve represents pension and other post-retirement defined benefit obligations shown on the Statement of Financial Position. The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

[6] The Merger Reserve represents the difference between the value attributed to the investment in Bradford & Bingley plc and NRAM plc and their capital and non-distributable reserves.

[7] Other movements include non-cash charges, non-supply banking and gilts registration, transfers between reserves, and consolidation adjustments. In January 2015 UKAR Group bought back reserve capital instruments, subordinated notes and withheld coupons to the value of £196.6 million.

Notes on pages 106 to 180 form part of these accounts.

Statement of Changes in Equity

for the year ended 31 March 2014 (restated)

Core Treasury and Agencies

	General Fund	Available-for-Sale Reserve	Revaluation Reserve	Hedging Reserve	Pension Reserve	Merger reserve	Non-controlling interests	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013	**128,668,403**	**12,911,188**	**11,042**	–	–	–	–	**141,590,633**
Prior year adjustment	(341,624)							(341,624)
Restated Balance at 01 April 2013	**128,326,779**	**12,911,188**	**11,042**	–	–	–	–	**141,249,009**
Net expenditure after tax for the year	(7,474,134)	–	–	–	–	–	–	(7,474,134)
Other comprehensive income	–	6,953,505	–	–	–	–	–	6,953,505
Change in CFERs payable to the Consolidated Fund	1,611	–	–	–	–	–	–	1,611
CFERs payable to the Consolidated Fund	(31,135,982)	–	–	–	–	–	–	(31,135,982)
Excess cash payable to the Consolidated Fund	(994)	–	–	–	–	–	–	(994)
Excess cash paid to the Consolidated Fund	(12,874,339)	–	–	–	–	–	–	(12,874,339)
Consolidated Fund Standing Services	3,798	–	–	–	–	–	–	3,798
Other movements	11,682	(1)	–	–	–	–	–	11,681
Balance at 31 March 2014	**76,858,421**	**19,864,692**	**11,042**	–	–	–	–	**96,734,155**

Group

	General Fund	Available-for-Sale Reserve	Revaluation Reserve	Hedging Reserve	Pension Reserve	Merger Reserve	Non-controlling interests	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013	**133,176,029**	**7,610,728**	**11,042**	**221,162**	**(89,354)**	**1,122,663**	**182,436**	**142,234,706**
Prior year adjustment	(341,624)	–	–	–	–	–	–	(341,624)
Restated Balance at 01 April 2013	**132,834,405**	**7,610,728**	**11,042**	**221,162**	**(89,354)**	**1,122,663**	**182,436**	**141,893,082**
Net expenditure after tax for the year	(6,369,011)	–	–	–		–	–	(6,369,011)
Other comprehensive income/(expenditure)	–	6,112,997	–	(27,203)	1,781	–	–	6,087,575
Change in CFERs payable to the Consolidated Fund	1,611	–	–	–	–	–	–	1,611
CFERs payable to the Consolidated Fund	(31,135,982)	–	–	–	–	–	–	(31,135,982)
Excess cash payable to the Consolidated Fund	(994)	–	–	–	–	–	–	(994)
Excess cash paid to the Consolidated Fund	(12,874,339)	–	–	–	–	–	–	(12,874,339)
Consolidated Fund Standing Services	3,798	–	–	–	–	–	–	3,798
Other movements	22,510	1	–	–	(531)	–	14,165	36,145
Balance at 31 March 2014	**82,481,998**	**13,723,726**	**11,042**	**193,959**	**(88,104)**	**1,122,663**	**196,601**	**97,641,885**

Notes on pages 106 to 180 form part of these accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM).[1] The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

HM Treasury has been authorised by the relevant authority to apply IAS 39 'Financial Instruments: Recognition and measurement', as adapted by the FReM, to its shareholdings in Lloyds Banking Group plc, allowing Treasury to continue to use fair value as a measure of its shareholdings. This overrides the new requirement in the 2014-15 FReM to equity account for shareholdings in entities that are classified by ONS to the private sector and considered associates under IAS 28 'Investments in Associates and Joint Ventures', and will maintain alignment with Treasury's measurement of its other temporary shareholdings in public sector banks that are fair valued in line with the FReM. Applying a consistent approach, HM Treasury has also applied IAS 39 to measure at fair value its temporary holding of shares in Eurostar International Limited which is classified as 'an asset held for sale' in accordance with IFRS 5 'Non-current Assets Held for Sale'.

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

1.1 IFRSs in issue but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2014 that are adopted by the FReM with an effective date of application of 1 April 2014, or earlier. The disclosures below detail the effect that new accounting standards are expected to have on HM Treasury's Annual Accounts but which are not yet effective per the FReM.

IFRS 13 'Fair Value Measurement' (effective from 1 January 2013) has been endorsed by the EU and will be adopted by the FReM from 1 April 2015. IFRS 13 defines fair value, provides guidance on fair value measurement techniques and sets out disclosure requirements. It is not expected to have a material impact on the financial statements.

IFRS 9 'Financial Instruments' (effective from 1 January 2015) has not been adopted by the EU. However, it will be applicable if it is adopted at a later date by the EU and the FReM. IFRS 9 is being introduced to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9. All equity investments within the scope of IFRS 9 are to be measured at fair value in the Statement of Financial Position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income. In the event that IFRS 9 is adopted by the EU, HM Treasury may obtain an accounts direction not to apply IFRS 9 in full but instead to continue to measure interests in public bodies at net asset value where observable market data is not available and to measure Public Dividend Capital at historical cost. IFRS 9 is expected to have significant

[1] https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

implications in relation to impairment of loans to banking customers, hedging and which assets are carried at amortised cost and which at fair value.

IAS 36 'Impairment of assets on recoverable amount disclosures' (effective from 1 January 2014) has been adopted by the EU and is to be adopted by the FReM from 1 April 2015. The amendment to IAS 36 clarifies the scope of certain disclosure requirements without reducing the relevance and understandability of the financial information. It is not expected to have a material impact on the financial statements.

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014, effective for periods beginning on or after 1 January 2017. It is not yet endorsed by the EU or adopted by the FReM. It is not expected to have a material impact on the financial statements.

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts consolidate the entities listed in Note 37 'Entities consolidated in the Treasury Group'. The departmental boundary is different from the concept of a group under IFRS; it is as defined by the FReM and based on control criteria used by the ONS to determine sector classification.

'Core Treasury' comprises the non-agency parts of HM Treasury, Infrastructure UK (IUK) and the Office of Tax Simplification (OTS). 'Core Treasury and Agencies' includes HM Treasury plus the Debt Management Office and is disclosed net of transactions between them. 'Core Treasury' is not separately disclosed in addition to 'Core Treasury and Agencies' as the differences between the two are immaterial and are due to only one agency which publishes its own accounts.

'Group' includes all the bodies listed in Note 37 'Entities consolidated in the Treasury Group'. The principal bodies are:

- Bradford and Bingley plc (B&B)
- Help to Buy (HMT) Limited
- HM Treasury UK Sovereign Sukuk plc
- Infrastructure Finance Unit Limited (IFUL)
- NRAM plc (NRAM)
- UK Asset Resolution Ltd (UKAR)
- UK Financial Investments Ltd (UKFI)
- Financial Services Compensation Scheme (FSCS)
- Money Advice Service (MAS)
- Office for Budget Responsibility (OBR)
- Royal House/Sovereign Grant

Transactions between entities included in the reporting boundary are eliminated on consolidation.

In addition, during the period, HM Treasury had ownership interests in the following entities:

- Bank of England
- Lloyds Banking Group plc
- Royal Bank of Scotland Group plc
- Eurostar International Limited
- Royal Mint Trading Fund
- Partnership UK
- Local Partnership LLP
- Trust Statement (for PRA and FCA fines)

Other than in relation to the bodies above, HM Treasury does not have any material non-controlling interest in other entities.

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

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

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

1.3 Revenue recognition

All income is accounted for in line with IAS 18 'Revenue Recognition'.

Operating income relates directly to the operating activities of HM Treasury. It includes recharges at full cost for services provided and costs recoverable from other bodies.

Finance income relates to interest and dividend income from investments and loans. Dividends on available-for-sale equity instruments are recognised in the Statement of Comprehensive Net Expenditure when HM Treasury's right to receive payment is established. Interest is recognised in the Statement of Comprehensive Net Expenditure on an effective interest rate (EIR) method for all interest-bearing financial instruments except derivatives.

The EIR method calculates the amortised cost of a financial asset or financial liability and spreads the resulting interest income or interest expense on a level yield basis over the expected life of the instrument, or an appropriate shorter period. In respect of loans to customers, the period used is the period to which the product reprices to a Standard or Product Variable Rate. The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the appropriate period to the initial carrying amount. When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example prepayment options), but potential future credit losses are not considered. The calculation includes all directly attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest.

Interest on derivatives is included in interest income where the derivative is hedging interest income, and interest expense where the derivative is hedging interest expense.

When a financial asset or a group of similar financial assets is written down as a result of an impairment loss, interest income continues to be recognised by applying the applicable EIR to the reduced balance.

1.4 Expenditure

Where the Department's net expenditure is analysed between administration and programme income and expenditure, the classification as administration or as programme follows the definition of costs covered by administration budgets set out in Consolidated Budgeting Guidance 2014-15. Net administration costs reflect the costs of running HM Treasury, and exclude costs associated with service delivery. Programme costs reflect non-administration costs, including disbursements by HM Treasury in support of financial stability interventions.

1.5 Tax

1.5.1 Value Added Tax

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

1.5.2 Corporation tax

The charge for taxation is based on UKAR, Help to Buy (HMT) Limited and HM Treasury UK Sovereign Sukuk plc results for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

1.5.3 Deferred tax

Deferred tax is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which these temporary differences can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment; revaluation of certain financial assets and liabilities including derivative contracts; provisions for pensions and other post-retirement benefits; tax losses carried forward; and changes in accounting basis on adoption of IFRS. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income, and subsequently in the Statement of Comprehensive Net Expenditure together with the associated gain or loss.

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

1.6.1 Recognition and valuation

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

Non-current assets are generally carried at historical cost less accumulated depreciation. This is a suitable proxy for fair value and is allowable per the FReM for those assets with short useful lives or low values. This includes assets held as fixtures and fittings, IT equipment and intangible non-current assets other than goodwill. Goodwill is carried at historical cost and is not amortised.

Gains arising on revaluation are taken to the Revaluation Reserve. Losses on revaluation are debited to the Revaluation Reserve to the extent that gains have been recorded previously and otherwise to the Statement of Comprehensive Net Expenditure.

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. Freehold land is not depreciated. A full valuation is carried out every five years and an interim desk valuation at year three. A full valuation of the Department's land and buildings was carried out by the Valuation Office Agency (VOA) in March 2015.

Assets under construction are carried at accumulated cost. Depreciation does not commence until the asset is completed and available for use.

Antiques are subsequently recognised at fair value. A full valuation is carried out every 5 years. Mike Neill, Director at Bonhams (UK), performed the last valuation of the Department's antiques on 9 April 2010 and the next valuation will be completed in 2015.

Heritage assets maintained by the Sovereign Grant are not shown on the Treasury's Statement of Financial Position. These assets are held by The Queen in trust for the nation. The cost of associated major repairs to these assets is reported in the Statement of Comprehensive Net Expenditure in the year in which it is incurred. Where improvements are made to the buildings that are deemed to be capital in nature, the associated costs are capitalised as buildings. For further details, see the Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2014-15.

Components of an asset are separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset. Assets with a gross book value over £0.5 million are reviewed to identify whether they comprise of significant components with different useful lives. Where a component is replaced or restored, the carrying amount of the old component is derecognised and the new component added.

1.6.2 Depreciation and amortisation

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

Freehold and long leasehold buildings	40 to 50 years
Property improvements - to freehold buildings - to leasehold buildings	 7 to 30 years for freehold properties Over the outstanding lease term
Plant and machinery	3 to 12 years
Furniture, fixtures and fittings - within freehold buildings - within leasehold buildings	 5 to 20 years Over the lesser of 5 to 20 years and the outstanding lease term
Office and other non-IT equipment	3 to 10 years
Computer and telecom hardware, software and licences	3 to 10 years
Plant and machinery	3 to 15 years

1.7 Impairment of non-current assets

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

1.8 Cash and cash equivalents

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

1.9 Pensions

The Group operates a number of retirement benefit plans for its employees, including defined benefit plans, defined contribution plans, and post-retirement healthcare benefits. The costs of these plans are recognised in accordance with IAS 19 'Employee Benefits' and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

1.9.1 Defined benefit schemes

A defined benefit plan is a pension arrangement that defines an amount of pension benefit that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and salary.

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

The FSCS, UKAR Group (including B&B and NRAM), and the Royal Household also operate defined benefit schemes.

For these schemes, liabilities are discounted using rates equivalent to the market yields at the Statement of Financial Position date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The resulting net surplus or deficit is included in the Statement of Financial Position. Surpluses are only recognised in the Statement of Financial Position to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The costs for the defined benefit schemes are recognised in the Statement of Comprehensive Net Expenditure to the extent that they relate to current or past service costs, settlements or curtailments, the net expected return on the pension assets, net of administration costs, and the interest cost on the scheme's liabilities. Actuarial gains and losses are recognised in other comprehensive expenditure and charged to retained earnings in full in the period in which they occur.

A full actuarial valuation of UKAR's defined benefit sections of the existing schemes is undertaken every three years with interim reviews in the intervening years; these valuations are updated at each published reporting year end date by qualified independent actuaries. For the purpose of these updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. As at 31 March 2015, the B&B and NRAM defined benefit schemes were in surplus on an accounting basis, but in deficit on a trustees funding basis. As these are separate schemes, a surplus on one scheme cannot be used to offset a deficit on the other.

1.9.2 Defined contribution schemes

A defined contribution plan is a pension arrangement where the employer pays fixed contributions into a separate fund. The costs for the defined contribution schemes are recognised as an expense in the Statement of Comprehensive Net Expenditure as incurred. Contributions are charged to the Statement of Comprehensive Net Expenditure when employees have rendered the related services, which is generally in the year of contribution. For defined contribution plans, the employer has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The FSCS, MAS, UKFI, UKAR and the Royal Household operate defined contribution pension schemes. HM Treasury also operates a defined contribution scheme for staff who transferred from Partnerships UK to Infrastructure UK. Contributions payable by HM Treasury are recognised as an expense in the year in which they are incurred.

One of the Royal Household's pension schemes, managed by the Government, is not a funded scheme. The Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis and therefore, as permitted by IAS 19 'Employee Benefits', this scheme is treated as a defined contribution scheme.

1.10 Private Finance Initiative (PFI) transactions

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

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

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

1.11 Provisions, contingent liabilities and contingent assets

Provisions are carried in respect of certain known or forecast future expenditure. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. In calculating provisions, future payments may be subject to discount rates depending on the expected timing of cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

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.

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

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

In addition to contingent liabilities disclosed in accordance with IAS 37, HM Treasury discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities which have been reported to Parliament in accordance with the requirements of Managing Public Money.

1.12 Financial instruments

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

1.12.1 Categories of financial instruments

In accordance with IAS 39 'Financial Instruments Recognition and Measurement', financial instruments are classified at initial recognition into the following categories:

(i) financial assets at fair value through profit or loss;

(ii) available-for-sale financial assets;

(iii) loans and receivables;

(iv) held-to-maturity financial assets;

(v) financial liabilities at fair value through profit or loss; and

(vi) financial liabilities at amortised cost.

Measurement of financial instruments is either at amortised cost (categories (iii), (iv) and (vi) above) or at fair value (categories (i), (ii) and (v) above),depending on the category of financial instrument.

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method at the rate applicable at the date of recognition. Amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market is considered to exist, fair values are based on quoted prices or lead manager prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments. Movements in fair value are recognised in the Statement of Comprehensive Net Expenditure, except in the case of instruments categorised as 'available-for-sale', in which case the fair value movements are taken to the 'available-for-sale' reserve. On sale or derecognition of an available-for-sale instrument the accumulated fair value movements are transferred from the 'available-for-sale' reserve to the Statement of Comprehensive Net Expenditure.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(a) Financial assets at fair value through profit or loss

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. For loans on which interest is received and full recovery is anticipated, the calculation of amortised cost equals the outstanding principal. For loans which are interest free, future cash flows are discounted at the Treasury discount rate applicable at the inception of the loan agreement in accordance with the FReM. The result is that on initial recognition an impairment is recognised for the irrecoverability of future interest.

(c) Available-for-sale financial assets

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

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

(d) Financial guarantee liabilities at amortised cost

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.

(e) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities that are not classified as financial guarantees.

1.12.2 Reclassification of financial assets

Where it is considered appropriate to do so, financial assets have been reclassified out of the 'available-for-sale' category to 'loans and receivables' in accordance with the revisions to IAS 39 issued by the IASB in October 2008. Such reclassifications are permitted only under certain restricted circumstances, including that there is no active market for the asset. **Investment securities** held include some that have been classified as 'available for sale' and some which have been reclassified to 'loans and receivables' on the basis that there is no active market for them.

The asset is reclassified using its fair value at the point of transfer, and from that point on is accounted for on an EIR basis. The difference between the carrying value at the point of reclassification and the expected value at the redemption date is recognised in profit or loss on an EIR basis over the expected life of the asset, and the asset's carrying value accretes to the redemption amount over that period, except where the asset has become impaired. The balance in the available-for-sale reserve which related to the asset is amortised to profit or loss over the expected life of the asset; in the Statement of Comprehensive Net Expenditure the amortisation of the difference between value at reclassification and at redemption and the amortisation out of the available-for-sale reserve exactly offset each other.

1.12.3 Measurement of financial instruments

Purchases and sales of financial assets are generally accounted for on the date of commitment to buy or sell (the 'trade date'). Purchases and sales of **mortgage portfolios** are accounted for on the completion date.

Loans and receivables are carried at amortised cost at the rate applicable at the date of recognition, less any impairment, with any impairment being charged to the Statement of Comprehensive Net Expenditure.

Loans from HMT predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. Therefore comparison with market terms and market prices was not possible in determining fair value and, consequently, these loans were recognised initially at amortised cost at the rate applicable at the date of recognition as determined by the FReM. **Statutory debts**, which are interest free loans, are amortised using the Treasury discount rate applicable at the inception of the debt, in accordance with the FReM, and the cash flows are assessed using administrators' estimates as to both the amount and timing of recoveries.

Available-for-sale financial assets are recognised initially at fair value. At initial recognition, the best evidence of fair value in an arm's length transaction is cash received or paid, unless there is evidence to the contrary. The fair value on recognition also includes any directly attributable transaction costs. Available-for-sale financial assets (other than Public Dividend Capital) are subsequently carried at fair value, with movements in fair value, excluding impairment provisions, being taken to the available-for-sale reserve.

In the absence of observable market data for **investments in public bodies** outside the departmental boundary, net asset value per recent audited accounts is used as a measure for determining fair value, taking into consideration HM Treasury's assessment of impairment or material changes to fair value for bodies with non-coterminous reporting dates. This applies to HM Treasury's investments in the Bank of England, Partnerships UK, and Local Partnerships. It also applies to HM Treasury's investments in UKAR, IFUL, UKFI, HM Treasury UK Sovereign Sukuk plc, IUK Investments Holdings Limited, IUK Investments Ltd and Help to Buy (HMT) Ltd although these are eliminated out at the group level. Fair value changes reflect the change in value of net assets held by these bodies.

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

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

Derivatives are recognised at fair value. Derivatives are measured at fair value on the date a derivative contract is entered into. 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. The fair value includes any interest accrued on that derivative. All transaction costs are expensed in the Statement of Comprehensive Net Expenditure. Fair values are subsequently obtained from quoted market prices, or using valuation techniques including discounted cash flow models and option pricing models. The gain or loss on subsequent measurement is taken to the Statement of Comprehensive Net Expenditure except where the derivative is a designated hedging instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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. All guarantee arrangements are re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantee are adjusted if necessary.

The fair value of financial guarantee liabilities at initial recognition are estimated as the fair value of the guarantee fee income, assuming the fee has been set at a market rate. Subsequent measurement of liabilities under financial guarantees is measured at the higher of: the initial measurement, less amortised fee income recognised in the Statement of Comprehensive Net Expenditure as the service is provided; and the best estimate of the probable expenditure required to settle any financial obligation arising at the reporting date, in line with the definitions of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Any increase in the liability relating to guarantees is taken to the Statement of Comprehensive Net Expenditure.

1.12.4 Impairment of financial assets

Financial assets carried at amortised cost and available for sale are reviewed for indications of possible impairment throughout the year and at each published reporting date. Generally, an impairment loss is recognised if, and only if, there is objective evidence that a loss event (or events) has occurred after initial recognition and before the reporting date and has a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets. Impairment of loans to customers is detailed below. Losses that are incurred as a result of events occurring after the reporting date are not recognised.

(a) Assets carried at amortised cost

For **loans and advances** (other than loans to banking customers), the following criteria are used to determine that there is objective evidence of an impairment loss include:

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

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

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

For **loans to banking customers**, an assessment is made as to whether an impairment provision should be made on either an individual or a collective basis. Loans where an individual assessment is made include all loans in possession or held for sale with a Law of Property Act ('LPA') receiver and others which management consider to be individually impaired, for example where a fraud has been uncovered. The carrying value of the loan at the reporting date is reduced, by applying an impairment allowance, to the net present value of the expected future cash flows associated with the loan, calculated at the loan's original EIR. These cash flows include, where appropriate, estimated amounts recoverable by possession and sale of the secured property taking into account a discount on property value to reflect a forced sale.

All loans that have been assessed as having no individual impairment are then assessed collectively, grouped by loans with similar characteristics. Assessment is made of impairment arising due to events which are believed to have occurred by the reporting date but have not yet been reported, taking into account the economic climate in the market. This collective impairment is reflected by reducing the carrying value of total loans by applying an impairment allowance.

For impaired loans, interest is accrued for accounting purposes on the loan amount after any impairment adjustments, in accordance with IAS 39, using the original EIR of the loan. However, for the purposes of the amount legally due from the borrower, interest continues to accrue on the full outstanding balance, and it is this full balance plus full interest which is pursued for collection.

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

Where a property has been taken into possession, or an LPA receiver has been appointed to collect rental income on the property, the loan continues to be carried within 'loans to customers'.

(b) Assets classified as available-for-sale

Impairment losses – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Comprehensive Net Expenditure – are removed from equity and recognised in the Statement of Comprehensive Net Expenditure. Impairment losses recognised in the Statement of Comprehensive Net Expenditure are not subsequently reversed until the related financial asset is de-recognised.

Generally, for investments in this classification, an impairment review is carried out at the reporting date. Indicators of impairment for these other investments include net cash outflows or operating losses, a reduction in net assets, and other factors influencing recoverable amount.

In the case of **equity investments** classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether an asset is impaired. This assessment is performed on a tranche by tranche basis where multiple lots of the same security have been purchased at different price levels.

Investment securities classified as available-for-sale are carried at fair value which appropriately reflects any impairment. Impairment is recognised when the investment security exhibits objective evidence of impairment or is uncollectible. Such evidence may include:

- Significant financial difficulty;
- Payment defaults;

- Renegotiation of terms due to borrower difficulty;
- Sustained fall in credit rating or creditworthiness;
- Significant restructuring;
- Disappearance of an active market;
- Significant and sustained fall in market price; or
- Observable data indicating measurable decrease in the estimated future cash flows from a group of financial assets, although the decrease cannot yet be identified within individual assets in the group.

Movements in the fair value which are a reflection of impairment of the long term value of the investment security are recognised in the Statement of Comprehensive Net Expenditure. Investment impairment losses recognised against investment securities are reversed through the Statement of Comprehensive Net Expenditure if the improvement relates to an event occurring after the initial impairment was recognised. If there is a sustained increase in the fair value of an investment security where an impairment loss has previously been recognised, but no improvement can be attributed to a subsequent credit event, then the increase in value may be treated as a revaluation and recognised through other comprehensive income in the available-for-sale reserve.

1.12.5 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.

1.13 Assets held for sale

HM Treasury classifies an asset as held for sale, in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', if: its carrying amount will be recovered principally through a sale transaction rather than through continuing use; the asset is available for immediate sale; and a plan to sell the asset and locate a buyer has been initiated. Where an asset is acquired exclusively with a view to its subsequent disposal, and its sale is highly probable within a short period following acquisition, it shall be classified as held for sale from acquisition. HM Treasury has classified its temporary shareholding in Eurostar International Limited as an asset held for sale from when it was transferred to the department. It falls within the 'available for sale financial assets' category of financial instruments, but classified as an asset held for sale, and is measured at fair value.

1.14 Debt and equity securities in issue

Issued securities, including capital instruments, are classified as liabilities where the contractual arrangements result in the issuing company having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the company. Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the company's assets on the holder of the securities. Issued securities include ordinary and preference share capital. Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary.

On initial recognition, debt issued is measured at its fair value net of directly attributable issue and transaction costs. Subsequent measurement is at amortised cost using the EIR method to amortise attributable issue and transaction costs, premia and discounts over the life of the instrument. These costs are charged along with interest on the debt to 'interest expense and similar charges'. Unamortised amounts are added to or deducted from the carrying value of the instrument.

Equity instruments (including share capital) are initially recognised at net proceeds, after deducting transaction costs and any related income tax.

1.15 Derivative financial instruments and hedging activities

Derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions.

Each derivative is carried at fair value in the Statement of Financial Position and changes in the fair value of derivatives are charged to the Statement of Comprehensive Net Expenditure. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives which are used to hedge particular risks can either be mitigated in the Statement of Comprehensive Net Expenditure (fair value hedge accounting) or recognised in other comprehensive income (cash flow hedge accounting). The Group has adopted cash flow hedge accounting and fair value hedge accounting.

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

At the inception of each hedging arrangement, the relationship between the hedging instruments and the hedged items must be documented, as well as the risk management objective and strategy. Also documented is an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging arrangement are 'highly effective' in offsetting changes in fair values or cash flows of the hedged items. Under IAS 39 a hedge is deemed to be 'highly effective' if effectiveness is forecast to fall, and is actually found to fall, within the 80% to 125% range. Any hedge relationship falling outside these limits is deemed to be ineffective and hedge accounting is discontinued.

Where a hedge relationship is terminated or deemed not to be highly effective (other than as a result of the hedged item being derecognised from the Statement of Financial Position due to sale or other reason), the adjustment relating to the terminated hedge relationship is amortised to the Statement of Comprehensive Net Expenditure over the period that the hedged item affects profit and loss.

1.15.1 Cash flow hedge accounting

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in equity as other comprehensive income, and recycled to the Statement of Comprehensive Net Expenditure in the periods when the hedged item will affect profit and loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Net Expenditure.

1.15.2 Fair value hedge accounting

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Net Expenditure, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Fair value hedge accounting is used on one-to-one relationship and portfolio hedging bases, as described below.

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective', the associated hedged item is carried on the Statement of Financial Position at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the Statement of Comprehensive Net Expenditure, mitigating the fair value movements on the associated derivative financial instruments. The Statement of Comprehensive Net Expenditure immediately recognises any hedge accounting 'ineffectiveness', being any difference between the fair value movement on the hedging instrument and that on the hedged item.

Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as 'highly effective', the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the carrying value of the hedged items is not adjusted; instead the difference between the carrying value and the fair value in respect of the hedged risk is carried on the Statement of Financial Position.

1.15.3 Embedded derivatives

Certain financial instruments have derivative features embedded within them. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host instrument, and where changes in value in the host instrument are not reflected in the Statement of Comprehensive Net Expenditure, the embedded derivative is separated from the host and carried on the Statement of Financial Position at fair value, with gains and losses on the embedded derivative being recognised in the Statement of Comprehensive Net Expenditure. In accordance with IFRIC 9 'Reassessment of Embedded Derivatives' the decision as to whether to separate and value an embedded derivative is reassessed when and only when the terms of the host contract are significantly modified.

1.16 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') continue to be reported as they were originally classified within the Statement of Financial Position, as the risks and rewards associated with that asset remain. The counterparty liability and securities purchased under agreements to resell ('reverse repos') are recorded in the Statement of Financial Position. The difference between sale and repurchase price is treated as interest in the Statement of Comprehensive Net Expenditure and accrued over the life of the agreements using the EIR method.

1.17 Off-Balance Sheet loan commitments

Off-Balance Sheet loan commitments are disclosed in Note 33 'Other Financial Commitments'. They comprise commitments to advance cash sums, and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of lifetime mortgages which involved the advance of a lump sum on which interest continues to accrue but is not payable until the loan is redeemed, the commitment reflects an estimate of the interest expected to roll up until redemption. In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

1.18 Foreign currencies

The presentational and functional currency of the Group is pounds sterling. Transactions which are not denominated in pounds sterling are translated at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated at the closing rate of exchange on the reporting year end date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the Statement of Comprehensive Net Expenditure.

2. Critical accounting estimates and judgements

2.1 Impairment losses on loans and advances

HM Treasury's accounting policy for losses arising on financial assets classified as loans and receivables is described in Note 1.12.4. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date. Evidence used in assessing losses includes estimates from administrators on the level and timings of repayments from the estates of KSF, Heritable, Icesave, London Scottish and Dunfermline.

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 50 to 100 per cent. A sensitivity analysis of capital recoveries for these loans is included in Note 29.2.1.

In addition to assessing the amount of repayment, timing is also considered for interest free loans. HM Treasury has provided Bradford & Bingley, KSF, Heritable, Icesave, London Scottish and Dunfermline with interest free loans to fund repayment of retail deposits.

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

2.2 Impairment losses on loans to banking customers

In respect of loans to banking customers, loan impairments are reviewed on a monthly basis and individual impairment losses are assessed by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans are calculated using a statistical model. The key assumptions used in this model are: the probability of any balance entering into default as a result of an event that had occurred prior to the reporting date; the probability of this default resulting in possession or write-off; and the estimated subsequent loss incurred. These key assumptions are based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance would be an estimated £76.4 million lower (2013: £108.7 million) or £87.3 million higher (2013: £115.5 million) respectively.

2.3 Impairment of available-for-sale financial assets

HM Treasury's accounting policy for losses arising on available-for-sale financial assets is described in Note 1.12.4. In determining whether an impairment loss has been incurred in respect of RBS and LBG shares, HM Treasury assesses whether there has been a significant or sustained decline in its fair value below original cost price. The result of performing the assessment on individual tranches of shares is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

As at 31 March 2015, available-for-sale assets totalled £47.7 billion (2013-14: £46.7 billion). The fair values of available-for-sale assets are detailed in Note 17. A sensitivity analysis for changes in equity prices is included in Note 29.3.2.

2.4 Provisions

Provisions are carried in respect of certain known or forecast future expenditure, as described in Note 24. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Future payments may be subject to discount rates based on the expected timing of cashflows to arrive at the net present value of all expected future cashflows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

3. Prior Period Adjustments

HM Treasury receives fine income from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) which it must pay to the Consolidated Fund under the Financial Services and Markets Act (FSMA) 2000 and the Financial Services Act (FSA) 2012. This income falls within the definition of tax-type non-budget income and must be accounted for in a Trust Statement per the FReM. In 2013-14, the amount of fine income received was not material and therefore a Trust Statement was not necessary. In 2014-15, the fine income is material and a Trust Statement has been prepared for the first time in Chapter 7.

Prior year figures for both Core Treasury and Agencies and Treasury group have been restated as if the fine income had always been accounted for in this way. The effect of the restatement on the primary statements is shown below.

Consolidated Statement of Comprehensive Net Expenditure 2013-14

	2013-14 Published		2013-14 Restatements		2013-14 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Other operating income	(826,437)	(1,522,817)	386,054	386,054	**(440,383)**	**(1,136,763)**
Total operating income	(848,603)	(1,544,983)	386,054	386,054	**(462,549)**	**(1,158,929)**
Net operating (income)/expenditure before financing	(413,384)	(390,904)	386,054	386,054	**(27,330)**	**(4,850)**
Net expenditure/(income) before tax	7,088,080	5,739,566	386,054	386,054	**7,474,134**	**6,125,620**
Net expenditure/(income) after tax	**7,088,080**	**5,982,957**	**386,054**	**386,054**	**7,474,134**	**6,369,011**

Consolidated Statement of Financial Position 2013-14

	2013-14 Published		2013-14 Restatements		2013-14 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Total non-current assets	97,191,490	119,529,005	–	–	**97,191,490**	**119,529,005**
Trade & other receivables due within one year	950,021	964,843	(67,759)	(67,759)	**882,262**	**897,084**
Total current assets	1,189,590	9,943,413	(67,759)	(67,759)	**1,121,831**	**9,875,654**
Total assets	98,381,080	129,472,418	(67,759)	(67,759)	**98,313,321**	**129,404,659**
Total current liabilities	(172,563)	(4,469,448)	–	–	**(172,563)**	**(4,469,448)**
Non-current assets plus net current assets	98,208,517	125,002,970	(67,759)	(67,759)	**98,140,758**	**124,935,211**
Total non-current liabilities	(1,406,603)	(27,293,326)	–	–	**(1,406,603)**	**(27,293,326)**
Assets less liabilities	**96,801,914**	**97,709,644**	**(67,759)**	**(67,759)**	**96,734,155**	**97,641,885**
General fund (net expenditure)	76,926,180	82,549,757	(67,759)	(67,759)	**76,858,421**	**82,481,998**
Total equity	**96,801,914**	**97,709,644**	**(67,759)**	**(67,759)**	**96,734,155**	**97,641,885**

Consolidated Statement of Financial Position 2012-13

	Core Treasury and Agencies £000	2012-13 Published Group £000	Core Treasury and Agencies £000	2012-13 Restatements Group £000	Core Treasury and Agencies £000	2012-13 (Restated) Group £000
Total non-current assets	98,183,373	125,117,614	–	–	**98,183,373**	**125,117,614**
Trade & other receivables due within one year	1,315,802	886,641	(341,624)	(341,624)	**974,178**	**545,017**
Total current assets	45,615,908	55,571,910	(341,624)	(341,624)	**45,274,284**	**55,230,286**
Total assets	143,799,281	180,689,524	(341,624)	(341,624)	**143,457,657**	**180,347,900**
Total current liabilities	(697,111)	(6,514,447)	–	–	**(697,111)**	**(6,514,447)**
Non-current assets plus net current assets	143,102,170	174,175,077	(341,624)	(341,624)	**142,760,546**	**173,833,453**
Total non-current liabilities	(1,511,537)	(31,940,371)	–	–	**(1,511,537)**	**(31,940,371)**
Assets less liabilities	**141,590,633**	**142,234,706**	**(341,624)**	**(341,624)**	**141,249,009**	**141,893,082**
General fund (net expenditure)	128,668,403	133,176,029	(341,624)	(341,624)	**128,326,779**	**132,834,405**
Total equity	**141,590,633**	**142,234,706**	**(341,624)**	**(341,624)**	**141,249,009**	**141,893,082**

4. Segment reporting

The operating segment analysis is reported in a manner consistent with the internal reporting provided to HM Treasury's Executive Management Board (EMB). The EMB is responsible for allocating resources across the Treasury group and for assessing the performance of the operating segments based on each segment's outturn against budget. It has been identified as the chief operating decision maker for the purposes of this segmental analysis. Transactions between segments are carried out at arm's length and any material intra-group transactions and balances are eliminated on consolidation.

Analysis of net expenditure by reported operating segment

Reported operating segment	2014-15 Gross Expenditure £000	2014-15 Income £000	2014-15 Net Expenditure/ (Income) £000	2013-14 Gross Expenditure £000	2013-14 Income £000	2013-14 Net Expenditure/ (Income) £000
Administration	151,359	(28,714)	122,645	150,229	(44,653)	105,576
Equitable Life	5,999	–	5,999	16,246	–	16,246
Royal Household Pension Scheme & Civil List	4,511	(903)	3,608	4,757	(959)	3,798
Office of Tax Simplification	387	–	387	288	–	288
Infrastructure UK	10,686	(16,610)	(5,924)	8,429	(5,048)	3,381
Financial Interventions	–	(49,196,937)	(49,196,937)	12,974,119	(5,362,523)	7,611,596
Other Programme	851,500	(909,732)	(58,232)	213,858	(495,002)	(281,144)
Core Treasury	**1,024,442**	**(50,152,896)**	**(49,128,454)**	**13,367,926**	**(5,908,185)**	**7,459,741**
Debt Management Office	20,448	(2,884)	17,564	20,376	(2,768)	17,608
Core Treasury and Agencies	**1,044,890**	**(50,155,780)**	**(49,110,890)**	**13,388,302**	**(5,910,953)**	**7,477,349**
Eliminations	(189)	189	–	(1,535)	(1,680)	(3,215)
Core Treasury and Agencies per Statement of Comprehensive Net Expenditure	**1,044,701**	**(50,155,591)**	**(49,110,890)**	**13,386,767**	**(5,912,633)**	**7,474,134**
Infrastructure Finance Unit Ltd	15,067	(15,072)	(5)	7,392	(7,392)	–
UK Financial Investments	3,558	(3,558)	–	2,756	(2,756)	–
Office for Budget Responsibility	1,987	–	1,987	1,737	(1)	1,736
Total reported segments	**1,065,313**	**(50,174,221)**	**(49,108,908)**	**13,398,652**	**(5,922,782)**	**7,475,870**
Reconciliation to Statement of Comprehensive Net Expenditure:				–	–	–
UK Asset Resolution	1,159,780	(1,931,393)	(771,613)	1,472,178	(2,341,846)	(869,668)
Financial Services Compensation Scheme	799,946	(755,989)	43,957	730,515	(1,043,586)	(313,071)
Sovereign Grant	49,340	(13,649)	35,691	49,537	(13,805)	35,732
Money Advice Service	81,607	(80,822)	785	78,604	(79,088)	(484)
Help to Buy (HMT) Ltd	6,161	(6,151)	10	6,406	(219)	6,187
HM Treasury UK Sovereign Sukuk plc	3,037	(3,040)	(3)	–	–	–
Eliminations between reported segments	(12,477)	10,481	(1,996)	(11,389)	9,869	(1,520)
Eliminations with non-reported segments	(908,651)	965,031	56,380	(1,109,228)	1,145,193	35,965
Group total per Statement of Comprehensive Net Expenditure	**2,244,056**	**(51,989,753)**	**(49,745,697)**	**14,615,275**	**(8,246,264)**	**6,369,011**

Analysis of net assets by reported operating segment

Reported operating segment	2014-15 Total Assets £000	2014-15 Net Assets £000	2013-14 Total Assets £000	2013-14 Net Assets £000
Core Treasury	131,904,263	129,894,167	98,309,528	96,732,612
Debt Management Office	3,984	1,158	3,833	1,543
Core Treasury and Agencies	**131,908,247**	**129,895,325**	**98,313,361**	**96,734,155**
Eliminations	(45)	–	(40)	–
Core Treasury and Agencies per Statement of Financial Position	**131,908,202**	**129,895,325**	**98,313,321**	**96,734,155**
Infrastructure Finance Unit Ltd	108,052	17	411,365	6,825
UK Financial Investments	930	58	941	–
Office for Budget Responsibility	82	(175)	56	(184)
Total reported segments	**132,017,266**	**129,895,225**	**98,725,683**	**96,740,796**
Reconciliation to Statement of Financial Position:			–	–
UK Asset Resolution	66,142,508	7,053,142	74,939,697	6,341,006
Financial Services Compensation Scheme	16,739,377	–	17,421,479	(534,371)
HM Treasury UK Sovereign Sukuk plc	200,830	53	–	–
Sovereign Grant	26,927	15,479	23,550	13,594
Money Advice Service	15,797	9,136	17,792	9,996
Help to Buy (HMT) Ltd	47,108	(10)	10,821	(6,187)
Eliminations between reported segments	(108,563)	–	(401,492)	–
Eliminations with non-reported segments	(57,767,571)	(6,487,417)	(61,332,871)	(4,922,949)
Group total per Statement of Financial Position	**157,313,679**	**130,485,608**	**129,404,659**	**97,641,885**

5. Operating income

		2014-15		2013-14 (Restated)
	Core Treasury and Agencies	Treasury Group	Core Treasury and Agencies	Treasury Group
	£000	£000	£000	£000
Sales of goods and services	**19,086**	**19,086**	**22,166**	**22,166**
Other operating income comprises:				
Fees, levies and charges	135,658	502,253	363,691	832,663
Recoveries and recharges	15,047	115,196	26,309	213,294
Pool Re insurance premiums	64,315	64,315	32,108	32,108
Rental income	14,263	17,057	13,401	16,649
Sukuk investment income	–	3,040	–	–
Miscellaneous income	14,688	39,947	4,874	42,049
Total other operating income	**243,971**	**741,808**	**440,383**	**1,136,763**
Total operating income	**263,057**	**760,894**	**462,549**	**1,158,929**

'Sale of goods and services' comprises sale of coinage scrap metal and consultancy income.

'Fees, levies and charges' include fees charged by Treasury for providing financial guarantees and levies charged by FSCS and MAS to their levy payers. Treasury's fee income in 2013-14 included £240 million for £8 billion of contingent capital it had made available to RBS. This arrangement was ended in 2014. Treasury receives other fee income from the National Loan Guarantee Scheme (£64.3 million), from Bradford & Bingley and NRAM plc (£53.6 million) in relation to other guarantees provided by Treasury, and from the UK Guarantee Scheme (£13.3 million). Further details about the guarantees are in Note 26. 2013-14 is restated as income relating to the fines imposed by the FCA and PRA is disclosed with the Trust Statement.

The majority of 'Recoveries and recharges' are recoveries received by FSCS.

'Sukuk investment income' arises from new sharia-compliant certificates issued during the year.

6. Staff numbers and costs

An analysis of staff costs and staff numbers are provided below. Further details of salaries and pensions is disclosed in the remuneration report in Chapter 4.

6.1 Analysis of staff costs

	Ministers	Special Advisers	Permanent staff	Others	2014-15 Group Total	2013-14 Group Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	1,300	666	152,567	18,808	**173,341**	**165,127**
Social Security costs	125	72	14,915	62	**15,174**	**14,530**
Staff pension costs	4	144	17,322	119	**17,589**	**20,157**
Total staff costs	**1,429**	**882**	**184,804**	**18,989**	**206,104**	**199,814**
Less recoveries in respect of outward secondments	–	–	(2,407)	–	**(2,407)**	**(2,219)**
Staff costs net of recoveries	**1,429**	**882**	**182,397**	**18,989**	**203,697**	**197,595**
Core Treasury and Agencies	1,429	882	74,706	2,722	**79,739**	**77,228**
ALBs and other bodies	–	–	110,098	16,267	**126,365**	**122,586**
Total staff costs	**1,429**	**882**	**184,804**	**18,989**	**206,104**	**199,814**

'Others' includes agency staff, contractor staff, temporary staff and staff seconded in from other bodies.

6.2 Average number of persons employed

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

	Ministers	Special Advisers	Permanent staff	Others	2014-15 number Total	2013-14 number Total
Core Treasury and agencies	6	10	1,177	35	**1,228**	**1,224**
ALBs and other bodies	–	–	2,738	349	**3,087**	**3,128**
Total persons employed	**6**	**10**	**3,915**	**384**	**4,315**	**4,352**

6.3 Staff pension costs

Staff pension costs £17.6 million, (2013-14: £20.2 million) are primarily employer contributions, including £11.0 million (2013-14: £10.8 million) payable to the Principal Civil Service Pension Scheme, £6.1 million (2013-14: £6.4 million) payable to defined contribution schemes and £0.2 million (2013-14: £2.7 million) cost incurred to UKAR pension schemes and post-retirement healthcare benefits.

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 valued the scheme as at 31 March 2012. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation.[2]

For 2014-15, employer's contributions of £11.0 million (2013-14: £10.8 million) were payable to the PCSPS at one of four rates in the range of 16.7 per cent to 24.3 per cent of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accrued during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.1 million (2013-14: £0.1 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 per cent 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 0.8 per cent of pensionable pay £9,900 (2013-14: £10,300) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

The FSCS, MAS, UKFI and the Royal Household operate defined contribution schemes. The Royal Household also operates an unfunded defined benefit scheme which is accounted for as a defined contribution scheme as the Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis. The FSCS and Royal Household additionally operate defined benefit schemes, which are accounted for as such. The amount recognised in the Statement of Financial Position is a net liability of £11.2 million (2013-14: net liability of £8.6 million). FSCS and Royal Household estimate employer contributions in 2015-16 of £1.6 million and £1.0 million respectively in relation to these schemes.

UKAR operates a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, defined contribution pension plans and post-retirement healthcare benefits. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual. The amount recognised in the Statement of Financial Position relating to B&B's defined benefit scheme is a net asset of £85.7 million and a

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/371361/44319_HC_43__civil_superannuation_print_ready.pdf

net liability for post-retirement medical benefits of £9.4 million (2013-14: total net liability of £20.3 million) and the amount recognised relating to NRAM's defined benefit scheme is a net asset of £151.9 million (2013-14: asset of £65.3 million). Under an agreed plan to 2019, in 2014-15 UKAR contributed £35.1 million to address the deficit in B&B's defined benefit scheme (2013-14: nil), and £34.0 million to NRAM's defined benefit scheme (2013-14: nil), which, while in surplus on an accounting basis, is in deficit on a trustee's funding basis. The planned contributions will be re-assessed in 2015-16.

Details of the UKAR, FSCS, MAS, UKFI and Royal Household pension schemes, including valuation assumptions for the defined benefit schemes, are included in their respective annual accounts.

6.4 Exit packages

The table below shows details of exit packages agreed in 2014-15:

			2014-15 Core Treasury and Agencies			2014-15 Group
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
<£10,000	–	1	1	6	16	22
£10,000 – £25,000	–	1	1	13	15	28
£25,001 – £50,000	–	3	3	11	16	27
£50,001 – £100,000	–	4	4	2	14	16
£100,001 – £150,000	–	–	–	1	2	3
£150,001 – £200,000	–	–	–	–	–	–
£200,001 – £250,000	–	–	–	–	1	1
> £250,001	–	–	–	–	–	–
Total number of exit packages	–	**9**	**9**	**33**	**64**	**97**
Total Resource Cost (£'000)	–	**471**	**471**	**889**	**2,402**	**3,291**

Redundancy and other departure costs were paid, where applicable, in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Some group entities, such as UKAR and FSCS, do not make payments under the CSCS but under other schemes as disclosed in their respective annual accounts. Exit costs are accounted for in full in the year of departure. Where HM Treasury has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme, except for ill health retirement costs which are met by the pension scheme and so are not included above.

			2013-14 Core Treasury and Agencies			2013-14 Group (Restated)
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
<£10,000	–	5	5	52	35	87
£10,000 – £25,000	–	5	5	105	14	119
£25,001 – £50,000	–	4	4	43	4	47
£50,001 – £100,000	–	6	6	11	7	18
£100,001 – £150,000	–	1	1	6	3	9
£150,001 – £200,000	–	–	–	2	1	3
£200,001- £250,000	–	–	–	3	3	6
Total number of exit packages	–	**21**	**21**	**222**	**67**	**289**
Total Resource Cost (£'000)	–	**838**	**838**	**5,958**	**2,331**	**8,289**

Group figures for 2013-14 are restated to include UKAR figures as UKAR included comparatives in its 2014-15 accounts for the first time.

7. Expenditure on purchases of goods and services

	Core Treasury and Agencies	2014-15 Group	Core Treasury and Agencies	2013-14 Group
	£000	£000	£000	£000
Office services	28,734	106,450	32,987	97,236
Professional services	26,481	84,474	23,246	87,889
UK coinage: metal and manufacturing costs	68,352	68,352	54,461	54,461
MAS debt advice services	–	35,653	–	33,456
Accommodation costs	7,598	24,574	8,726	28,390
Staff related costs, including training and travel	7,442	22,655	4,750	36,029
FSCS claims outsourcing costs	–	12,421	–	12,579
Equitable Life administration	5,395	5,395	12,726	12,726
Other expenditure	10,602	17,356	10,906	16,947
Total	**154,604**	**377,330**	**147,802**	**379,713**

For the year 2014-15 HM Treasury paid for the production of 2,439 million coins (2013-14: 1,716 million), and 2,385 million (2013-14: 1,946 million) coins were despatched to the coin centres. The Treasury incurred manufacturing charges, including VAT, of £40.5 million (2013-14: £32.6 million), metal charges of £27.7 million (2013-14: £21.8 million), and commemoratives coinage manufacturing costs of £0.2 million.

Total auditor's remuneration was £1,734,000 (2013-14 Group: £1,753,000), of which £700,000 (2013-14: £753,000) were fees charged by the NAO, of which £402,000 is a notional cost (2013-14: £412,000). In addition, £1,025,000 (2013-14: £1,000,000) related to fees paid to UKAR's auditors, and £9,000 related to other audit services provided by the NAO. No payments (2013-14: nil) were made to the NAO in respect of non-audit services.

8. Depreciation and impairments

	Core Treasury and Agencies	2014-15 Group	Core Treasury and Agencies	2013-14 Group
	£000	£000	£000	£000
Depreciation and amortisation	5,634	25,357	6,223	24,692
(Impairment reversals)/impairments of financial assets	(56,593)	(223,558)	31,905	42,562
Total	**(50,959)**	**(198,201)**	**38,128**	**67,254**

'Depreciation and amortisation' includes depreciation on property, plant and equipment.

'Impairments/(impairment reversals)' are driven by impairment reversals and foreign exchange movements on loans and advances as detailed in Note 19 and by impairment reversals on UKAR's financial assets.

9. Other operating expenditure

	Core Treasury and Agencies	2014-15 Group	Core Treasury and Agencies	2013-14 Group
	£000	£000	£000	£000
FSCS compensation costs	–	298,994	–	247,091
Grant-in-aid funding to Treasury bodies	39,896	–	37,620	–
Other grant funding	12,218	12,218	–	–
Non-voted banking and gilts registration services	11,475	11,475	11,280	11,280
Non-voted Royal Household pension costs	4,152	4,152	4,398	5,047
Contingent rent on PFI contract	6,931	6,931	6,485	6,485
Other expenditure	9,096	24,064	4,784	14,746
Total	**83,768**	**357,834**	**64,567**	**284,649**

'Grant in aid funding to Treasury bodies' comprised funding to the Office of Budget Responsibility and that relating to the Sovereign Grant.

'Other grant funding' related to funding the creation of Pension Wise, a government service providing free and impartial guidance at the point of retirement for defined contribution pension options.

10. Capital grants in kind

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Capital grant in kind income	(325,000)	(325,000)	–	–
Capital grant in kind expenditure	320,437	328,205	–	–

Capital grant in kind income relates to the government's shareholding in Eurostar International Limited that was transferred to Treasury from the Department of Transport in June 2014. Further details are in Note 18 'Assets Held for Sale'.

Capital grant in kind expenditure relates to the transfer of Business Finance Partnership investments and associated financing, for no consideration, from the Treasury Group to the Department for Business, Innovation and Skills in June 2014. Further details are in Note 17 'Available-for-Sale assets'.

11. Finance income and finance expenditure

11.1 Finance income

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Interest and fee income from loans	939,385	2,533,417	1,132,375	2,853,782
Dividend income	427,190	424,297	87,561	87,322
Amortisation of loans	127,995	(3,941)	126,246	50,665
Total	**1,494,570**	**2,953,773**	**1,346,182**	**2,991,769**

The main driver in increased dividend income is the receipt of an initial dividend of £320 million in relation to the RBS Dividend Access Share. Other dividends were received from the Bank of England (£93 million) and Eurostar International Limited (£7 million). Note 17 includes more details on the Dividend Access Share and other available-for-sale assets.

Amortisation of loans in 'Core Treasury and Agencies' includes amortisation on loans between Treasury Group bodies which eliminates out in the consolidated 'Group' balance. There has been a decrease in interest income as loan balances have reduced. Note 19 contains more detail on loans and advances.

11.2 Finance expenditure

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Interest expense	–	191,599	–	214,728
Interest element of on-balance sheet PFI contract	9,184	9,184	9,333	9,333
Total	**9,184**	**200,783**	**9,333**	**224,061**

12. Revaluations of assets and liabilities

12.1 Revaluation of assets and liabilities in the SoCNE

Fair value gains and losses on assets and liabilities that were recognised in the SoCNE comprised:

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Fair value (gain)/loss on the BEAPFF derivative	(46,945,376)	(46,945,376)	12,942,215	12,942,215
Fair value loss on UKAR financial assets	–	8,055	–	33,329
Hedge ineffectiveness	–	74,930	–	18,200
Total	**(46,945,376)**	**(46,862,391)**	**12,942,215**	**12,993,744**

To effect what is known as quantitative easing, the Bank of England Asset Purchase Facility Fund (BEAPFF) was set up to carry out purchases of gilts financed by the creation of central bank reserves. The gilts are valued at market rates which are sensitive to fluctuations in interest rates. At 31 March 2015, the BEAPFF held £407 billion of gilts at market value. HM Treasury is exposed to the BEAPFF's fair value gains and losses as it has indemnified the Bank of England for any losses in operating the BEAPFF and is entitled to its profits. More details about the scheme are provided in Notes 21, 29.3.1 and 34.2.

12.2 Revaluation of assets and liabilities in other comprehensive income

Unrealised fair value gains and losses on assets and liabilities are disclosed as "Other Comprehensive Income" and recognised in reserves in the Statement of Changes in Taxpayers Equity. They comprised:

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Net gain on assets recognised in reserves	(4,480,613)	(3,578,322)	(8,440,207)	(7,599,700)
Net gain on assets transferred from reserves and recognised as income in year	902,826	910,594	1,486,702	1,486,703
Net gain on other reserves	(35,613)	(167,179)	–	25,422
Total revaluation in other comprehensive income	**(3,613,400)**	**(2,834,907)**	**(6,953,505)**	**(6,087,575)**

'Net gain on assets recognised in reserves' included the fair value adjustments of Treasury's available for sale assets, primarily Treasury's existing shareholding in RBS and the Lloyds Banking Group, and reflect increases in their market share prices. These increases in value are recognised in reserves as they are not realised. Further details are in Note 17 'Available for Sale Assets'. It also included a £432 million fair value adjustment in Treasury's shareholding in Eurostar which is recognised in reserves as it was not realised by year end. Further details are in Note 18 'Assets Held for Sale'. It also included a £320 million fair value adjustment to the RBS Dividend Access Share which reflected the receipt of an initial dividend payment.

'Net gain on investments transferred from reserves and recognised as income in year' included prior year fair value adjustments of Treasury's available for sale assets that were previously recognised in reserves as unrealised gains and are recognised as income in the current year on disposal when the fair value gains are realised. These related to the disposal of shares in the Lloyds Banking Group.

'Net gain on other reserves' included net gains of £132 million relating to UKAR's pension and hedging reserves. Further details are in UKAR's Annual Report and Accounts.

13. Net (gain)/loss on disposal of assets

	Core Treasury and Agencies	2014-15 Group	Core Treasury and Agencies	2013-14 Group
	£000	£000	£000	£000
Net gain on disposal of financial assets	(1,127,589)	(1,087,696)	(4,103,902)	(4,103,902)
Net (gain)/loss on disposal of non-financial assets	–	–	–	8,336
Total	**(1,127,589)**	**(1,087,696)**	**(4,103,902)**	**(4,095,566)**

Net gains on disposal of financial assets included a profit of just under £1.0 billion (2013-14: £4.1 billion) arising on part disposal of Treasury's holding of Lloyds Banking Group ordinary shares that were sold as part of a trading plan started in December 2014. Details on these sales can be found in Note 17 'Available-for-sale assets'.

During the year Treasury recognised a gain of £89 million relating to the sale of Virgin Money perpetual capital notes in July 2014. The notes were obtained as part of the sale proceeds for Northern Rock plc in 2011, and have now been disposed of in full. In November 2014, as per the terms of the original sale agreement, Treasury received an additional cash consideration of £50 million when Virgin Money floated on the London Stock Exchange. As this cash relates to the original sale, it has been included as a net gain on the disposal of Northern Rock even though the disposal is a historic transaction.

14. Property, plant and equipment

	Land	Buildings	Property Improvement	IT Equipment	Other	2014-15 Total
	£000	£000	£000	£000	£000	£000
Net book value 31 March 2014	33,775	77,716	13,393	15,823	7,039	147,746
Net book value 31 March 2015	**45,182**	**94,646**	**13,381**	**18,099**	**13,666**	**184,974**
Of which:						
Core Treasury and Agencies	45,182	83,908	11,775	4,484	8,838	154,187
ALBs and other bodies	–	10,738	1,606	13,615	4,828	30,787
Group	**45,182**	**94,646**	**13,381**	**18,099**	**13,666**	**184,974**

'Other' includes plant & machinery and furniture & equipment and assets under construction.

All property, plant and equipment is owned or leased. The property at 1 Horse Guards Road is leased under a private finance initiative (PFI) and has a net book value of £83.9 million (2013-14: £61.2 million). More details regarding this PFI contract are provided in Note 32 'Commitments under leases'. The value of the property and the underlying land was fully assessed by the Valuation Office Agency as at 31 March 2015. Due to an improved economic environment and continued rental growth in central London, the value of the property has increased by £24.2 million and the value of the underlying land by £11.4 million since the prior interim desk assessment in February 2013.

	Land	Buildings	Property Improvement	IT Equipment	Other	2013-14 Total
	£000	£000	£000	£000	£000	£000
Net book value 1 April 2013	33,775	80,063	15,803	19,688	7,898	157,227
Net book value 31 March 2014	**33,775**	**77,716**	**13,393**	**15,823**	**7,039**	**147,746**
Of which:						
Core Treasury and Agencies	33,775	61,232	12,071	1,624	3,778	112,480
ALBs and other bodies	–	16,484	1,322	14,199	3,261	35,266
Group	**33,775**	**77,716**	**13,393**	**15,823**	**7,039**	**147,746**

15. Intangible assets

			2014-15			2013-14
	Externally generated software	Other	Total	Externally generated software	Other	Total
	£000	£000	£000	£000	£000	£000
Net book value 1 April	49,672	6,173	55,845	52,043	8,933	60,976
Net book value 31 March	**46,595**	**5,167**	**51,762**	**49,672**	**6,173**	**55,845**
Of which:						
Core Treasury and Agencies	5,223	4,520	9,743	6,997	4,720	11,717
ALBs and other bodies	41,372	647	42,019	42,675	1,453	44,128
Group	**46,595**	**5,167**	**51,762**	**49,672**	**6,173**	**55,845**

'Other' includes internally generated software, software licences, goodwill and assets under construction.

16. Trade and other receivables

		2014-15		2013-14 (Restated)
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Amounts falling due within one year				
FSCS receivable from levy payers in relation to interest	–	388,976	–	444,729
Accrued interest and dividend income	665,015	238,180	689,558	200,617
Fees receivable for financial guarantees	93,630	65,727	81,953	44,229
Accrued income from sale of Lloyd shares	53,768	53,768	–	–
Pool Re accrued income	32,430	32,430	33,429	33,429
EU Solidarity Fund income due from DCLG	16,010	16,010	16,010	16,010
Help to Buy receivable	46,370	5,689	–	5,925
Trade receivables	7,218	15,499	8,298	13,434
Prepayments and other accrued income	48,833	56,800	26,116	40,639
Other receivables and recoverables	10,043	63,983	26,898	98,072
Total due within one year	**973,317**	**937,062**	**882,262**	**897,084**
Amounts falling due after one year				
Pension asset	–	237,600	–	65,300
Sukuk deposit	–	200,000	–	–
Fees receivable for financial guarantees	230,634	145,295	245,407	93,889
Pool Re accrued income	70,932	70,932	39,331	39,331
Other receivables and recoverables	49	68,860	37	21,556
Total due after one year	**301,615**	**722,687**	**284,775**	**220,076**
Total trade receivables	**1,274,932**	**1,659,749**	**1,167,037**	**1,117,160**

Balances with other government bodies

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15	2013-14	2014-15	2013-14
	£000	£000	£000	£000
Balances with other central government bodies	37,813	128,399	201,377	–
Balances with local authorities	3,286	491	–	–
Balances with NHS Trusts, public corporations and trading funds	44,764	3,618	–	–
Subtotal: intra government balances	**85,863**	**132,508**	**201,377**	–
Balances with bodies external to government	851,199	764,576	521,310	220,076
Total trade receivables	**937,062**	**897,084**	**722,687**	**220,076**

17. Available-for-sale assets

	At 1 April 2014	Additions, disposals & transfers	Fair value adjustment	Impairments	Foreign exchange gain/(loss)	At 31 March 2015
	£000	£000	£000	£000	£000	£000
RBS ordinary shares	**12,329,544**	–	1,149,700	–	–	**13,479,244**
RBS B shares	**15,861,000**	–	1,479,000	–	–	**17,340,000**
RBS Dividend Access Share	**1,484,698**	–	(325,904)	–	–	**1,158,794**
Lloyds Banking Group ordinary shares	**13,266,140**	(1,656,737)	564,529	–	–	**12,173,932**
Bank of England share capital	**3,047,000**	–	352,000	–	–	**3,399,000**
Virgin Money perpetual capital notes	**146,000**	(146,000)	–	–	–	**–**
Royal Mint Public Dividend Capital	**5,500**	–	–	–	–	**5,500**
Partnerships UK ordinary shares	**449**	(449)	–	–	–	**–**
Local Partnerships ordinary shares	**2,668**	–	171	–	–	**2,839**
UK Asset Resolution shares	**6,144,405**	–	908,700	–	–	**7,053,105**
Total Core Treasury and Agencies	**52,287,404**	**(1,803,186)**	**4,128,196**	–	–	**54,612,414**
Intra-group investments eliminated on consolidation	**(6,144,405)**	–	(908,700)	–	–	**(7,053,105)**
UKAR investment securities	**320,811**	(160,671)	(2,511)	2,461	(1,976)	**158,114**
Business Finance Partnership	**296,416**	(297,370)	954	–	–	**–**
Total Group	**46,760,226**	**(2,261,227)**	**3,217,939**	**2,461**	**(1,976)**	**47,717,423**

During 2014-15, HM Treasury disposed of 2.2 billion (2013-14: 9.8 billion) of its Lloyds Banking Group (LBG) ordinary shares between December 2014 and March 2015, yielding £1.7 billion in cash proceeds. The total purchase cost of these shares was £1.3 billion[3] and therefore it realised an overall £0.4 billion cash gain. In accordance with accounting standards, Treasury realised an accounting gain of just under £1.0 billion in 2014-15, as shown in Note 13, reflecting a higher sale price (all shares were sold above the announced floor price of 73.60 pence) compared to the impaired lower value of shares in previous years and the in-year increase in the value of the shares since measured at the last financial year end (74.65 pence at 31 March 2014).

The table below summarises the fair value adjustments, disposals and impairment charges for each tranche of ordinary shares in Lloyds and RBS, as well as the RBS B shares:

	Original purchase price	At 1 April 2014	At 1 April 2014	Disposals	Fair value adjustment	At 31 March 2015	At 31 March 2015
		No. of shares	Fair value			Fair value	No. of shares
	£	bn	£000	£000	£000	£000	bn
Royal Bank of Scotland (ordinary shares)							
Purchase of shares in October 2008	0.65	2.3	**7,107,532**	–	662,760	**7,770,292**	**2.3**
Participation in rights issue in April 2009	0.29	1.7	**5,222,012**	–	486,940	**5,708,952**	**1.7**
Total for Royal Bank of Scotland (ordinary shares)		4.0	**12,329,544**	–	1,149,700	**13,479,244**	**4.0**
Royal Bank of Scotland (B shares)	0.50	51[4]	**15,861,000**	–	1,479,000	**17,340,000**	**51**
Lloyds Banking Group (ordinary shares)							
Participation in rights issue in June 2009	0.61	2.0	**1,463,974**	(1,463,974)	–	–	–
Participation in rights issue in December 2009	0.37	15.8	**11,802,166**	(192,763)	564,529	**12,173,932**	**15.6**
Total for Lloyds Banking Group (ordinary shares)		**17.8**	**13,266,140**	**(1,656,737)**	**564,529**	**12,173,932**	**15.6**

HM Treasury's ordinary shares in Lloyds and the ordinary shares and B shares in RBS that it held at the reporting date have been revalued based on the closing share price at that date. Shares have been assessed on a tranche-by-tranche basis for impairments and fair value adjustments to reflect the different acquisition costs over time. The Treasury's holding in Lloyds at the reporting date comprises 15.6 billion ordinary shares, which had an original purchase price of 37.0 pence

[3] HM Treasury accounts for share sales on a "first in, first out" basis, and so included the purchase cost of shares purchased in June and December 2009.

[4] Ten RBS B shares are equivalent to one RBS ordinary share.

per share. The share price of 78.28 pence as at 31 March 2015 implied a market value of £12.2 billion of Treasury's total shareholding in Lloyds.

In addition to the ordinary and B-shares, HM Treasury holds a single Dividend Access Share (DAS) in RBS. The DAS confers Treasury with the right to an enhanced dividend over and above the dividend entitlement of each ordinary and B share if the RBS board decides to pay a dividend on ordinary shares. In April 2014, RBS reached an agreement with HMT and independent shareholders approved future retirement plans of the DAS, and made an initial payment of £320 million in 2014. Further payment(s) with flexibility over timing at RBS's discretion, will give a total DAS retirement payment of £1.5 billion, which is discounted to arrive at the net present value of expected future cash flows. Further details about the basis for valuing the DAS is provided in Note 28 'Financial Instruments'.

On 30 June 2014, the Business Finance Partnership investments were transferred from IFUL to British Business Investments Ltd, the commercial arm and wholly owned subsidiary of British Business Bank plc which itself is wholly owned by the Secretary of State for Business, Innovation and Skills.

18. Assets held for sale

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Eurostar International Limited shareholding	757,100	757,100	–	–
Total	**757,100**	**757,100**	–	–

On 18 June 2014, the Department for Transport transferred the government's 40% stake in Eurostar International Ltd (EIL) to HM Treasury in advance of the intended sale of its stake in the company. It was transferred as a capital grant in kind at fair value of £325 million and classified as an asset held for sale. On 3 March 2015, an agreement was signed to sell the shareholding and redeem its preference share for a total of £757.1 million and the asset was revalued upwards as of this date. On 13 May 2015, the European Commission provided merger clearance for the EIL sale to proceed. The sale completed on 28 May 2015, and was derecognised in HM Treasury's accounts as of this date. Further details can be found in Note 38 'Events after the reporting period'. HM Treasury considers that the shareholding value at transfer and reporting date is representative of the equity accounting valuation of the shares.

19. Loans and advances

Core Treasury and Agencies

	At 1 April 2014 (restated)	Additions	Loan repayments	Amortisation	Impairments & reversals	Transfers	Foreign exchange movements	At 31 March 2015
	£000	£000	£000	£000	£000	£000	£000	£000
Bilateral loan to Ireland	**3,226,960**	–	–	–	–	–	–	**3,226,960**
Loan to NRAM	**14,916,064**	–	(1,277,533)	–	–	–	–	**13,638,531**
Bradford & Bingley: working capital facility	**4,975,000**	–	(2,439,718)	–	–	–	–	**2,535,282**
Loans to FSCS: Bradford & Bingley	**15,654,509**	–	–	–	–	–	–	**15,654,509**
Loans to FSCS: other institutions	**936,368**	–	(792,975)	–	–	–	–	**143,393**
Statutory debt: Bradford & Bingley	**2,366,744**	–	–	81,399	50,537	–	–	**2,498,680**
Statutory debt: Icesave	**1,321,591**	–	(928,010)	45,886	10,298	–	(3,701)	**446,064**
Statutory debt: Dunfermline	**679,488**	–	(290,000)	–		–	–	**389,488**
Statutory debt: other institutions	**21,494**	–	(9,257)	710	(542)	–	–	**12,405**
Loan to Infrastructure UK Investment Holdings	**–**	1	–	–	–	–	–	**1**
Loan to Infrastructure Finance Unit Limited	**396,896**	30,808	(4,242)	–	–	(320,437)	–	**103,025**
Total Core Treasury and Agencies	**44,495,114**	**30,809**	**(5,741,735)**	**127,995**	**60,293**	**(320,437)**	**(3,701)**	**38,648,338**

	At 1 April 2013 (restated)	Additions	Loan repayments	Amortisation	Impairments & reversals	Transfers	Foreign exchange movements	At 31 March 2014 (restated)
	£000	£000	£000	£000	£000	£000	£000	£000
Bilateral loan to Ireland	**2,420,220**	806,740	–	–	–	–	–	**3,226,960**
Loan to NRAM	**17,924,090**	–	(3,008,026)	–	–	–	–	**14,916,064**
Bradford & Bingley: working capital facility	**6,750,000**	–	(1,775,000)	–	–	–	–	**4,975,000**
Loans to FSCS : Bradford & Bingley	**15,654,509**	–	–	–	–	–	–	**15,654,509**
Loans to FSCS: other institutions	**1,591,776**	–	(655,408)	–	–	–	–	**936,368**
Statutory debt: Bradford & Bingley	**2,317,705**	–	–	75,580	(26,541)	–	–	**2,366,744**
Statutory debt: Icesave	**1,443,787**	–	(157,193)	48,007	(13,010)	–	–	**1,321,591**
Statutory debt: Dunfermline	**779,488**	–	(100,000)	–	–	–	–	**679,488**
Statutory debt: other institutions	**53,228**	–	(42,038)	2,657	7,647	–	–	**21,494**
Loan to Infrastructure Finance Unit Limited	**–**	284,413	(2,806)	–	–	115,289	–	**396,896**
Loans provided by Infrastructure Finance Unit Limited	**111,327**	–	–	–	–	(111,327)	–	**–**
Total Core Treasury and Agencies	**49,046,130**	**1,091,153**	**(5,740,471)**	**126,244**	**(31,904)**	**3,962**	**–**	**44,495,114**

Group

	At 1 April 2014 (restated)	Additions	Loan repayments	Amortisation	Impairments & reversals	Transfers	Foreign exchange movements	At 31 March 2015
	£000	£000	£000	£000	£000	£000	£000	£000
Bilateral loan to Ireland	**3,226,960**	–	–	–	–	–	–	**3,226,960**
Statutory debt: Icesave	**1,321,591**	–	(928,010)	45,886	10,298	–	(3,701)	**446,064**
Statutory debt: Dunfermline	**679,488**	–	(290,000)	–	–	–	–	**389,488**
Statutory debt: other institutions	**21,494**	–	(9,257)	710	(542)	–	–	**12,405**
FSCS recoverables in respect of the 2008/9 banking failures	**936,321**	–	(586,989)	–	–	–	–	**349,332**
Loans provided by Infrastructure UK Investments Holdings	**–**	1	–	–	–	–	–	**1**
Investment securities held as loans by UKAR	**753,778**	–	(372,628)	(157)	14,082	–	(30,471)	**364,604**
Loans provided by Infrastructure Finance Unit Limited	**108,013**	–	(4,510)	–	–	–	–	**103,503**
Total Group loans and advances	**7,047,645**	**1**	**(2,191,394)**	**46,439**	**23,838**	**–**	**(34,172)**	**4,892,357**

	At 1 April 2013 (restated)	Additions	Loan repayments	Amortisation	Impairments & reversals	Transfers	Foreign exchange movements	At 31 March 2014 (restated)
	£000	£000	£000	£000	£000	£000	£000	£000
Bilateral loan to Ireland	**2,420,220**	806,740	–	–	–	–	–	**3,226,960**
Statutory debt: Icesave	**1,443,787**	–	(157,193)	48,006	(13,009)	–	–	**1,321,591**
Statutory debt: Dunfermline	**779,488**	–	(100,000)	–	–	–	–	**679,488**
Statutory debt: other institutions	**53,228**	–	(42,038)	2,658	7,646	–	–	**21,494**
FSCS recoverables in respect of the 2008-9 banking failures	**1,591,675**	–	(655,407)	–	53	–	–	**936,321**
Investment securities held as loans by UKAR	**1,306,176**	(48,200)	(510,541)	33	(2,421)	–	8,731	**753,778**
Loans provided by Infrastructure Finance Unit Limited- HMT Core[5]	**111,327**	–	–	–	–	(111,327)	–	**–**
Loans provided by Infrastructure Finance Unit Limited- HMT Group	**–**	–	(3,314)	–		111,327	–	**108,013**
Total Group loans and advances	**7,705,901**	**758,540**	**(1,468,493)**	**50,697**	**(7,731)**	**–**	**8,731**	**7,047,645**

'Loans to FSCS' comprise loans that HM Treasury made to the Financial Services Compensation Scheme (FSCS) to enable it to pay eligible depositors of the banks that failed in 2008-9 for amounts up to the FSCS guarantee limit. These eliminate on consolidation. The banks comprise Icesave, Dunfermline, Kaupthing Singer Friedland, London Scottish Bank and Heritable. 'Statutory debt' represents additional amounts HM Treasury paid to eligible depositors above FSCS's guarantee limit that it considers recoverable from the administration of the failed banks. 'FSCS recoverables in respect of the 2008-9 banking failures' includes the amounts that FSCS considers recoverable from the administration of the failed banks. Where there is a shortfall against the FSCS element, FSCS recovers this from levies to financial services institutions. Further information is available in Note 11 of FSCS's 2014-15 accounts.

[5] Infrastructure Finance Unit Limited (IFUL) is included at the Group Level since 2013-14 and in Core Treasury in prior years.

Impairment losses on loans and advances involve critical accounting judgements as described in Note 2.1. Impairments in relation to 'Statutory debt' have been recognised to reflect an assessment of the amount of repayment as well as the timing of repayments to represent the cost to Treasury of providing these interest free loans.

In 2014-15 HM Treasury transferred its loan balances of £320 million in relation to Infrastructure Finance Unit Ltd to the Department for Business, Innovation and Skills, which in turn provided it to one of its indirect subsidiaries British Business Investment Ltd, a subsidiary of the British Business Bank plc.

20. Loans to banking customers

	At 1 April 2014 £000	Advances £000	Redemptions & repayments £000	Impairments & reversals £000	At 31 March 2015 £000
Residential mortgages	**59,344,662**	44,674	(8,373,452)	69,166	**51,085,050**
Commercial loans	**622,957**	–	(98,309)	11,691	**536,339**
Unsecured loans	**1,281,883**	392	(150,521)	(70,620)	**1,061,134**
Total loans to banking customers	**61,249,502**	**45,066**	**(8,622,282)**	**10,237**	**52,682,523**
Loans to customers less than one year	841,900	–	–	–	989,631
Loans to customers more than one year	60,407,602	–	–	–	51,692,892
Total	**61,249,502**	**45,066**	**(8,622,282)**	**10,237**	**52,682,523**

	At 1 April 2013 (Restated) £000	Advances £000	Redemptions & repayments £000	Impairments & reversals £000	At 31 March 2014 £000
Residential mortgages	**64,959,718**	87,846	(5,626,996)	(75,906)	**59,344,662**
Commercial loans	**773,385**	–	(138,835)	(11,593)	**622,957**
Unsecured loans	**1,809,236**	941	(652,829)	124,535	**1,281,883**
Total loans to banking customers	**67,542,339**	**88,787**	**(6,418,660)**	**37,036**	**61,249,502**
Loans to customers less than one year	1,062,900	–	–	–	841,900
Loans to customers more than one year	66,479,439	–	–	–	60,407,602
Total	**67,542,339**	**88,787**	**(6,418,660)**	**37,036**	**61,249,502**

Advances comprise further lending to existing customers, arising mainly from drawdowns. There are no advances to new customers as UKAR is closed to new business. Redemptions and repayments include full or partial redemptions of loans, repayments of capital and disposals. Balances include accounting adjustments in respect of impairment allowances disclosed below.

20.1 Loans to banking customers: impairment allowances

The values of loans to banking customers shown above are recognised net of impairment allowances.

Impairment allowances in respect of:	At 1 April 2014 £000	Sale of assets £000	Impairments and reversals £000	Write-offs £000	At 31 March 2015 £000
Residential mortgages	**1,151,810**	–	(109,563)	(154,205)	**888,042**
Commercial loans	**90,855**	–	(2,208)	(12,033)	**76,614**
Unsecured loans	**214,744**	–	22,706	(32,274)	**205,176**
Total impairment allowances	**1,457,409**	**–**	**(89,065)**	**(198,512)**	**1,169,832**

Impairment allowances in respect of:	At 1 April 2013 (Restated) £000	Sale of assets £000	Impairments and reversals £000	Write-offs £000	At 31 March 2014 £000
Residential mortgages	**1,364,010**	–	70,000	(282,200)	**1,151,810**
Commercial loans	**85,255**	–	11,300	(5,700)	**90,855**
Unsecured loans	**400,144**	(148,300)	23,700	(60,800)	**214,744**
Total impairment allowances	**1,849,409**	**(148,300)**	**105,000**	**(348,700)**	**1,457,409**

	2014-15 £m	2013-14 £m
Individually assessed impairments	198.6	281.3
Collectively assessed impairments	971.2	1,176.1
Total impairment allowances	**1,169.8**	**1,457.4**

20.2 Loan hedging asset

UKAR engages in hedge accounting to manage interest rate risk on fixed rate loans to banking customers, and therefore recognises a hedging asset in relation to those loans.

	2014-15 £000	2013-14 £000
Current hedging asset	11,400	12,000
Non-current hedging asset	456,326	296,818
Total hedging asset	**467,726**	**308,818**

Further details about how UKAR manages risk with hedging are available in Note 30.1.

21. Derivative financial instruments

Derivative financial assets

	At 1 April 2014 £000	Movements in year £000	At 31 March 2015 £000
BEAPFF derivative held by Core Treasury	230,111	36,207,890	36,438,001
Derivative financial assets held by UKAR	4,616,282	(1,653,562)	2,962,720
Total	**4,846,393**	34,554,328	**39,400,721**
Current derivative financial assets	253,345		36,599,376
Non-current derivative financial assets	4,593,048		2,801,345
Total	**4,846,393**		**39,400,721**

Derivative financial liabilities

	At 1 April 2014 £000	Movements in year £000	At 31 March 2015 £000
Derivatives financial liabilities held by UKAR	(446,041)	(123,965)	(570,006)
Total	**(446,041)**	**(123,965)**	**(570,006)**
Current derivative financial liabilities	(28,445)		(18,427)
Non-current derivative financial liabilities	(417,596)		(551,579)
Total	**(446,041)**		**(570,006)**

The most significant derivative financial instrument in the Treasury Group is the BEAPFF derivative. This derivative relates to the quantitative easing vehicle, called the Bank of England Asset Purchase Facility Fund (BEAPFF), which was set up to carry out purchases of gilts financed by the creation of central bank reserves. The derivative consists of an indemnity HM Treasury provides to the Bank of England for any losses in operating the BEAPFF and under which it is entitled to its profits. More details about the scheme are provided in Notes 29 and 34.

Derivative financial instruments are also held by UKAR and consist of hedges used to reduce the risk of loss arising from changes in interest rates and exchange rates. Each derivative is carried at fair value in the Statement of Financial Position; as an asset when the fair value is positive and as a liability when the fair value is negative. More information about how UKAR uses hedges to manage risk and the fair value methodology for derivatives is provided in Note 30.1.

Cash collateral

UKAR holds cash collateral received in respect of its derivatives of £2,185.8 million (2013-14: £3,119.3 million), and has provided collateral pledges of £549.1 million (2013-14: £414.8 million). The liability to repay the collateral is recognised as a liability on the Statement of Financial Position.

22. Cash and cash equivalents

	2014-15		2013-14	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Balance at 1 April	994	7,862,334	9,284	9,059,000
Cash movement from Core to Group in year	–	–	(2,981)	–
Net change in cash balances	(141)	1,623,872	(5,309)	(1,196,666)
Closing balance	**853**	**9,486,206**	**994**	**7,862,334**
The following balances were held at 31 March:				
Government Banking Service	852	3,030,828	994	8,680
Bank of England	–	4,163,739	–	5,322,628
Commercial banks and cash in hand	1	2,291,639	–	2,531,026
Closing balance	**853**	**9,486,206**	**994**	**7,862,334**

Balances in commercial banks and cash in hand do not include bank overdrafts; these are included in trade and other payables and shown in Note 23.

22.1 Non-cash transactions

The 'Net change in cash balances' shown in the table above is analysed into cashflows in the Statement of Cash Flow. That analysis of cashflows starts with net expenditure adjusted for non-cash transactions. The table below provides a breakdown of those adjustments for non-cash transactions

	2014-15		2013-14	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Adjustments for non-cash transactions				
Net provisions provided in year	(447,929)	(771,222)	(107,495)	(222,650)
Impairment reversals/(impairments) of financial assets	56,593	223,558	(31,905)	(42,562)
Depreciation and amortisation	(5,634)	(25,357)	(6,223)	(24,692)
(Profit)/loss on sale of unsecured loans to banking customers	–	22,283	–	(21,200)
Non-voted – Banking and gilts registration services	(11,475)	(11,475)	(11,280)	(11,280)
Other non-cash adjustments relating to UKAR	–	1,102,059	–	892,264
Other non-cash adjustments	8,913	(24,625)	(352)	(12,005)
	(399,532)	**515,221**	**(157,255)**	**557,875**

Additional non-cash adjustments relating to UKAR are due differences between the Treasury's methodology for preparing the SCF and UKAR's methodology of preparing its cash flow statement. They mainly relate to movements in derivatives and other financial instruments included in net operating (income)/expenditure.

23. Trade and other payables

	Core Treasury and Agencies 2014-15 £000	Group 2014-15 £000	Core Treasury and Agencies 2013-14 £000	Group 2013-14 £000
Amounts falling due within one year				
Net amounts due to FSCS levy payers	–	358,353	–	301,371
Corporation tax	–	110,549	–	183,492
Equitable Life payables	57,060	57,060	66,252	66,252
Consolidated Fund payable for:				
Consolidated Fund payable for operating income outside the scope of the Estimate	32,393	32,393	33,430	33,430
Excess cash to be surrendered	853	853	994	994
FSCS advances for compensation payments not dispersed	–	28,893	–	46,285
EU Solidarity Fund repayment	16,010	16,010	16,010	16,010
Bank overdraft	–	13,356	–	962
Other taxation and social security	1,672	8,952	1,578	7,349
Trade payables	404	4,830	2,099	10,215
PFI contract	2,251	2,251	2,091	2,091
Other accruals and deferred income	45,982	141,941	25,308	48,549
Other payables	18,412	50,360	1,192	86,123
Total falling due within one year	**175,037**	**825,801**	**148,954**	**803,123**
Amounts due falling after one year				
Sukuk certificates	–	200,000	–	–
PFI contract	120,888	120,888	123,138	123,138
Deferred tax liability	–	103,251	–	50,768
FSCS amounts due to levy payers	–	64,015	–	55,460
Consolidated Fund payable for operating income outside the scope of the Estimate	70,932	70,932	39,331	39,331
Pension liability	–	20,610	–	28,937
Deferred income	–	–	–	3,077
Other payables	–	26,605	–	7,689
Total falling due after one year	**191,820**	**606,301**	**162,469**	**308,400**
Total trade payables	**366,857**	**1,432,102**	**311,423**	**1,111,523**

Balances with other government bodies

	Amounts falling due within one year 2014-15 £000	Amounts falling due within one year 2013-14 £000	Amounts falling due after more than one year 2014-15 £000	Amounts falling due after more than one year 2013-14 £000
Balances with other central government bodies	157,005	226,338	175,247	90,105
Balances with local authorities	213	350	–	–
Balances with public corporations and trading funds	1,364	830	–	–
Subtotal: intra government balances	**158,582**	**227,518**	**175,247**	**90,105**
Balances with bodies external to government	667,219	575,605	431,054	218,295
Total trade payables	**825,801**	**803,123**	**606,301**	**308,400**

24. Provisions for liabilities and charges

	2014-15 Core Treasury and Agencies £000	2014-15 Group £000	2013-14 Core Treasury and Agencies £000	2013-14 Group £000
Balance at 1 April	609,858	777,766	870,128	1,081,953
Provided in the year	503,902	827,196	75,881	196,754
Provision utilised in year	(94,349)	(163,985)	(367,764)	(526,836)
Provision not required written back	–	–	(35)	(5,753)
(Discount)/unwinding of discount	(55,973)	(55,974)	31,648	31,648
Closing balance	**963,438**	**1,385,003**	**609,858**	**777,766**
Of which timing of discounted flows expected:				
Within one year	503,109	880,666	23,609	147,392
Between one and five years	160,259	202,298	196,521	238,807
Later than five years	300,070	302,039	389,728	391,567
Closing balance	**963,438**	**1,385,003**	**609,858**	**777,766**

Analysis by provision

2014-15	Tax provision £000	Equitable Life £000	Customer Redress £000	Other £000	Total £000
Expected timing of discounted flows:					
Within one year	474,000	27,835	347,355	31,476	880,666
Between one and five years	–	160,171	40,972	1,155	202,298
Later than five years	–	300,007	–	2,032	302,039
Balance at 31 March 2015	**474,000**	**488,013**	**388,327**	**34,663**	**1,385,003**

Tax provision

The provision for £474 million is for the funding of tax costs associated with pension payments and relates to additional lump sum pension payments due to around 34,000 eligible retired police and fire service officers, and associated interest, following a ruling against the Government Actuaries Department by the Pensions Ombudsman in May 2015. This provision for the tax element is recognised by HM Treasury as at 31 March 2015, as an adjusting event after the reporting date, as it is for Treasury to decide who will administer the payment of tax to HMRC. Creation of the provision does not mean that the liability will necessarily crystallise in HM Treasury's 2015-16 Annual Accounts, as that will be driven by decisions not yet taken as to the mechanism for paying the tax to HMRC.

Equitable Life

As part of the Spending Review on 20 October 2010, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, and payments commenced in June 2011. In addition, the Government announced in 2012-13 that additional ex-gratia payments will be made to those eligible policyholders who bought an Equitable Life 'With Profit' Annuity prior to 1 September 1992.

At the reporting date, letters had been sent to policyholders confirming future payments of £57.1 million (2013-14: £66.3 million). As the timing and amount of these payments are certain, they are included as payables in Note 23, and the provision has been reduced accordingly.

National Savings and Investments (NS&I) administers payments under the scheme on behalf of HM Treasury. HM Treasury advances funding to NS&I to allow it to make payments and at the reporting date the amount advanced but not yet disbursed is a receivable from NS&I

of £2.1 million (2013-14: £19.6 million). The costs of administering the scheme are met by HM Treasury.

Total payments made under the scheme and costs paid for administering the scheme to 31 March 2015 were:

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
	£m	£m	£m	£m	£m	£m
Total payments made under the scheme	–	167.1	409.4	323.9	103.4	1,003.8
Total costs paid for administering the scheme	6.8	20.3	20.1	12.7	5.0	64.9

Further details on the scheme are available on the Equitable Life Payment Scheme website.[6]

Customer redress and restructuring provisions

UKAR has recognised a provision for customer redress, being an estimate of expected customer compensation claims, primarily relating to PPI (Payment Protection Insurance) and Consumer Credit Act non-compliance.

Prior to 6 April 2008, NRAM made unsecured loans for sums in excess of £25,000 using documentation which incorrectly stated that these loans were regulated under the Consumer Credit Act (CCA). In November 2014 UKAR brought forward a test case at the High Court to determine if it was required to remediate customers. The judgment found against NRAM and NRAM appealed the decision, with the case heard by the Court of Appeal on 27-28 April 2015. NRAM now awaits the judgment from the Court of Appeal.

Further details regarding this provision are available in UKAR's Annual Report and Accounts.[7]

25. Debt securities in issue

	2014-15	2013-14
	£000	£000
Current	1,392,123	371,238
Non-current	19,554,626	25,514,802
Total	**20,946,749**	**25,886,040**

Debt securities in issue include securitised notes and covered bonds issued by B&B and NRAM. The B&B and NRAM Groups issued debt securities to securitise loans to customers and also raised unsecured medium term funding. These have been reducing year on year as UKAR buys back these securities. Further details of debt securities in issue are provided in the Annual Report and Accounts of B&B and NRAM, copies of which are available on the corporate website of each of these companies.[8]

26. Financial guarantees

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
UK guarantees	113,469	113,469	7,147	7,147
National Loan Guarantee Scheme	124,775	124,775	185,395	185,395
Help to Buy guarantees	53,018	53,018	–	9,020
Deposit guarantees	391,320	–	465,343	5,297
Total	**682,582**	**291,262**	**657,885**	**206,859**

[6] http://equitablelifepaymentscheme.independent.gov.uk

[7] http://www.nram.co.uk/corporate/investor-relations/corporate-reports/

[8] http://www.bbg.co.uk/~/media/Files/B/Bradford–And–Bingley–Plc/results–and–publications/year–2014/annual–report–and–accounts–03062014.pdf

The financial guarantees detailed below have been provided by HM Treasury. Where these give rise to contingent liabilities, further details are provided in Note 34 'Contingent liabilities' and Note 34.2 'Financial Guarantees, indemnities and letters of comfort'.

UK Guarantees

The Chancellor of the Exchequer and Chief Secretary to the Treasury announced the UK Guarantees scheme on 18 July 2012. The scheme aims to kick start critical infrastructure projects that may have stalled because of adverse credit conditions. Around £40 billion of guarantees could be offered. As at 31 March 2015, six projects were approved. Details of the maximum potential liabilities under this intervention are provided in Note 34.2.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and has helped businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. £2.9 billion worth of NLGS bonds are in issue under the scheme. Banks are required to pass on the entire benefit they receive from these guarantees to smaller businesses across the UK through cheaper loans. Current market conditions mean that the Funding for Lending Scheme (FLS) is a more favourable option for banks, and banks who have previously offered NLGS loans are now choosing to deliver credit easing through the FLS. The NLGS is not currently open for new guarantees, but in the event that stressed market conditions re-emerge, HM Treasury would consider whether to reopen the scheme. Details of the maximum potential liabilities under this intervention are provided in Note 34.2.

Help to Buy mortgage guarantee scheme

The Help to Buy: mortgage guarantee scheme was launched on 2 January 2014. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. In the event of a borrower defaulting on their mortgage, HM Treasury would be liable for a portion of net losses suffered following the sale of the property. Details of the maximum potential liabilities under this intervention are provided in Note 34.2. For further details regarding the scheme, please see the scheme rules.[9]

Deposit guarantees

HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley in September and October 2008. A financial guarantee liability of £323.1 million is recognised at amortised cost at the reporting date (2013-14: £369.7 million). HM Treasury announced guarantee arrangements to safeguard certain borrowings and derivative transactions of, and certain wholesale deposits held in accounts with, NRAM plc with effect from 1 January 2010. A financial guarantee liability of £68.2 million is recognised at amortised cost (2013-14: £90.4 million). Details of the maximum potential liabilities under these interventions are provided in Note 34 'Contingent liabilities'. These guarantees eliminate as intra-group transactions in the group totals, and there is no contingent liability at the group level.

HM Treasury also provided guarantees in respect of fixed term retail deposits in Northern Rock plc existing at 24 February 2010 for the duration of their term. As all these deposits have now matured, there is no guarantee liability at the reporting date. Details of the maximum potential liabilities under this intervention are provided in Note 34 'Contingent liabilities'.

[9] https://www.gov.uk/government/publications/help–to–buy–mortgage–guarantee–scheme–rules

27. Other financial liabilities

	2014-15 £000	2013-14 £000
Capital instruments	17,110	215,295
Total	**17,110**	**215,295**

Capital instruments include subordinated notes issued by B&B and NRAM. These notes have a range of interest rates, and their maturities vary or are undated. During the year substantially all of the capital instruments were bought back. At year end, capital instruments comprised £8 million of 7.625% dated subordinated notes with maturity in 2049 and £9 million subordinated loans with maturity in 2016. Redemptions of any capital instruments prior to their final maturity date are subject to obtaining prior consent of the Financial Conduct Authority. Further details of capital instruments are provided in the Annual Reports and Accounts of B&B and NRAM, copies of which are available on the corporate website of each of these companies.[10]

28. Financial instruments

28.1 Financial instruments: categories and fair values

This section shows the value of financial assets and liabilities, both as recognised in the Statement of Financial Position and at their fair value, and explains how they are valued.

[10] http://www.n-ram.co.uk/~/media/Files/N/NRAM-PLC/documents/regulatory-announcements/nram-annual-report-16062015.pdf
http://www.bbg.co.uk/~/media/Files/B/Bradford-And-Bingley-Plc/results-and-publications/year-2015/annual-report-and-accounts-16062015.pdf

At 31 March 2015

Group	Note	Financial assets at amortised cost	Financial liabilities & guarantees at amortised cost	Available-for-sale assets	Fair value through SCNE	2014-15 Total carrying value	2014-15 Total fair value
		£000	£000	£000	£000	£000	£000
Financial Assets							
Loans to banking customers	20	52,682,523	–	–	–	**52,682,523**	**49,932,700**
Available-for-sale financial assets	17	–	–	47,717,423	–	**47,717,423**	**47,717,423**
Cash and cash equivalents	22	9,486,206	–	–	–	**9,486,206**	**9,486,206**
Loans and advances	19	4,892,357	–	–	–	**4,892,357**	**5,187,253**
Derivative financial assets	21	–	–	–	39,400,721	**39,400,721**	**39,400,721**
Loan hedging asset	20.2	467,726	–	–	–	**467,726**	**–**
Trade and other receivables[10]		1,642,683	–	–	–	**1,642,683**	**1,642,683**
Assets held for sale	18	–	–	757,100	–	**757,100**	**757,100**
Total financial assets		**69,171,495**	**–**	**48,474,523**	**39,400,721**	**157,046,739**	**154,124,086**
Financial Liabilities							
Debt securities in issue	25	–	(20,946,749)	–	–	**(20,946,749)**	**(21,438,500)**
Cash collateral due to banks	21	–	(2,185,839)	–		**(2,185,839)**	**(2,185,839)**
Derivative financial liabilities	21	–	–	–	(570,006)	**(570,006)**	**(570,006)**
Financial guarantees	26	–	(291,262)	–	–	**(291,262)**	**(198,387)**
Trade and other payables[11]		–	(1,205,608)	–	–	**(1,205,608)**	**(1,205,608)**
Other financial liabilities	27	–	(17,110)	–	–	**(17,110)**	**(17,110)**
Total financial liabilities		**–**	**(24,646,568)**	**–**	**(570,006)**	**(25,216,574)**	**(25,615,450)**
Total net financial assets		**69,171,495**	**(24,646,568)**	**48,474,523**	**38,830,715**	**131,830,165**	**128,508,636**

[11] Excluding non-financial assets being prepayments.

[12] Excluding non-financial liabilities being deferred income and deferred tax liabilities.

At 31 March 2014

Group	Notes	Financial assets at amortised cost £000	Financial liabilities & guarantees at amortised cost £000	Available-for-sale assets £000	Fair value through SCNE £000	2013-14 Total carrying value £000	2013-14 Total fair value £000
Financial Assets							
Loans to banking customers	20	61,249,502	–	–	–	**61,249,502**	**57,354,600**
Available-for-sale financial assets	17	–	–	46,760,226	–	**46,760,226**	**46,760,226**
Cash and cash equivalents	22	7,862,334	–	–	–	**7,862,334**	**7,862,334**
Loans and advances	19	7,047,645	–	–	–	**7,047,645**	**7,303,500**
Derivative financial assets	21	–	–	–	4,846,393	**4,846,393**	**4,846,393**
Loan hedging asset	20.2	308,818		–	–	**308,818**	**–**
Trade and other receivables[12]		1,102,704	–	–	–	**1,102,704**	**1,102,704**
Assets held for sale	18	–	–	–	–	**–**	**–**
Total financial assets		**77,571,003**	**–**	**46,760,226**	**4,846,393**	**129,177,622**	**125,229,757**
Financial Liabilities							
Debt securities in issue	25	–	(25,886,040)	–	–	**(25,886,040)**	**(27,063,400)**
Cash collateral due to banks	21	–	(3,119,250)	–	–	**(3,119,250)**	**(3,119,250)**
Derivative financial liabilities	21	–	–	–	(446,041)	**(446,041)**	**(446,041)**
Financial guarantees	26	–	(206,859)	–	–	**(206,859)**	**(90,659)**
Trade and other payables[13]		–	(866,729)	–	–	**(866,729)**	**(866,729)**
Other financial liabilities	27	–	(215,295)	–	–	**(215,295)**	**(215,295)**
Total financial liabilities		**–**	**(30,294,173)**	**–**	**(446,041)**	**(30,740,214)**	**(31,801,374)**
Total net financial assets		**77,571,003**	**(30,294,173)**	**46,760,226**	**4,400,352**	**98,437,408**	**93,428,383**

28.1.1 Loans to banking customers

Loans to banking customers are carried at amortised cost at the reporting date, as set out in Note 1.12.3. Their fair values are estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value; however, as the fixed rate loans are hedged in respect of interest rate risk, there is no material exposure to this difference in fair value.

28.1.2 Available-for-sale assets

Available-for sale assets held during the year include:

- ordinary and B shares in RBS, and ordinary shares in Lloyds Banking Group;
- a single RBS dividend access share (DAS);
- share capital of public bodies, including the Bank of England and Public Dividend Capital of the Royal Mint;
- Virgin Money perpetual capital notes received as part of the sale proceeds of Northern Rock plc (disposed of during the year); and

[13] Excluding non-financial assets being prepayments.

[14] Excluding non-financial liabilities being deferred income and deferred tax liability.

- Business Finance Partnership stake in investment partnerships (disposed of during the year).

The fair value of HM Treasury's investments in the ordinary shares of RBS and Lloyds Banking Group is determined by using the published share prices as at the reporting date. While RBS B shares are not listed on a stock exchange, they can be converted into ordinary shares at the option of HM Treasury at any time. Therefore, it is assumed they are worth the market value of the underlying ordinary shares and are valued using the closing price of RBS ordinary shares.

After the payment of £320 million, as at 31 March 2015 the RBS Dividend Access Share (DAS) was estimated to have a value of £1,158 million (2013-14: £1,485 million). The fair value of the DAS is estimated by modelling future cash flows based on an assumption as to when they materialise, based on capital guidance RBS has provided publically and the market's view of the future capitalisation levels of RBS, and discounted at the Treasury discount rate of 2.2 per cent, in accordance with the FReM, to determine the present value of these cash flows. These assumptions will be revisited at each reporting date. The timing of future cash flows will ultimately depend on RBS's ability to repay, the evolution of its earnings prospects and its capital position and ultimately the discretion of the RBS board.

Virgin Money perpetual capital notes were disposed of during the year. The value of the notes had been estimated using a valuation model which used market data to estimate a value for a Lower Tier 2 security and to then estimate the premium for a Tier 1 over a Lower Tier 2 security

Investments in public bodies, excluding Public Dividend Capital, are carried at fair value. As there is no observable market data for shares in these bodies, HM Treasury's share of net asset value is used as a measure of fair value. In accordance with the FReM, investments in Public Dividend Capital are carried at historical cost less any impairment recognised. This applies to HM Treasury's investment in the Royal Mint.

Details of the most significant shareholdings are shown below:

		2014–15			2013–14
	Stake %	Net Assets, or Attributable capital & reserves (£m)	Profit (Loss) for the year (£m)	Stake %	Net Assets, or Attributable capital & reserves (£m)
Bank of England[14]	100%	3,399	179	100%	3,047
Royal Bank of Scotland Group plc (ordinary shares, B Shares, Dividend Access Share)[15]	64%,100%,100%	60,192	(2,711)	64%,100%,100%	59,215
Lloyds Banking Group plc[15]	22%	49,903	1,499	25%	39,336
Eurostar International Limited[16]	40%	852[15]	72.3	–	–

28.1.2 Loans and advances

Loans and advances include **investment securities** held as loans and receivables and carried at amortised cost at the reporting date, as set out in Note 1.12.3. Their fair values are based on quoted prices or lead manager prices where available or by using discounted cash flows applying independently sourced market parameters including interest rates and currency rates. The fair value of unsecured investment loans is based on prices supplied by third parties.

Loans and advances also include **loans made to financial institutions** which were made at a time when they could not obtain loans from the financial markets and loans provided to make

[15] Net asset values and profit for the year for Bank of England are as per their published accounts as at 28 February 2015. The balances disclosed here represent 100% of the net assets and profit of the entity.

[16] Net asset values and profit (loss) for the year for Royal Bank of Scotland Group plc and Lloyds Banking Group plc are as per their published accounts as at 31 December 2014. The balances disclosed here represent 100% of the net assets and profit (loss) of the entity.

[17] The financial statements of EIL have not been submitted for the year ended 31 December 2014, therefore net asset value is disclosed at 31 December 2013, the most recent date for which information is publicly available.

payments to deposit holders in failed institutions. It is not possible to provide a reliable estimate of the current fair values of these loans. For the statutory and FSCS loans, the counterparties are failed financial institutions which are in administration or wind-up. Therefore, there are no current market prices for loans to these bodies. Although fair values are not available, the table below provides an indication of the cost to HM Treasury of providing the loans, at current rates of interest, by discounting future cash flows receivable at HM Treasury's cost of borrowing, as approximated by UK gilt prices of a comparable maturity.

Other loans and advances shown are the **bilateral loan to Ireland** which, under the terms of the Loans to Ireland Act 2010, forms part of an international financial package to support the Irish economy and banking system, and **loans provided by Infrastructure Finance Unit Limited** in respect of the Greater Manchester Waste PFI project. As with the loans made to financial institutions, these loans were provided when financing was not obtainable from the financial markets or as part of a public-private partnership. Due to the nature of these loans, there are no current market prices available and in lieu of fair value, they are shown discounted at HM Treasury's cost of borrowing. In accordance with our accounting policy (note 1.12.1), as we receive interest on the bilateral loan to Ireland and full recovery is anticipated, amortised cost is shown as equal to the outstanding principal.

	Amortised cost	2014-15 Discounted at cost of borrowing	Amortised cost	2013-14 Discounted at cost of borrowing (Restated)
	£m	£m	£m	£m
Bilateral loan to Ireland	3,227.0	3,437.0	3,227.0	3,377.5
Statutory debt: Icesave	446.1	467.1	1,321.6	1,377.3
Statutory debt: Dunfermline	389.5	387.5	679.5	677.8
Statutory debt: other institutions	12.4	12.8	21.4	21.1
FSCS recoverables in respect of the 2008/9 banking failures	349.3	361.1	936.3	961.9
Investment securities held as loans by UKAR[18]	364.6	397.8	753.8	773.8
Loans provided by Infrastructure Finance Unit Limited	103.5	124.0	108.0	114.1
Total	**4,892.4**	**5,187.3**	**7,047.6**	**7,303.5**

28.1.4 Assets held for sale

HM Treasury had one asset classified as held for sale, being the Government's 40% shareholding in Eurostar International Limited. Its fair value reflects the sale price agreed on 3 March 2015. Further information is detailed in Note 18 'Assets held for sale'.

28.1.5 Debt securities in issue

Debt securities in issue are measured at amortised cost, as described in Note 25. Their fair values are based on quoted prices or lead manager prices where available, or by using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

28.1.6 Financial guarantees

Financial guarantees primarily relate to guarantees provided under the National Loan Guarantee Scheme (NLGS), deposit guarantees, and other guarantees under the UK Guarantee and Help to Buy: mortgage guarantee scheme. HM Treasury assesses the probability of default within the guarantee schemes at each reporting date and increases the carrying value of the liability above its amortised cost if necessary. As in prior years, default is not considered probable against any of the guarantees. For the guarantees other than NLGS guarantees, HM Treasury believes amortised cost to be materially the same as fair value.

[18] Investment securities held as loans by UKAR are shown at carrying value and at fair value. The 2013-14 figure has been restated to show fair value. Further information on investment securities can be found in UKAR's Annual Report and Accounts.

Two banks participating in the National Loan Guarantee Scheme have issued guaranteed debt. Although default is not considered probable, we can calculate the expected loss on debt as implied by credit default swap rates in order to approximate the fair value of the guarantees, as shown below.

Financial guarantees under NLGS		2014-15		2013-4
	Carrying value	Calculated expected loss on debt	Carrying value	Calculated expected loss on debt
	£m	£m	£m	£m
Barclays	46.6	16.6	69.8	38.1
Lloyds Banking Group	78.1	15.3	115.6	31.1
Total	**124.7**	**31.9**	**185.4**	**69.2**

28.1.7 Other financial assets and liabilities

Other financial assets and liabilities are short term in nature, and HM Treasury considers carrying value to approximate fair value.

28.2 Financial instruments: fair value hierarchy

This section considers the information used to determine the fair value of financial assets and liabilities and categories them according to the source of information.

Level 1 fair values are measured using unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 fair values are measured using inputs other than quoted prices that are either directly or indirectly observable. Level 3 fair values are measured using at least one unobservable input which could have a significant effect on the instrument's valuation. There were no transfers between any levels during the year.

		Level 1	Level 2	Level 3	Other[1]	Total
	Note	£m	£m	£m	£m	£m
Available-for-sale financial assets	17	**25,685**	**22,026**	–	**6**	**47,717**
Of which:						
RBS and Lloyds ordinary shares		25,653				**25,653**
RBS B shares			17,340			**17,340**
Shares in public bodies[2]			3,402			**3,402**
RBS Dividend Access Share			1,158			**1,158**
Royal Mint pubic dividend capital					6	**6**
Investment securities held by UKAR		**32**	126			**158**
Assets classified as held for sale	18		757			**757**
BEAPFF derivative financial asset	21		36,438			**36,438**
Derivative financial assets held by UKAR	21		2,962			**2,962**
Derivative financial liabilities held by UKAR	21		(570)			**(570)**
Total		**25,685**	**61,613**	–	**6**	**87,304**

[1] This column comprises available-for-sale assets which are held at historical cost in accordance with the FReM. These assets cannot be classified within the fair value hierarchy.

[2] Shares in public bodies comprise investments in the Bank of England and Local Partnerships where net asset value is used as a proxy for fair value.

Risks arising from these financial instruments

These financial assets and liabilities expose the Treasury Group to the following material risks:

- Credit risk arising from the financial interventions
- Market risk or price risk arising from the financial interventions
- Credit risk arising from the mortgage business

The following sections look at the nature and extent of material risks arising from financial instruments, and how these risks are managed.

29. Financial risks arising from the Treasury Group's financial interventions

This section looks at the nature and extent of credit risk and market risk arising from the Treasury Group's financial interventions, and how Treasury manages these risks.

29.1 Managing risk at the Treasury

HM Treasury has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. The financial services interventions expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The HM Treasury board is ultimately responsible for managing these risks and HM Treasury's overall risk management programme. The risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on HM Treasury's financial performance. Financial risks are continually monitored and evaluated through normal management processes and form a core part of day-to-day operations for HM Treasury's policy teams and sub-committees.

Integral to HM Treasury's approach to financial risk management has been the design of the interventions and the terms and conditions imposed. Through the design of the interventions and their subsequent management, HM Treasury seeks to minimise the overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate.

29.2 Credit risk

29.2.1 Credit risk arising from financial interventions

HM Treasury is exposed to credit risk through schemes entered into by the Government. The Treasury's credit risk arises as a result of Government interventions in providing loans, advances and financial guarantees.

The final disbursement of the Treasury's £3.2 billion bilateral loan to Ireland was made on 26 September 2013. Repayments of the principal will commence in 2019 and conclude in 2021. Interest payments are made every six months until full repayment of the principal is made. HM Treasury continues to monitor risks to the repayment of the loan.

HM Treasury has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the administrators. A sensitivity analysis of the level of capital recovery for statutory debt loans from administrators is shown below.

			As at 31 March 2015		As at 31 March 2014
Impairments as at 31 March	**Total amount lent**	**Current/(forecast) recovery**	**SCNE impact of change in forecast recovery by +/–5%**	**Current/(forecast) recovery**	**SCNE impact of change in forecast recovery by +/–5%**
	£m	**%**	**£m**	**%**	**£m**
KSF	494	84 (85)	24/(7)	82 (85)	24/(14)
London Scottish	31	41 (58)	2/(2)	36 (56)	2/(1)
Heritable	92	94 (94)	5/–	94 (94)	4/(1)
Icesave[1]	3,073	85 (100)	–/(147)	55 (100)	–/(40)
Dunfermline[2]	1,540	75 (100)	–/–	56 (100)	–/–
Total	**5,230**		**31/(156)**		**30/(56)**

[1] Following the ruling of the EFTA Court, the loan to the Depositors' and Investors' Guarantee Fund is not recoverable from the Icelandic authorities and is recoverable from the administration of the Icesave estate.

[2] For the Dunfermline statutory debt, HM Treasury can recover its shortfall in the administration from levy payers, subject to a cap. Therefore the change in forecast recovery has no impact on the SCNE for the range considered reasonably possible above.

In-year and cumulative impairment charges for loans and advances comprise:

				2014-15
Impairments as at 31 March	Opening cumulative impairments charged to the SCNE	Impairments charged to the SCNE in year	Impairments reversed in the SCNE in year	Closing cumulative impairments charged to the SCNE
	£m	£m	£m	£m
Loans and advances	(1,382)	(5)	29	(1,358)

29.2.2 Credit risks borne by FSCS arising from financial interventions

FSCS is exposed to credit risk from the collection of levies from the financial services industry which funds its costs. Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to credit risk will be absorbed by the levy payers. Details about FSCS's financial risk management are provided in Note 16 to its 2014-15 Account.

29.2.3 Credit risk arising from UK Guarantees

HM Treasury is exposed to credit risk in relation to the guarantees provided under the UK Guarantee Scheme, although this is mitigated by the guarantee fees that are paid to compensate Treasury for its expected losses under each project. The Treasury has provided guarantees in relation to unpaid principal and interest. Once the Treasury enters into a guarantee agreement, it is exposed to a risk of default until all the guarantee finance is repaid. At the reporting date, the Treasury discloses a contingent liability in relation to outstanding principal of £884.6 million and one year of unpaid interest of £22.5 million, as Treasury would expect to refinance within this time if there were a default. The contingent liability is disclosed in Note 34.2 'Financial guarantees, indemnities and letters of comfort'. Management of the risk is explain further below.

Project	Description	Principal remaining	Estimated annual interest	End date
		£m	£m	
University of Northampton	Relocation of university to a new site	291.5	7.6	31-Jul-58
Mersey Gateway	Construction of a new toll bridge over the river Mersey	257.2	9.9	31-Mar-43
INEOS Grangemouth	Construction of an ethane import and storage facility	206.7[1]	1.6	30-Jul-19
Drax biomass	Partial conversion of a coal fired power station to biomass	75.0	1.1	30-Jun-18
Speyside	Construction of a biomass power station	48.2	1.4	13-Jun-28
National Car Parking	Installation of energy saving lighting	6.0	0.9	18-Dec-17
Total guarantees		**884.6**	**22.5**	

[1] The amount guaranteed is €285 million. This is converted to £ GBP at 31 March 2015 using the exchange rate per www.xe.com

The following project is not a guarantee, rather a standby refinancing facility as part of the UK Guarantees scheme. Estimated annual interest is nil as the facility is undrawn as at 31 March 2015. Refer to Note 33 'Other financial commitments' for further details.

Project	Description	Undrawn facility	Estimated annual interest	End date
		£m	£m	
Transport for London – GLA	Northern Line extension	750.0	–	30-Nov-63

Before issuing a guarantee, the Treasury conducts a rigorous approvals process, involving due diligence reports from the deal team, an independent risk officer's report, a review by the Treasury's risk committee and final approval by the Treasury Accounting Officer. This process includes an assessment of initial project risk in-house based on due diligence and other techniques used by project finance banks and credit rating agencies. If a guarantee is called upon, default may not necessarily mean an immediate pay out by the Treasury. The Treasury has usually secured senior lender rights, protecting itself by securing rights to information to identify risks early so that remedial action can be taken if necessary and rights to step into the shoes of the lender to control assets and recover monies in the event of a default. It will assume responsibility for principal and interest payments which are unpaid by the borrower as they arise until the project may be refinanced and then may seek to recover as much as possible of its costs from the borrower.

HM Treasury monitors the performance of each project on an ongoing basis. It has a Head of Portfolio Management who undertakes day to day oversight of guarantees, including early warning monitoring and planning mitigating action. The IUK team holds monthly review meetings and Quarterly Credit Review meetings, preparing monitoring reports on each project to assess the likelihood of default and to report to the Treasury Operational Risk Group and Treasury Finance. As at the reporting date, the likelihood of default in relation to the UK Guarantee Scheme was assessed by the Treasury to be materially unchanged from the date the guarantee was issued.

29.2.4 Credit risk arising from the Help to Buy Guarantees

HM Treasury is exposed to credit risk in relation to the guarantees provided under the Help to Buy mortgage guarantee scheme, although this is mitigated by the guarantee fees that are paid upfront by lenders to compensate Treasury for its expected losses under the scheme. The guarantee protects participating mortgage lenders against a portion of net losses suffered in the event of repossession. The guarantee applies down to 80% of the purchase value of the guaranteed property, covering 95% of those net losses. The risk to Treasury crystallises in the event that a mortgage in the scheme defaults and the resulting loss to the lender is greater than 80% of the property value. Treasury monitors the mortgages it has guaranteed on a monthly basis and assesses the likelihood of a claim made by lenders.

In total, the amount Treasury has guaranteed is £631 million at the reporting date. This represents the amount the Treasury would have to pay if every loan under the scheme defaulted with the maximum possible loss. Of a total of 46,877 completions to 31 March 2015, seven mortgages were three months or more in arrears and six mortgages were recorded as in default. The average balance weighted LTV for March 2015 completions was 94%. As at reporting date, the mortgages three months or more in arrears and in default represent 0.03% of the total completions at reporting date. Although it is possible these mortgages could result in a claim, the credit risk exposure is deemed to be immaterial due to the insignificant percentage they represent. No claims have yet been made.

29.3 Market risk arising from financial interventions

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

29.3.1 Market risk: BEAPFF derivative

Market risk in the BEAPFF's asset portfolio arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets as a result of changes in market interest rates. Risk is monitored through the value at risk and in the form of 'delta'. Value at risk estimates the potential loss that might arise if existing positions were unchanged for ten business days under normal market conditions, given the historical volatility of the returns on different returns on assets, and the historical correlation between those returns. Delta is the change in valuation from a one basis point increase or decrease in market interest rates. The value at risk at 31 March 2015 was £13.6 billion (2013-14: £6.9 billion) and the delta was £398.2 million (2013-14: £330.9 million).

29.3.2 Price risk: Available-for-sale assets

HM Treasury is exposed to price risk for the equity securities it holds as available-for-sale assets. No market exists for the remaining investments, which are primarily other Government bodies, some of which are never intended for sale. Such investments are accounted for at net asset value or historical cost.

Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and RBS are listed on the London Stock Exchange. In addition, RBS' B-shares are considered to be equivalent in market value to RBS's ordinary shares.

The analysis below shows the impact on net operating income and reserves of a 10 per cent and 25 per cent increase or decrease in the market price of investments in RBS and Lloyds Banking Group, excluding the RBS dividend access share. These variances were considered reasonably possible as at the reporting date.

Change in market price		2014-15		2013-14
	Net operating income	Reserves	Net operating income	Reserves
	£m	£m	£m	£m
Increase of 10 per cent	–	4,299	–	4,146
Increase of 25 per cent	–	10,748	–	10,364
Decrease of 10 per cent	–	(4,299)	–	(4,146)
Decrease of 25 per cent	(1,046)	(9,703)	(3,410)	(6,954)
Holding value of the shares at 31 March		**42,992**		**41,457**

29.3.3 Foreign exchange risk

HM Treasury is exposed to foreign exchange risk in relation to its statutory debt with Icesave, the Landsbanki estate. Following the default of Landsbanki's UK branch in October 2008, trading as Icesave, HM Treasury supported a full depositor pay-out by FSCS. In the region of £4.5 billion was paid to depositors of Icesave, crystallised in Icelandic krona at the prevailing exchange rate of ISK191:GBP1. The exchange rate at the reporting date is ISK204:GBP1. Treasury has recovered about 85% of the statutory debt paid in different currencies, and is exposed to potential foreign exchange risk in relation to the remaining 15% which is expected to be paid in USD, GBP, and EUR. The Icesave loan has been valued based on the outstanding ISK balance at 31 March 2015 converted to GBP at the exchange rate on that date of ISK204:GBP1 and includes a £4 million foreign exchange loss.

Similarly, FSCS exposed to foreign exchange risk in relation to funds it is seeking to recover from a number of institutions where the recoveries will be in foreign currencies. Changes in the exchange rate for Icelandic Krona, US Dollars or Euros may affect the values recovered. Details about FSCS's financial risk management are provided in Note 16 to its 2014-15 Account.

29.4 Liquidity risk

Liquidity risk is the risk of being unable to pay liabilities as they fall due.

HM Treasury's liquidity management controls include monitoring cash flows to ensure that daily cash requirements are met and re-assessing the net cash requirement on a regular basis and reporting this to Parliament through Estimates. HM Treasury is not exposed to significant liquidity risk because it can apply for Parliamentary approval for additional cover to pay for any liquidity gap.

30. Financial risks arising from UKAR's mortgage business

Treasury is exposed to financial risks arising from the mortgage business through the consolidation of UKAR. This section looks at the nature and extent of credit risk and how this is managed.

The following table describes the significant activities undertaken by UKAR which give rise to financial or market risk, the potential consequences associated with such activities and the derivative instruments used by UKAR to mitigate the risks arising.

Activity	Risk	Type of derivative instrument used
Legacy funding in sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgages and Legacy investments involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Variable rate mortgage balances	Sensitivity to changes in interest rates	Interest rate swaps
Legacy investments and funding in foreign currencies	Sensitivity to changes in foreign currency exchange rates	Cross-currency interest rate swaps and foreign exchange contracts

Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on UKAR's Statement of Financial Position, and from the investment profile of UKAR capital and reserves. UKAR measures, monitors and controls the following interest rate risks and sensitivities: mismatch risk, curve, prepayment risk, basis risk, and reset risk. Exposures are reviewed as appropriate by its senior management and board with a frequency between daily and monthly, related to the granularity of the position. Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps. UKAR also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to UKAR. Interest rate sensitivities are reported monthly and are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve.

Further details of UKAR's approach to risk management and control are provided on pages 69 to 74 of UKAR's 2014-15 Annual Report. The description of risks on those pages form an integral part of the audited financial statements.

30.1 Use of derivatives

In relation to the mortgage business, derivative instruments are used for the purpose of supporting the strategic and operational business activities of UKAR and reducing the risk of loss arising from changes in interest rates and exchange rates. Derivative instruments are used to hedge risk exposure and the objective is to ensure that the risk-to-reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges. However IAS 39 requires certain tests to be satisfied before hedge accounting is permitted. Consequently not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected or because satisfying these tests would be prohibitively onerous.

(i) Fair value hedges

UKAR designates a number of derivatives as fair value hedges. In particular, UKAR has three approaches establishing relationships for:

- Hedging the interest rate and foreign currency exchange rate risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps.

- Hedging the interest rate risk of a single currency portfolio of sterling, US Dollar or Euro non-prepayable fixed rate assets/liabilities on a one-for-one basis with vanilla fixed/floating or floating/fixed interest rate swaps.
- Hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages. The UKAR Group believes this solution is consistent with its policy for hedging fixed rate mortgages on an economic basis.

(ii) Cash flow hedges

UKAR designates a number of derivatives as cash flow hedges. In particular, UKAR adopts the following approaches:

- Using fixed interest rate swaps to hedge floating rate sterling liabilities.
- To address the volatility generated by floating/floating cross currency swaps, they are placed into cash flow hedges; the accounting hedge relationship is to hedge the foreign currency exchange rate risk of the foreign currency denominated asset/liability.
- Fixed/floating cross currency swaps are split into their separate risk components and separately designated into cash flow hedges.
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges.

UKAR had the following types of hedges:

	Cashflow hedges	Fair value hedges	Economic hedges	As at 31 March 2015 Total	As at 31 March 2014 Total
	£m	£m	£m	£m	£m
Total derivative financial assets held by UKAR	2,883.9	8.2	70.6	2,962.7	4,616.2
Total derivative financial liabilities held by UKAR	(47.6)	(498.9)	(23.5)	(570.0)	(446.0)
Fair value of hedging instruments	2,836.3	(490.7)	47.1	2,392.7	4,170.2

30.2 Credit risk arising from the mortgage business

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. Credit risk is the largest risk the UKAR Group faces. The most significant credit risk for the UKAR Group is the exposure to retail, commercial and wholesale counterparties failing to meet their obligations. Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of loans and therefore the financial performance of the UKAR Group.

As no new lending is now being undertaken, UKAR's ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity, and credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from: changes in the underlying economic environment; assumptions about the future trends in the economy; changes in the specific characteristics of individual loans; and the credit risk strategies developed to add value to the book whilst mitigating credit risk.

As credit risk is the main risk to the UKAR Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The UKAR Group closely monitors its credit risk against its credit policies and employs credit behaviour scoring and fraud detection techniques to support loss minimising strategies.

The maximum credit risk exposure at the reporting date before taking account of any collateral netting and other credit enhancements was as follows:

	2015	2014
	£m	£m
Cash	9,183	7,524
Loans to Customers	52,683	61,250
Derivative financial instruments	2,963	4,616
Investment securities	523	1,075
Other financial assets	19	30
Total	**65,371**	**74,495**
Off-balance sheet loan commitments	**1,430**	**1,757**

The UKAR board has approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures are continually monitored and controlled. The credit limit structure adopts a risk based matrix whereby lower rated counterparties are afforded lower overall levels of limit. Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation is also used in the limit assignment process. Counterparties are assigned maximum limits in accordance with the ratings matrix, based on the lowest rating afforded to any part of the counterparty group.

The UKAR Group has investments in a range of investment securities issued by government bodies and banks and in asset-backed securities, in both the UK and overseas. UK government securities, bank and supranational bonds comprise 6% (2014: 10%) of investment securities held. 42% (2014: 39%) of the asset-backed securities are backed by UK assets. Further details in respect of concentrations in the wholesale assets portfolio are detailed in Note 11 'Wholesale assets' of UKAR's 2014-15 Annual Accounts.

The UKAR Group operates primarily in the UK, and adverse changes to the UK economy could impact all areas of the UKAR Group's business. Residential mortgages are all secured on property in the UK. 42% (2014: 39%) of residential mortgages are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £51.1 billion (2014: £59.3 billion) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 41% (2014: 42%) of the book.

Within the commercial mortgage portfolio and housing association loans, there are 89 loans (2014: 115) totalling £0.5 billion (2014: £0.6 billion), with the largest 10 loans accounting for 73% (2014: 65%) of the portfolio. All of these loans are secured on commercial properties.

30.2.1 Credit risk: loans to banking customers

	Residential mortgages £m	Commercial loans £m	Unsecured loans £m	As at 31 March 2015 Total £m	As at 31 March 2014 Total £m
Neither past due nor impaired	48,315.6	443.8	1,054.8	49,814.2	57,528.5
Past due, but not impaired					
– less than 3 months	1,874.2	2.4	48.1	1,924.7	2,388.8
– 3 to 6 months	705.7	–	16.7	722.4	946.2
– over 6 months	490.2	–	117.7	607.9	774.1
Impaired	587.4	166.8	28.9	783.1	1,069.3
Total loans to customers	**51,973.1**	**613.0**	**1,266.2**	**53,852.3**	**62,706.9**
Impairment allowances	(888.0)	(76.7)	(205.1)	(1,169.8)	(1,457.4)
Total loans to customers net of impairment allowances	**51,085.1**	**536.3**	**1,061.1**	**52,682.5**	**61,249.5**

'Impaired' loans are those which are 12 months or more in arrears, in possession or held for sale with an LPA receiver, and others which management consider to be individually impaired.

30.2.2 Residential mortgages: collateral held and loan to value

In respect of residential mortgages, the UKAR Group holds collateral in the form of mortgages over residential properties. The fair value of this collateral, estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the reporting date, was as follows:

	As at 31 March 2015 £m	As at 31 March 2014 £m	As at 31 March 2013 £m
Neither past due nor impaired	74,689.0	80,744.9	81,228.0
Past due, but not impaired	4,078.5	4,651.8	6,296.6
Impaired	659.2	784.9	1,260.5
Total collateral held in respect of residential mortgages	**79,426.7**	**86,181.6**	**88,785.1**

If the collateral amount on each individual loan were capped at the amount of the balance outstanding, and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	As at 31 March 2015 £m	As at 31 March 2014 £m	As at 31 March 2013 £m
Neither past due nor impaired	47,989.3	55,139.6	57,832.7
Past due, but not impaired	3,025.3	3,757.9	5,376.7
Impaired	539.4	695.5	1,121.2
Total collateral held in respect of residential mortgages	**51,554.0**	**59,593.0**	**64,330.6**

The indexed loan to value ('LTV') of residential mortgage balances, weighted by loan balance, falls into the following ranges:

	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013
	%	%	%
To 50% loan to value	9.5	7.6	6.5
50% to 75% loan to value	34.0	21.8	14.5
75% to 100% loan to value	47.9	52.7	45.2
Over 100% loan to value	8.6	17.9	33.8
Total	**100**	**100**	**100**

30.2.3 Residential mortgage and unsecured loans: arrears and possessions

Arrears and possessions are monitored for residential and unsecured loans as follows:

		As at 31 March 2015		As at 31 March 2014	
		Residential mortgages	Unsecured loans	Residential mortgages	Unsecured loans
Arrears 3 months and over					
– Number of cases (proportion of total cases)	No.	11,005 (2.43%)	8,877 (8.38%)	14,139 (2.68%)	10,445 (8.76%)
– Asset value (proportion of book value)	£m	1,575.5 (3.09%)	147.8 (13.92%)	2,067.5 (3.48%)	172.7 (13.47%)
– Total value of payments overdue (portion of book)	£m	62.8 (0.12%)	26.3 (2.48%)	84.3 (0.14%)	23.0 (1.80%)
Possessions					
– Number of cases (proportion of total cases)	No.	971 (0.21%)	–	1,344 (0.25%)	–
– Asset value (proportion of book value)	£m	133.9 (0.26%)	–	199.0 (0.34%)	–
– Total value of payments overdue (portion of book)	£m	8.8 (0.02%)	–	14.0 (0.02%)	–
Arrears 3 months and over and Possessions					
– Number of cases (proportion of total cases)	No.	11,976 (2.64%)	8,877 (8.38%)	15,483 (2.93%)	10,445 (8.76%)
– Asset value (proportion of book value)	£m	1,709.4 (3.35%)	147.8 (13.92%)	2,266.5 (3.82%)	172.7 (13.47%)
– Total value of payments overdue (portion of book)	£m	71.6 (0.14%)	26.3 (2.48%)	98.3 (0.16%)	23.0 (1.80%)
Payments overdue in respect of all arrears and possessions	£m	90.6 (0.18%)	26.8 (2.53%)	121.2 (0.20%)	23.8 (1.86%)
Loan impairment provision: as % of total balances	%.	1.71	16.2	1.90%	14.35%
Loan impairment provision: new possessions	No.	2,856	–	6,996	–

30.3 Credit risk: UKAR's Investment securities

Credit risk arising from investment securities and unsecured investment loans:

	Available-for-sale securities	Investment securities held as loans and receivables	Unsecured investment loans	As at 31 March 2015 Total	Available-for-sale securities	Investment securities held as loans and receivables	Unsecured investment loans	As at 31 March 2014 Total
	£m	£m	£m	£m	£m	£m	£m	£m
Neither past due nor impaired	59.5	338.5	–	**398.0**	181.6	661.1	-	**842.7**
Impaired	352.7	65.7	87.5	**505.9**	374.1	85.1	216.9	**676.1**
	412.2	404.2	87.5	**903.9**	555.7	746.2	216.9	**1,518.8**
Provisions	(254.1)	(39.6)	(87.5)	**(381.2)**	(234.9)	(66.4)	(142.9)	**(444.6)**
Total	**158.1**	**364.6**	**–**	**522.7**	**320.8**	**679.8**	**74.0**	**1,074.2**

30.4 Foreign currency risk

The mortgage business includes investment and funding in foreign currencies and this gives rise to foreign currency risk given their sensitivity to changes in foreign currency exchange rates. UKAR's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 March 2015 and 2014, it had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on UKAR's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 March 2015 and 2014.

The table below summarises the UKAR Group's exposure to foreign currency exchange rate risk at the year end, based on the information presented to management. Included in the table are the UKAR Group's financial instruments, including those classified as equity, under the relevant currency headings. The amounts disclosed are the sterling equivalents of the notional amounts due on maturity, including interest accrued at the reporting date, less any impairment provisions. Although equity instruments denominated in foreign currency are recorded in the Statement of Financial Position at their original settlement rates, closing rates are used here to provide sterling equivalents of the currency amounts.

				As at 31 March 2015
UKAR	**EUR**	**USD**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Total financial assets	11,781.5	5,616.6	487.6	**17,885.7**
Total financial liabilities	(11,782.5)	(5,615.4)	(487.6)	**(17,885.5)**
Net currency (shortfall)/surplus	**(1.0)**	**1.2**	**–**	**0.2**

				As at 31 March 2014
UKAR	**EUR**	**USD**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Total financial assets	15,970.2	5,801.8	732.9	**22,504.9**
Total financial liabilities	(15,985.3)	(5,779.4)	(732.9)	**(22,497.6)**
Non-shareholder funds	–	(10.4)	–	**(10.4)**
Net currency (shortfall)/surplus	**(15.1)**	**12.0**	**–**	**(3.1)**

Further details are available in Note 35 'Financial risk management' of UKAR's 2014-15 Annual Report and Accounts.

30.5 Liquidity risk

Liquidity risk is the risk of being unable to pay liabilities as they fall due.

UKAR closely monitors its liquidity position against its liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

The table below looks at UKAR's liquidity position as used by management to monitor its liquidity risk, evaluated by comparing its financial assets and liabilities on a stand-alone basis, including balances with HM Treasury, into relevant maturity groupings.

				As at 31 March 2015
UKAR	**Up to 3 months**	**3-12 months**	**Over 1 year**	**Total**
	£m	**£m**	**£m**	**£m**
Total financial assets	9,793.8	839.5	55,204.8	65,838.1
Total financial liabilities	(38,828.0)	(2,197.9)	(17,420.3)	(58,446.2)
Net liquidity gap	**(29,034.2)**	**(1,358.4)**	**37,784.5**	**7,391.9**
Net liquidity gap excluding HMT loans	**5,585.2**	**(1,356.4)**	**37,784.5**	**42,013.3**

UKAR	Up to 3 months	3-12 months	Over 1 year	As at 31 March 2014 Total
	£m	£m	£m	£m
Total financial assets	8,060.7	481.3	66,260.6	74,802.6
Total financial liabilities	(42,555.4)	(2,495.3)	(23,092.4)	(68,143.1)
Net liquidity gap	**(34,494.7)**	**(2,014.0)**	**43,168.2**	**6,659.5**
Net liquidity gap excluding HMT loans	3,855.8	(2,014.0)	43,168.2	45,010.0

The table below analyses UKAR's cash flows for derivative and non-derivative financial liabilities into relevant maturity groupings.

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Non-derivatives: as at 31 March 2014	43,197.8	1,164.1	2,748.5	16,876.4	7,613.7	**71,600.5**
Derivatives: as at 31 March 2014	–	43.3	98.5	298.8	905.2	**1,345.8**
Non-derivatives: as at 31 March 2015	38,202.1	2,010.2	2,367.1	13,293.9	5,376.8	**61,250.1**
Derivatives: as at 31 March 2015	–	16.0	47.0	203.4	809.3	**1,075.7**

Further details are available in Note 35 'Financial risk management' of UKAR's 2014-15 Annual Report and Accounts.

31. Capital commitments

	2014-15	2013-14
	£000	£000
Contracted capital commitments not otherwise included in these financial statements		
UKAR capital commitments	5,168	700
HMT IT projects	223	1,325
Total capital commitments not otherwise included in these financial statements	**5,391**	**2,025**

Capital commitments comprise future commitments to capital expenditure for the acquisition of property, plant and equipment and intangible assets that are contracted for but not provided for in the financial statements.

32. Commitments under leases

Operating leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires.

		2014-15		2013-14
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Buildings:				
Not later than one year	1,579	5,549	1,516	3,828
Later than one year and not later than five years	4,972	19,381	4,614	14,220
Later than five years	1,385	18,460	2,019	16,168
	7,936	**43,390**	**8,149**	**34,216**
Other:				
Not later than one year	237	6,539	256	**933**
Later than one year and not later than five years	13	1,839	416	**681**
Later than five years	–	–	–	**2,592**
	250	**8,378**	**672**	**4,206**

Core Treasury PFI contract

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership in respect of Core HM Treasury's buildings at 1 Horse Guards Road. Applying the principles of IFRIC 12 *Service Concession Arrangements*, the provision of the serviced accommodation at 1 Horse Guards Road building is recognised as an asset of HM Treasury with a net book value of £83.9 million (2013-14: £61.2 million) in Note 14. A full valuation was carried out by the Valuation Office Agency (VOA) in March 2015. The PFI finance lease obligation (£2.3 million) has been accounted for as a liability in Note 23 'Trade and other payables'.

The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements: imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

	2014-15	2013-14
The finance lease obligation under the PFI contract comprises:	**£000**	**£000**
Rentals due within one year	11,275	11,275
Rentals due between two to five years	45,100	45,100
Rentals due thereafter	195,435	206,710
Gross present value of future obligations	**251,810**	**263,085**
Finance charges allocated to future periods	(128,672)	(137,857)
Total	**123,138**	**125,228**

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element (including contingent rent) was £12.3 million (2013-14: £11.9 million). At 31 March 2015 HM Treasury was committed to pay minimum service charges in future years:

	2014-15	2013-14
	£000	**£000**
Service charge due within one year	12,577	12,591
Service charge due between two to five years	58,439	58,581
Service charge due thereafter	429,222	467,086
Total service charges	**500,238**	**538,258**

No other members of the Treasury group have entered into PFI arrangements.

33. Other financial commitments

	2014-15	2013-14
	£000	**£000**
Financial commitments not otherwise included in these financial statements		
UKAR loan commitments	1,430,374	1,757,300
Undrawn lending commitments relating to the Business Finance Partnership	–	573,371
UK Guarantees Northern Line extension loan commitment	750,000	750,000
HMT IT services commitment	8,857	–
Undrawn loan facilities provided by IFUL to other PFI projects	1,690	1,901
Sovereign grant building maintenance	13,900	11,254
Sovereign grant other maintenance	2,000	2,377
Total other financial commitments not otherwise included in these financial statements	**2,206,821**	**3,096,203**
Of which:		
Core Treasury and agencies	760,547	1,325,272
ALBs and other bodies	1,446,274	1,770,931
Group total	**2,206,821**	**3,096,203**

UKAR loan commitments represent contractual amounts to which UKAR is committed for extension of credit to its banking customers. In respect of lifetime mortgages which involved the advance of a lump sum on which interest continues to accrue but is not payable until the loan is redeemed, the commitment reflects an estimate of the interest expected to roll up until redemption. In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption. On other loans, the commitment comprises cash which could be drawn down by customers in respect of further advances and re-drawal of amounts voluntarily overpaid.

HM Treasury also provides a working capital facility to B&B and NRAM. As at 31 March 2015, the undrawn working facilities for B&B and NRAM were £8,965 million and £2,500 million respectively (2013-14: £6,525 million and £2,500 million). As B&B and NRAM are subsidiaries of UKAR and therefore part of the Treasury Group, these working capital facilities are intra-group balances and not shown in the table above.

Former commitments to the Business Finance Partnership scheme have been transferred to the British Business Bank Investments Ltd, a subsidiary of the Department for Business, Innovation and Skills.

Manufacturing coinage

In addition, HM Treasury has committed to pay the Royal Mint for the metal and manufacturing costs of supplying new UK circulating coinage to meet the demand from banks and other distributors. The manufacturing price is agreed in a Coinage Contract covering 2011-12 to 2014-15. The Royal Mint recharges HM Treasury for the metal prices it incurs, which are variable in line with market prices.

HM Treasury makes monthly payments for coins manufactured by the Royal Mint. Coins which have been produced and paid for by HM Treasury but have not yet been issued are stored by the Royal Mint and held as inventory on HM Treasury’s Statement of Financial Position. The coins are later issued to the coin centres and then purchased by banks at face value when required. The payments by the banks are made into the Coinage Deposit Account and surrendered to the Consolidated Fund by the Royal Mint.

34. Contingent liabilities

34.1 Contingent liabilities disclosed under IAS 37

Pool Re and Pool Re (Nuclear) Limited

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies, owned by insurers. They provide terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption following a terrorist attack in Great Britain (excluding Northern Ireland. HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. The total reserves of Pool Re as at the date of their last published accounts (December 2014) were £5.6 billion (2013: £5.3 billion) and of Pool Re (Nuclear) were £28.1 million (2013: £26.9 million). In the event of losses exceeding their available resources, HM Treasury will fund the difference which will be repaid over time. Maximum potential liabilities under this arrangement are considered unquantifiable. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Virgin Money

Under the terms of the sale of Northern Rock, HM Treasury has provided a tax indemnity to Virgin Money. The tax indemnity is time-limited and subject to an overall cap of 35 per cent of the final consideration received. Maximum potential liabilities under this indemnity are estimated to be £357 million as at the reporting date (2013-14: £310 million), being 35 per cent of the consideration received of £1,020 million (2013-14: £970 million).

NRAM plc

HM Treasury has confirmed to the Financial Conduct Authority (FCA) its intention to take appropriate steps to ensure that NRAM plc will continue to operate above the minimum regulatory capital requirements. HM Treasury has committed to convert up to £1.6 billion of NRAM loans to meet this requirement if needed. If this contingent liability crystallised, it would result in a transaction between HM Treasury and NRAM, which would be eliminated from the Group position.

Bradford & Bingley plc

HM Treasury has confirmed to the FCA its intention to take appropriate steps (should they prove necessary) to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the FCA which may vary as circumstances demand. If this contingent liability crystallised, it would result in a transaction between HM Treasury and Bradford & Bingley, which would be eliminated from the Group position.

In addition, 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. HM Treasury has therefore guaranteed to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. As at 31 March 2015, there is no contingent liability to report (13-14: £20.3 million) as the Bradford & Bingley Pension Scheme is showing a surplus.

NRAM loans

Prior to 6 April 2008, NRAM made unsecured loans for sums in excess of £25,000 using documentation which incorrectly stated that these loans were regulated under the Consumer Credit Act. Previously NRAM recognised a contingent liability in relation to this matter, but it has now recognised it as a provision and details are provided in Note 24 'Provisions for liabilities and charges'.

Royal Mint Trading Fund

The Royal Mint Trading Fund has a Memorandum of Understanding arrangement with the National Loans Fund by which it can draw down against a financing facility, with an upper limit of £36 million. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50 million. If the Royal Mint Trading Fund was unable to meet this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met by HM Treasury.

Eurostar International Limited

As part of the transfer of the shareholding in EIL, a shareholder debt novation deed was entered into by the Department for Transport (DfT), HM Treasury and EIL to release and discharge DfT and replace HM Treasury in substitution for DfT in the shareholder debt Facility Agreement. This is an undrawn shareholder loan facility for up to £20 million and will be cancelled on the sale of the shareholding. This facility was not drawn upon at 31 March 2015.

Compensation schemes

In accordance with Section 4 of the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, HM Treasury was required to appoint a panel to appoint an independent valuer. HM Treasury indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred in connection with, or arising from, their membership of the Panel and the performance of the Panel's functions. No claims against the indemnity have been made in 2014-15 or in prior years and any future claims, if any, are regarded as being too remote and of such insignificant value that no contingent liability existed at 31 March 2015.

34.2 Financial guarantees, indemnities and letters of comfort

The Department has entered into the following guarantees and indemnities. None are contingent liabilities under IAS 37 as the likelihood of a transfer of economic benefit in settlement is too remote. As financial instruments, they are measured following the requirements of IAS 39.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, to effect what is known as quantitative easing, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The Government has indemnified the Bank of England and the fund specially created to implement the facility from any losses arising out of or in connection with the facility. The gilts held by the fund are valued at market rates which are sensitive to fluctuations in interest rates. At 31 March 2015, the fund held £407.1 billion of gilts at market value (2013-14: £375.6 billion), and a BEAPFF derivative asset of £36.4 billion (2013-14: £0.2 billion) is carried at fair value on the Statement of Financial Position as at the reporting date, see Note 21 'Derivative financial instruments'.

UK Guarantees

HM Treasury has provided guarantees under the UK Guarantee Scheme, as detailed in Note 26 'Financial guarantees'. As at 31 March 2015, guarantees were provided in respect of six projects, totalling an estimated £884.6 million of outstanding principal and one year of unpaid interest of £22.5 million, as the maximum potential liabilities (2013-14 £83.3 million). Further details are provided in Note 29.2.3 'Credit risk arising from UK Guarantees'.

National Loan Guarantee Scheme

HM Treasury provides guarantees under the National Loan Guarantee Scheme (NLGS) to help business access cheaper finance, as detailed in Note 26 'Financial guarantees'. £2.9 billion worth of NLGS bonds are in issue under the scheme and therefore this is deemed to be the amount of the contingent liability.

The Help to Buy: mortgage guarantee scheme

HM Treasury has provided guarantees under the Help to Buy mortgage guarantee scheme, as detailed in Note 26 'Financial guarantees'. The guarantee compensates lenders for a portion of net losses suffered in the event of repossession. The scheme rules provide for a maximum contingent liability of £12 billion. As at 31 March 2015, maximum potential liabilities under this intervention are estimated to be £631 million (2013-14: £94.6 million). This is derived from the estimate provided by UKAR corporate services who administer the scheme. There are a small number of borrowers who are in arrears but the current assessment is that the likelihood of a claim is low. This is driven in part by increases in house prices which mitigate against lender losses.

Deposit guarantees for Virgin Money

HM Treasury provided guarantees in respect of fixed term retail deposits in Northern Rock plc existing at 24 February 2010 for the duration of their term. As all these deposits have now matured, maximum potential liabilities under this intervention were nil at the reporting date (2013-14: £71.7 million).

Deposit guarantees for NRAM plc

HM Treasury has provided guarantees in relation to certain borrowings and derivative transactions of, and certain wholesale deposits held in accounts with, NRAM plc, which are detailed in Note 26 'Financial guarantees'. Maximum potential liabilities under this intervention were estimated to be £6.5 billion as at the reporting date (2013-14: £7.1 billion), however there is no contingent liability at the group level.

Deposit guarantees for Bradford and Bingley

HM Treasury has provided guarantees in relation to certain wholesale borrowings and deposits with Bradford & Bingley which are detailed in Note 26 'Financial guarantees'. Maximum potential liabilities under this intervention were estimated to be £2.4 billion as at 31 March 2015 (2013-14: £2.6 billion), however there is no contingent liability at the group level.

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. No claims have been made since the indemnity came into force and the likelihood of any being made in the future is regarded as having diminished to such an extent that there is no contingent liability to report at 31 March 2015.

Director indemnities

HM Treasury has guaranteed indemnities provided by the incorporated companies within the Treasury Group to their directors and company officers who are also Treasury employees against liabilities and losses incurred in the course of their actions whilst the companies are in public ownership. Maximum potential liabilities are considered unquantifiable.

HM Treasury has also guaranteed indemnities provided by the BEAPFF for its officers and directors against liabilities and losses incurred in the course of their actions in relation to the operation of the Asset Purchase Facility. Maximum potential liabilities are considered unquantifiable.

35. Losses and special payments

The administration costs of HM Treasury and its agencies included £4,075 of losses (2013-14: £16,000) arising from contract terminations, claims for losses, and claims waived or abandoned. HM Treasury and its agencies also made special payments of £173,410 in year (2013-14: nil).

36. Related party transactions

HM Treasury and the entities listed in Note 37 'Entities consolidated in the Treasury Group' are regarded as related parties. The Treasury has had material transactions with UKAR and FSCS, including material loan balances and repayments as disclosed in Note 19 'Loans and advances'.

The UKAR Group has material balances with related parties comprising deposits with the Bank of England, loans from HM Treasury, and statutory debt. HM Treasury has also provided guarantee arrangements to the UKAR Group, for which the UKAR Group pays fees. It also pays regulatory fees and levies to FSCS. In the normal course of business the FSCS and UKAR have borrowing facilities with banks including Lloyds and RBS. To manage its exposure to interest rate and foreign currency rate risk UKAR holds derivative swaps with RBS.

Although the Bank of England, the Royal Mint, Partnerships UK, Local Partnerships, Royal Bank of Scotland and Lloyds Banking Group fall outside the accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Dividends and other income received from these bodies are material and recorded in the Statement of Comprehensive Net Expenditure. Royal Bank of Scotland and Lloyds Banking Group participate in the Help to Buy: mortgage guarantee scheme and pay guarantee fees which are recognised as income in HM Treasury's accounts.

HM Treasury in its role as custodian of the Consolidated Fund has transactions with other Government departments and Central Government bodies but those transactions are outside the scope of these accounts and are disclosed instead in the Consolidated Fund statements.

Organisations within the Treasury group have had various material transactions with other government departments and central government bodies. The most significant of these are National Savings and Investments, Her Majesty's Revenue and Customs and the Cabinet Office. Other significant bodies include: the Commissioners for the Reduction of the National Debt, the Public Works Loans Board, the Department for Energy and Climate Change, the Attorney General's Office, and the FCA.

No Minister, board member, key manager or other related party has undertaken any material transaction with HM Treasury during the year.

Details of compensation for key management personnel can be found in the remuneration report in Chapter 4.

37. Entities consolidated in the Treasury Group

The most significant entities consolidated in the HM Treasury group are UKAR and FSCS.

UKAR was established on 1 October 2010 as the holding company bringing together the businesses of Bradford & Bingley (B&B) and NRAM plc (NRAM). HM Treasury has a 100 per cent shareholding in UKAR, which is managed by UKFI. UKAR has received significant loans from HM Treasury under financial stability interventions. Under arrangements agreed with UKAR, HM Treasury has approval rights over material transactions which include the right to approve any acquisition, disposal, investment, realisation or other transaction which is strategically material to, or outside the ordinary course of business of UKAR or any of the UKAR Subsidiaries. In addition, UKAR have an obligation to use any cash proceeds from disposal of their assets to repay the loans to HM Treasury. The repayment of loans by UKAR are expected to be made over the next 10 to 15 years using the cash flows from interest payments and redemptions of residential mortgages held by B&B and NRAM. Aside from those items detailed above and otherwise recognised in formal agreements, HM Treasury cannot use other assets and settle other liabilities of UKAR.

FSCS was established under the Financial Services and Markets Act 2000 to provide compensation to customers of authorised financial services firms that are unable, or likely to be unable, to pay claims against them. Compensation paid by FSCS is recovered from the administrators of the failed financial services firms or recovered from the financial services industry through an annual levy. FSCS is designated for consolidation into the HM Treasury group, as described in Note 1.2 Basis of Consolidation, although it is operationally independent, due to the fact that HM Treasury is responsible for the overall institutional structure of financial regulation and the legislation which governs it, including the negotiation and implementation of EC Directives. During the financial crisis, FSCS received significant loans from HM Treasury to finance compensation paid. For all loans made, a contractual agreement is in place which stipulates the terms and conditions under which these loans are to be repaid. Outside of these agreements, HM Treasury does not control, or cannot use the assets and settle the liabilities of FSCS.

All of the entities consolidated in the Treasury Group are set out in the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2013, known as the Designation Order. In addition to the Core Department (which comprised the non-agency parts of HM Treasury, Infrastructure UK (IUK) and the Office of Tax Simplification) and Agencies (which comprised the UK Debt Management Office), Treasury consolidates the following entities listed below.

Arm's Length Bodies:

- Aire Valley Funding 1 Limited
- Aire Valley Funding 2 Limited

- Aire Valley Funding 3 plc
- Aire Valley Holdings Limited
- Aire Valley Mortgage 2004-1 plc
- Aire Valley Mortgage 2005-1 plc
- Aire Valley Mortgages 2006-1plc
- Aire Valley Mortgages 2007-1 plc
- Aire Valley Mortgages 2007-2 plc
- Aire Valley Mortgages 2008-1 plc
- Aire Valley PECOH Limited
- Aire Valley Trustee Limited
- Aire Valley Warehousing 1 Limited
- Aire Valley Warehousing 2 Limited
- Aire Valley Warehousing 3 Limited
- Bradford & Bingley plc
- Bradford & Bingley Covered Bonds LLP
- Bradford & Bingley Homeloans Limited
- Bradford & Bingley Investments
- Bradford & Bingley Mortgage Management Limited
- Community Housing Initiatives Limited
- Designated Member No. 1 Limited
- Designated Member No. 2 Limited
- F&NE (1990) Limited
- F&NE Limited
- FFM Limited
- Finance for Mortgages Limited
- GPCH Limited
- Granite Finance Funding 2 Limited
- Granite Finance Funding Limited
- Granite Finance Holdings Limited
- Granite Finance Trustees Limited
- Granite Master Issuer plc
- Granite Mortgages 03-2 plc
- Granite Mortgages 03-3 plc
- Granite Mortgages 04-1 plc

- Granite Mortgages 04-2 plc
- Granite Mortgages 04-3 plc
- Help to Buy (HMT) Limited
- Heron's Reach Developments Limited
- HM Treasury UK Sovereign Sukuk Plc
- HSMS
- Infrastructure Finance Unit Limited
- IUK Investments Holdings Limited
- IUK Investments Limited
- Ivybond Holdings Limited
- Leamington Mortgage Corporation Limited
- Moore Investments Limited
- Mortgage Express
- Mortgage Express (No.2)
- Mortgage Express Holdings
- Northern Rock (Asset Management) Limited
- NRAM plc
- NRAM (No.2) Limited
- NRAM Covered Bond LLP
- NRAM Homes Limited
- Scotlife Homeloans (No.2) Limited
- Silhouette Mortgages Limited
- UKAR Corporate Services Limited
- UK Asset Resolution Ltd
- UK Financial Investments Ltd
- Whinstone Capital Management Limited
- Whinstone 2 Capital Management Limited

Other bodies

- Financial Services Compensation Scheme
- Money Advice Service
- Office for Budget Responsibility
- Royal Household
- Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations

38. Events after the reporting period

Since the reporting date, the Treasury has continued to sell its ordinary shares in the Lloyds Banking Group as part of its trading plan, as referred to in Note 13 'Net gain/loss on disposal of assets' and Note 17 'Available for sale assets'. The trading plan has been extended until December 2015. On 2 July, the Chancellor announced Lloyds share sale proceeds to date totalled £12.5 billion, of which approximately £3.4 billion was realised after the reporting period. On 8 July 2015 in the Summer Budget, the Chancellor announced that the government will launch a further share sale which would be open to retail investors in the following 12 months. The Chancellor also announced that the government would begin to sell off its stake in RBS within a few months. Over the course of the current Parliament, the government will dispose of at least three-quarters of its stake in RBS, starting with a sale in the coming months. The government expects to raise at least £2 billion in 2015-16.

On 12 March 2015 the Chancellor announced that the UK intended to become a founding member of the Asian Infrastructure Investment Bank (AIIB), and on 29 June 2015 the UK signed the founding articles of the bank. AIIB will support access to finance for infrastructure projects across Asia, using a variety of support measures, including loans, equity investments and guarantees, and is expected to become fully operational by the end of 2015. The UK will make a capital contribution of £2 billion to the AIIB. 20% of this contribution will be paid-in capital (£400 million), to be paid in five equal annual instalments, with the first instalment due in 2015-16. The remaining 80% of the contribution will be in the form of callable capital and appear as a contingent liability in these accounts.

On 30 March 2015, NRAM announced a tender offer in relation to the outstanding Euro 2 billion 3.875% Covered Bonds due 2020, and proposed an amendment to the terms and conditions that would enable NRAM to insert a call option to repurchase the bonds under offer in their entirety. On 7 May 2015, NRAM announced the results of the tender offer. Sufficient Covered Bonds were validly tendered to pass the proposal and enable NRAM to repurchase the bonds in full, and on 8 May the bonds were successfully redeemed, at prices ranging from 119.494% to 121.494% of the nominal amount.

On 1 April 2015, the Government Internal Audit Agency (GIAA) was set up as an Executive Agency of HM Treasury. GIAA is the core shared service for central government internal audit, providing internal audit services to other government bodies.

On 13 May 2015, the European Commission provided merger clearance for Treasury to sell its shareholdings in Eurostar International Limited which were recognised on the Statement of Financial Position at 31 March at £747 million. The sale completed on 28 May 2015, and the shares were derecognised in HM Treasury's accounts.

On 22 May 2015, the Chancellor announced that the Shareholder Executive (ShEx) and UK Financial Investments (UKFI) would be brought together under a new Treasury company, UK Government Investments (UKGI) by Autumn 2015. As part of this transition, the Prime Minister has agreed to a machinery of government change that will move ShEx from the Department for Business, Innovation and Skills into the Treasury. The new company will make it easier for government experts to work together in order to deliver the sale of a range of publicly-owned assets in a way that secures good value for money for taxpayers. These will include sale of shares in Lloyds Banking Group, UK Asset Resolution assets and the pre-2012 income contingent repayment student loan book.

On 3 July 2015, the Prudential Regulation Authority (PRA) announced changes to its rules to implement the new level of deposit protection, which is provided by the Financial Services Compensation Scheme (FSCS). The change is being made in line with the EU Deposit Guarantee Schemes Directive, which sets the FSCS coverage level at the sterling equivalent of €100,000. The FSCS currently covers any losses retail and small business customers suffer as a result of their bank, building society, or credit union failing up to a maximum of £85,000, per depositor, per authorised firm. The FSCS coverage level was set at £85,000 in 2010, which at the time was equivalent to €100,000. Due to the increased strength of the UK economy, the exchange rate has now changed and it is necessary to reduce the coverage level to £75,000 from 1 January 2016 in compliance with the EU directive. Over 95% of retail depositors will continue to be fully protected by the FSCS's new deposit protection limit of £75,000. In addition, new legislation has been put in place which will ensure that retail and small business customers will continue to receive deposit protection of up to £85,000 until 31 December 2015.

In 8 July 2015 in the Summer Budget, the Chancellor announced the Equitable Life Payment Scheme would close to new claimants on 31 December 2015. A further effort to trace remaining policy holders due £50 or more would be undertaken. 'With Profits' Annuitants will continue to receive annual payments under the Scheme for their lifetime. This Budget also announced that eligible policyholders in receipt of Pension Credit will see their lump sum payment doubled, with payments made in early 2016. This is expected to result in £50 million additional expenditure in 2015-16.

On 20 July 2015, NRAM successfully redeemed its two remaining outstanding Covered Bonds: the Euro 1.75 billion 4.125% Covered Bonds and the USD 1.5 billion 5.625% Covered Bonds both due 2017. They were successfully redeemed at prices ranging from 106.926% to 107.426% of the nominal amount for the Euro bond and 108.563% to 109.563% of the nominal amount for the USD bond.

39. Date authorised for issue

The financial statements were authorised for issue by the Permanent Secretary on 15 July 2015.

6.1 Statement of Parliamentary Supply and related notes

Statement of Parliamentary Supply

for the period ended 31 March 2015

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

Voted totals and the Net Cash Requirement figures shown below are subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Estimate of Administration costs will also result in an excess vote. Explanations of variances between Estimate and outturn are given in the notes to the Statement of Parliamentary Supply and Chapter 1.

								2014-15	2013-14
		Estimate			Outturn			Voted Outturn compared with Voted Estimate	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
		£000	£000	£000	£000	£000	£000	saving/(excess) £000	£000
Departmental Expenditure Limit									
Resource	SOPS2.1	143,581	12,320	**155,901**	113,742	11,475	**125,217**	29,839	**(253,044)**
Capital	SOPS2.2	47,093	–	**47,093**	35,632	–	**35,632**	11,461	**(5,860)**
Annually Managed Expenditure									
Resource	SOPS2.1	(42,320,957)	3,414	**(42,317,543)**	(49,813,412)	3,608	**(49,809,804)**	7,492,455	**6,268,109**
Capital	SOPS2.2	(9,467,457)	–	**(9,467,457)**	(12,714,401)	–	**(12,714,401)**	3,246,944	**(11,724,724)**
Total Budget		(51,597,740)	15,734	**(51,582,006)**	(62,378,439)	15,083	**(62,363,356)**	10,780,699	**(5,715,519)**
Non-Budget		–	–	**–**	–	–	**–**	–	**–**
Total		**(51,597,740)**	**15,734**	**(51,582,006)**	**(62,378,439)**	**15,083**	**(62,363,356)**	**10,780,699**	**(5,715,519)**
Total Resource		(42,177,376)	15,734	**(42,161,642)**	(49,699,670)	15,083	**(49,684,587)**	7,522,294	6,015,065
Total Capital		(9,420,364)	–	**(9,420,364)**	(12,678,769)	–	**(12,678,769)**	3,258,405	(11,730,584)
Total		**(51,597,740)**	**15,734**	**(51,582,006)**	**(62,378,439)**	**15,083**	**(62,363,356)**	**10,780,699**	**(5,715,519)**
Net Cash Requirement	SOPS4			**(1,210,357)**			**(8,770,590)**	7,560,233	**(13,542,195)**
Administration Costs	SOPS3.2			**146,371**			**142,146**	4,225	**126,941**

Notes to the Statement of Parliamentary Supply

SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014-15 FReM, the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The SOPS and related notes are presented consistently with HM Treasury budget controls and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the SOPS and related notes have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are some differences. A reconciliation is provided in note SOPS3.1. Key differences are explained below.

SOPS1.2.1 Receipts in excess of HM Treasury agreement

This applies where a limit to retainable income has been agreed by the department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas: (i) profit/loss on disposal of assets; (ii) income generation above department Spending Review settlements; and (iii) income received above netting-off agreements.

SOPS1.2.2 Provisions – Administration and Programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply differ from that reported in the IFRS-based accounts. A reconciliation is provided in SoPS3.2

SOPS2. Net outturn

SOPS2.1 Analysis of net resource outturn by section

		Administration			Programme							
		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	Outturn net total	Estimate net total	Outturn compared to Estimate	Outturn compared to Estimate, adjusted for virements	2013-14 Outturn net total
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit (DEL)												
Voted												
A	Core Treasury	152,311	(29,251)	123,060	16,424	(33,828)	(17,404)	105,656	122,384	16,728	16,728	(281,768)
B	Debt Management Office	15,342	(1,799)	13,543	5,044	(958)	4,086	17,629	17,900	271	271	17,616
C	Office of Tax Simplification	387	–	387	–	–	–	387	470	83	83	288
D	UK Financial Investments (net)	3,169	–	3,169	–	–	–	3,169	3,750	581	581	2,255
E	Office for Budget Responsibility (net)	1,987	–	1,987	–	–	–	1,987	2,076	89	89	1,736
F	Infrastructure Finance Unit Limited (net)	–	–	–	(4,459)	–	(4,459)	(4,459)	–	4,459	4,459	(4,451)
I	Royal Mint Advisory Committee (net)	–	–	–	–	–	–	–	1	1	1	–
K	Business Finance Partnership	–	–	–	–	(10,627)	(10,627)	(10,627)	(3,000)	7,627	7,627	–
Total Voted spending in DEL		**173,196**	**(31,050)**	**142,146**	**17,009**	**(45,413)**	**(28,404)**	**113,742**	**143,581**	**29,839**	**29,839**	**(264,324)**
Non-voted												
L	Banking and gilts registration services	–	–	–	11,475	–	11,475	11,475	12,320	845	845	11,280
Total spending in DEL		**173,196**	**(31,050)**	**142,146**	**28,484**	**(45,413)**	**(16,929)**	**125,217**	**155,901**	**30,684**	**30,684**	**(253,044)**

		Administration			Programme			Outturn net total	Estimate net total	Outturn compared to Estimate	Outturn compared to Estimate, adjusted for virements	2013-14 Outturn net total
		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure					
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Annually Managed Expenditure (AME)												
Voted												
M	Provisions	—	—	–	447,832	–	447,832	447,832	(1,800)	(449,632)	–	107,253
N	UK coinage manufacturing costs	–	–	–	40,650	–	40,650	40,650	41,700	1,050	1,050	32,618
O	UK coinage metal costs	–	–	–	27,702	(18,990)	8,712	8,712	11,700	2,988	2,988	5,428
P	Royal Mint Dividend	–	–	–	–	(4,000)	(4,000)	(4,000)	(4,000)	–	–	(4,000)
Q	Investment in Bank of England	–	–	–	–	(92,827)	(92,827)	(92,827)	(30,000)	62,827	62,827	(76,479)
R	Administration of the Equitable Life payment scheme	–	–	–	5,999	–	5,999	5,999	6,400	401	401	16,246
S	Credit easing	–	–	–	57	(64,308)	(64,251)	(64,251)	(63,000)	1,251	1,251	(68,035)
T	Loans to Ireland	–	–	–	–	(83,967)	(83,967)	(83,967)	(84,000)	(33)	–	(80,000)
U	Assistance to financial institutions	–	–	–	(47,342,642)		(47,342,642)	(47,342,642)	(40,433,000)	6,909,642	6,282,762	12,637,577
V	Sovereign Grant funding of the Royal Household (net)	–	–	–	35,691	–	35,691	35,691	37,540	1,849	1,849	35,732
W	Money Advice Service (net)	–	–	–	786	–	786	786	2,600	1,814	1,814	(484)
X	Financial Services Compensation Scheme (net)	–	–	–	(393,493)	–	(393,493)	(393,493)	(570,000)	(176,507)	–	(735,789)
Y	UK Asset Resolution Ltd (net)	–	–	–	(1,230,992)	–	(1,230,992)	(1,230,992)	(1,205,099)	25,893	25,893	(1,484,822)
Z	Help to Buy (net)	–	–	–	6,204	(5,689)	515	515	1	(514)	–	1,831
AA	Northern Rock (Virgin Money)	–	–	–	–	(152,903)	(152,903)	(152,903)	(30,000)	122,903	122,903	(21,096)
AB	HM Treasury UK Sovereign Sukuk plc (net)	–	–	–	–	–	–	–	1	1	1	–
–	Sale of shares	–	–	–	–	(988,522)	(988,522)	(988,522)	–	988,522	988,522	(4,101,669)
Total Voted spending in AME		**–**	**–**	**–**	**(48,402,206)**	**(1,411,206)**	**(49,813,412)**	**(49,813,412)**	**(42,320,957)**	**7,492,455**	**7,492,261**	**6,264,311**
Non-voted												
AC	Royal Household Pensions	–	–	–	4,152	(903)	3,249	3,249	3,055	(194)	–	3,439
AD	Civil List	–	–	–	359	–	359	359	359	–	–	359
Total spending in AME		**–**	**–**	**–**	**(48,397,695)**	**(1,412,109)**	**(49,809,804)**	**(49,809,804)**	**(42,317,543)**	**7,492,261**	**7,492,261**	**6,268,109**
Total resource outturn		**173,196**	**(31,050)**	**142,146**	**(48,369,211)**	**(1,457,522)**	**(49,826,733)**	**(49,684,587)**	**(42,161,642)**	**7,522,945**	**7,522,945**	**6,015,065**

SOPS2.2 Analysis of net capital outturn by section

		Gross	Income	Outturn Net total	Estimate Net total	Outturn net total compared to Estimate	Outturn net total compared to Estimate, adjusted for virements	2013-14 Outturn Net total
		£000	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit								
Voted								
A	Core Treasury	9,018	(449)	8,569	9,150	581	581	(2,929)
B	Debt Management Office	733	–	733	730	(3)	–	401
D	UK Financial Investments	33	–	33	–	(33)	–	–
F	Infrastructure Finance Unit Limited (net)	(4,510)	–	(4,510)	(2,339)	2,171	2,171	(3,332)
G	IUK Investments Limited (net)	–	–	–	1	1	1	–
H	IUK Investments Holdings Limited (net)	–	–	–	8,550	8,550	8,514	–
J	Eurostar	325,000	(325,000)	–	1	1	1	–
K	Business Finance Partnership	358,984	(328,177)	30,807	31,000	193	193	–
Capital spending in Department Expenditure Limit		**689,258**	**(653,626)**	**35,632**	**47,093**	**11,461**	**11,461**	**(5,860)**
Annually Managed Expenditure								
Voted								
U	Assistance to financial institutions	1	(1,227,267)	(1,227,266)	(970,000)	257,266	257,266	(954,588)
V	Sovereign Grant funding of the Royal Household (net)	2,485	–	2,485	2,293	(192)	-	442
W	Money Advice Service (net)	155	–	155	150	(5)	-	1,239
X	Financial Services Compensation Scheme (net)	(586,753)	–	(586,753)	100	586,853	586,853	131
Y	UK Asset Resolution (net	(9,100,285)	–	(9,100,285)	(8,500,000)	600,285	600,088	(7,073,249)
	Sale of shares	–	(1,802,737)	(1,802,737)	–	1,802,737	1,802,737	(4,789,852)
	Loans to Ireland	–	–	–	–	–	–	806,740
	Business Finance Partnership	–	–	–	–	–	–	284,413
Capital spending in Annually Managed Expenditure		**(9,684,397)**	**(3,030,004)**	**(12,714,401)**	**(9,467,457)**	**3,246,944**	**3,246,944**	**(11,724,724)**
Total capital outturn		**(8,995,139)**	**(3,683,630)**	**(12,678,769)**	**(9,420,364)**	**3,258,405**	**3,258,405**	**(11,730,584)**

SOPS3. Reconciliation of outturn to net operating income, administration budget and net cash requirement

SOPS3.1 Reconciliation of resource outturn to net (income)/expenditure

	2014-15	2013-14
	£000	£000
Total resource outturn, per the Statement of Parliamentary Supply	(49,684,587)	6,015,065
Non-supply income (Consolidated Fund Extra Receipts)	(64,315)	(32,108)
Capital grant-in-kind (net)	3,205	–
Restatements	–	386,054
Net (income)/expenditure, per the Statement of Comprehensive Net Expenditure (restated)	**(49,745,697)**	**6,369,011**

The restatement in 2013-14 relates to the removal of FCA fine income which has been moved to the Trust Statement.

SOPS3.2 Reconciliation of administration expenditure

		2014-15	2013-14
		£000	£000
Estimate – administration costs limit		146,371	137,714
Outturn – Gross administration expenditure	SOPS2.1	173,196	173,859
Outturn – Gross income relating to administration	SOPS2.1	(31,050)	(46,918)
Net administration expenditure, per the Statement of Parliamentary Supply	SOPS2.1	**142,146**	**126,941**
Reconciliation adjustment		–	(241)
Net administration expenditure, per the Statement of Comprehensive Net Expenditure		**142,146**	**126,700**

SOPS4. Reconciliation of net resource outturn to net cash requirement

				2014-15
		Estimate	Outturn	Outturn Net total compared with Estimate: saving/(excess)
	Note	£000	£000	£000
Resource Outturn	SOPS 2.1	**(42,161,642)**	**(49,684,587)**	**7,522,945**
Capital Outturn	SOPS 2.2	**(9,420,364)**	**(12,678,769)**	**3,258,405**
Accruals to cash adjustments:		**50,387,383**	**53,607,849**	**(3,220,466)**
Of which:				
Adjustments to remove non-cash items:				
Depreciation		(5,600)	(5,634)	34
BEAPFF fair value movements		40,000,000	46,945,376	(6,945,376)
New provisions and adjustments to previous provisions		–	(447,929)	447,929
Other non-cash items		(200)	1,167,017	(1,167,217)
Adjustments for ALBs and other bodies:				
Remove voted resource and capital		10,232,174	5,783,018	4,449,156
Add cash grant-in-aid		54,209	39,896	14,313
Adjustments to reflect movements in working balances				
Increase in inventory		–	4,171	(4,171)
Increase in receivables		–	77,293	(77,293)
Increase in payables		–	(49,708)	49,708
Use of provisions		106,800	94,349	12,451
		(1,194,623)	**(8,755,507)**	**7,560,884**
Removal of non-voted budget items:				
Banking and gilts registration service		(12,320)	(11,475)	(845)
Royal Household Pension Scheme		(3,055)	(3,249)	194
Civil List		(359)	(359)	–
Net cash requirement		**(1,210,357)**	**(8,770,590)**	**7,560,233**

Explanation of variances between Estimate and outturn as at 31 March 2015

Net resource outturn against Estimate

Spending in Department Expenditure Limit (DEL)

HM Treasury's DEL outturn was £29.8 million less than the amount included in the Estimate. The underspend mainly arose from core Treasury underspending of £16.5 million across a range of predominantly non-pay areas including £1million for recovery of VAT, £4 million for an over allocation of budget for Sukuk and a decision not to proceed with an online enhancement on Gilts Registration and £5 million held back for United Kingdom Financial Investments Limited projects but not required. There was also additional income from a dividend of £7.4 million on Eurostar shares and interest income of £4.4 million for Infrastructure Finance Unit Limited.

Annually Managed Expenditure (AME)

HM Treasury's net AME expense was £7.5 billion less than the amount included in the Estimate. The group's more unpredictable expenditure is included within AME and large variances can arise as a result of changes in the value of financial instruments. The most significant variance relates to the sale of Lloyds Bank shares of £0.9 billion which were not included in the Estimate and the increase in the fair value of the Bank of England Asset Purchase Facility Fund of £47.0 billion which was £7.0 billion more than forecast in the Supplementary Estimate.

Net capital outturn against Estimate

Capital spending in Department Expenditure Limit

HM Treasury's capital DEL spending was £11.5 million lower than in the Main Estimate. This was the result of £8.5 million of loan facilities to be provided by the IUK Investments companies having not been drawn down, and Infrastructure Finance Unit Limited's capital receipts being £2.2 million lower than forecast.

Capital Annually Managed Expenditure

Net capital AME receipts were £3.2 billion more than in the Estimate. This was the net effect of the sale of Lloyds Bank shares of £1.7 billion which were not included in the Estimate, higher than forecast loan repayments from Icelandic banks of £0.3 billion and higher than forecast loan repayments and mortgage redemptions for UKAR of £0.6 billion. Details of all loan repayments are included in Note 19 of the Annual Account.

Net cash requirement

The variance in the net cash requirement is primarily due to receipts of £1.8 billion from sale of Lloyds Bank shares and sale of the Eurostar shareholding and greater receipts from assistance to financial institutions than forecast.

SOPS5. Income payable to the Consolidated Fund

SOPS5.1 Analysis of income payable to the Consolidated Fund

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

		Outturn 2014-15		Outturn 2013-14
	Income	Cash receipts	Income	Cash receipts
	£000	*£000*	£000	*£000*
Operating income outside the scope of the Estimate	64,315	*33,713*	32,107	*33,718*
Capital receipts outside the scope of the Estimate	–	*10,737,487*	–	*31,102,264*
Excess cash surrendered to the Consolidated Fund	8,769,737	*8,769,737*	13,534,258	*13,534,258*
Excess cash surrenderable to the Consolidated Fund	853	*853*	994	*994*
Total amounts paid and payable to the Consolidated Fund	**8,834,905**	***19,541,790***	**13,567,359**	***44,671,234***

Operating income outside the scope of the Estimate mainly comprises Pool Re insurance premiums received by Core Treasury. The difference between income recognised and cash receipts paid over arises from income accrued but not yet received. Capital receipts outside the scope of the Estimate relate to transfers of excess cash from the Bank of England Asset Purchasing Facility Fund.

7 Trust Statement

Principal Accounting Officer's Foreword to the Trust Statement

1. Introduction

The Trust Statement reports the revenue, expenditure, assets and liabilities related to the fines collected by HM Treasury from Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) for the financial year 2014-15. The costs of running HM Treasury are reported in the Department and Agencies' balances in the Treasury's Annual Report and Accounts.

Section 109 of the Financial Services Act 2012 requires the FCA to pay its penalty receipts to HM Treasury after deducting its enforcement costs and requires HM Treasury to pay these receipts to the Consolidated Fund. Further information on penalties applied by the FCA is available on the FCA website (http://www.fca.org.uk).

Similarly, the PRA is required to pay any enforcement fines levied by the PRA in excess of enforcement costs to HMT, which is required to pay those receipts to the Consolidated Fund. Further information on penalties applied by the FCA is available on the PRA website http://www.bankofengland.co.uk/pra).

2. Basis for the preparation of the Trust Statement

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for this Trust Statement is set out in section 2 of the Exchequer and Audit Departments Act 1921. The HM Treasury accounts direction requires the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in the Government Financial Reporting Manual (FReM), Managing Public Money and other guidance issued by HM Treasury.

HM Treasury conducts an annual reconciliation of budgeted enforcement costs against actual by reference to the published accounts of PRA and FCA to gain assurance that the penalty receipts and enforcement costs are accurate and accounted for correctly.

3. Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(3) of Government Resources and Accounts Act 2000. The auditor's remuneration for this is included in HM Treasury's Annual Accounts. No non-audit work was carried out by the auditors for HM Treasury.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

4. Financial Review

HM Treasury has received £1.36 billion in fine income from the FCA (2013-14: £386 million) and £12.6 million from the PRA (2013-14: nil). The increase is largely due to the fines imposed on banks in 2014 for forex misconduct. With the introduction of this Trust Statement, the penalty income from the FCA and PRA is no longer recognised within Treasury's Annual Report and Accounts (as the income received was not material to the financial statements in prior year, it was previously presented in the Annual Report and Accounts).

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

I have audited the financial statements of HM Treasury for the year ended 31 March 2015 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of HM Treasury and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HM Treasury; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- The HM Treasury Trust Statement gives a true and fair view of the state of affairs of the collection of penalties net of enforcement costs paid to HM Treasury by the Financial Conduct Authority and the Prudential Regulation Authority as at 31 March 2015 and of the net revenue and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Strategic Report, the Directors’ Report and the Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **17 July 2015**
Comptroller and Auditor General

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

Statement of revenue and expenditure
For the period ended 31 March 2015

	Note	2014-15 £000	2013-14 £000	2012-13 £000
Net fine income	2	**1,396,386**	**386,054**	**341,624**
Net revenue for the Consolidated Fund		**1,396,386**	**386,054**	**341,624**

The notes at pages 186 to 187 form part of this statement.

Statement of Financial Position
as at 31 March 2015

	Note	2014-15 £000	2013-14 £000	2012-13 £000
Current assets				
Receivable from the FCA/PRA		20,577	67,759	341,624
Cash and cash equivalents		–	–	–
Total net assets		**20,577**	**67,759**	**341,624**
Balance on Consolidated Fund account	3	**20,577**	**67,759**	**341,624**

The notes at pages 186 to 187 form part of this statement

Nicholas MacPherson
15 July 2015

Statement of Cash Flows
For the period ended 31 March 2015

	Note	2014-15 £000	2013-14 £000	2012-13 £000
Net cash flow from operating activities	A below	1,443,568	659,919	–
Cash paid to the Consolidated Fund		(1,443,568)	(659,919)	–
Increase/(decrease) in cash in this period		**–**	**–**	**–**

Notes to the Cash Flow Statement
A: Reconciliation of net cash flow to movement in net funds

	2014-15 £000	2013-14 £000	2012-13 £000
Net revenue for the Consolidated Fund	1,396,386	386,054	341,624
(Increase) / decrease in non cash assets	47,182	273,865	(341,624)
Net cash flow from operating activities	1,443,568	659,919	–

B: Analysis of changes in net funds

	2014-15	2013-14	2012-13
	£000	£000	£000
Increase/(decrease) in cash in this period	–	–	–
Net funds at 1 April (Net Cash at Bank)	–	–	–
Net funds at 31 March (Closing Balance)	–	–	–

Notes to the Trust Statement

1. Statement of accounting policies

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921;
- the 2014-15 Government Financial Reporting Manual issued by HM Treasury;
- reference to International Financial Reporting Standards as adapted or interpreted for the public sector context; and
- the accounting policies detailed in subsequent notes.

The financial information presented is rounded to the nearest £000.

1.2 Accounting convention

The Trust Statement has been prepared on an accruals basis under the historical cost convention.

1.3 Revenue recognition

Fine income is accounted for in accordance with IAS 18 'Revenue Recognition', net of enforcement costs. It is recognised when the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HM Treasury.

1.4 Receivables

Receivables are accounted for in accordance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement'. Accrued revenue receivable represents the amount due from the FCA/PRA where penalties have been received by the regulators but the cash has not transferred to HM Treasury as at the reporting date

2. Net fine income

	2014-15	2013-14	2012-13
	£000	£000	£000
Fine income from Financial Conduct Authority	1,383,741	386,054	341,624
Fine income Prudential Regulation Authority	12,645	–	–
Net fine income	**1,396,386**	**386,054**	341,624

Detailed information on fines collected can be found in the audited annuals reports of the Financial Conduct Authority (http://www.fca.org.uk) and the Prudential Regulation Authority (http://www.bankofengland.co.uk/pra).

3. Balance on the Consolidated Fund Account

	2014-15 £000	2013-14 £000	2012-13 £000
Balance on Consolidated Fund Account as at 1 April	67,759	341,624	–
Net revenue for the Consolidated Fund	1,396,386	386,054	341,624
Less amount paid to the Consolidated Fund	(1,443,568)	(659,919)	–
Balance on Consolidated Fund Account as at 31 March	**20,577**	**67,759**	**341,624**

4. Events after reporting date

Since the reporting date to 17 June 2015, the FCA has announced fines of £793.7 million. The most significant ones are identified below. Full details are available on FCA's website: http://www.fca.org.uk/firms/being-regulated/enforcement/fines.

On 15 April 2015, the FCA announced that it had imposed a financial penalty of £126 million on the Bank of New York Mellon for failing to comply with the FCA rules applicable to safe custody assets and to client money. The FCA paid over £72.8 million to HM Treasury, equal to the fine of £126 million less its estimated enforcement costs for 2015-16 of £53.2 million, on 30 April 2015. The other fines referred to below were paid over to HM Treasury in full.

On 23 April 2015, the FCA announced that it fined Deutsche Bank £226.8 million for LIBOR and EURIBOR failings and for misleading the regulator.

On 20 May 2015, the FCA announced that it had imposed a financial penalty of £284,432,000 on Barclays Bank plc for failing to control business practices in its foreign exchange business in London. This is the largest financial penalty ever imposed by the FCA or the FSA.

On 5 June 2015, the FCA announced a further fine of £117,430,600 on Lloyds Banking Group for breaching Principle 6 of the Authority's Principles for Business.

After the FCA has received the fine income noted above, it will pay these amounts across to Treasury and they will be included in the 2015-16 Trust Statement.

A Corporate data

Treasury group – Staff Numbers[1]

Full time Equivalents (FTEs)	31 March 2015	31 March 2014	31 March 2013
Core Treasury			
CS Permanent	1100	1053	1084
CS Casual	40	38	49
Gross Control Total	**1140**	**1091**	**1133**
Core Treasury excluding IUK, paid maternity staff, paid secondees out and agency staff	*1061*	*1004*	
DMO			
CS Permanent	104	107	106
CS Casual	2	0	1
Gross Control Total	**106**	**107**	**107**
OBR			
CS Permanent	17	16	16
CS Casual	1	1	2
Gross Control Total	**18**	**17**	**18**
HM Treasury group			
CS Permanent	1221	1176	1206
CS Casual	43	39	52
Gross Control Total	**1264**	**1215**	**1258**

Treasury group[1] – Payroll/Non-payroll staff[2] at 31 March of each year

		2015	2014	2013
Payroll Staff				
	Department and agencies	1246	1198	1240
	NDPBs and other bodies	18	17	18
	Department Family	**1264**	**1215**	**1258**
Average payroll staff costs (£)		£60,232	£58,008	£55,596
Non-payroll staff				
	Department and agencies	39	32.8	33.8
	NDPBs and other bodies	0	0	0
	Department Family	**39**	**32.8**	**33.8**

[1] This table sets out staffing numbers for core Treasury, DMO and the OBR, in accordance with ONS reporting requirements. It does not contain data relating to the Financial Services Compensation Scheme (FSCS), Money Advice Service (MAS), UK Asset Resolution (UKAR), UK Financial Investments ltd (UKFI) or the Royal Household Sovereign Grant, which are not consolidated into the Treasury Group for management information purposes.
The figures exclude contract and agency workers and staff who are on unpaid maternity leave, unpaid sick absence or on career breaks.

[2] Non-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff.

Core Treasury – Workforce Shape (%)

	31 March 2015	31 March 2014
Administrative Assistants and Officers (including students)	6	8
Executive Officers	11	12
Higher and Senior Executive Officers	38	39
Grade 7/6	34	30
Senior Civil Servants	8	8
Other Grades	3	3

Core Treasury – Number of Senior Civil Service by pay band

Range	31 March 2015	31 March 2014
F	63	65
G	17	14
H	6	7
Total	**86**	**86**

Core Treasury – Workforce breakdown

		31 March 2015	31 March 2014
Workforce Dynamics	Recruitment Exemptions (number)	225	206
	Annual Turnover rate (%)	24.1	23
Workforce Diversity (%)	Black and Minority Ethnic	17.4	16.8
	Women	48.6	46.9
	Disabled	5.7	5.9
Diversity of Senior Civil Servants only (%)	Black and Minority Ethnic	2.3	4.5
	Women	42.1	42.7
	Women (Top Management posts)	41.7	40.9
	Disabled	3.4	4.5
	Part Time	15.9	8.5
Attendance (AWDL)	Actual (days)	3.6	3.9

Treasury recruitment 2014-15 (2013-14)

Range	Permanent appointments[3]	Fixed-term appointments[4]	Loans from other government departments	Secondments	Total
B	1 (10)	22 (11)	0 (0)	0 (0)	23 (21)
C	10 (9)	6 (6)	2 (1)	0 (0)	18 (16)
D	149 (86)	10 (7)	23 (26)	10 (16)	192 (135)
E	26 (20)	4 (5)	21 (19)	7 (4)	58 (50)
E2	6 (5)	0 (0)	4 (5)	1 (0)	11 (10)
Commercial Specialist	4 (3)	3 (9)	0 (0)	0 (4)	7 (16)
SCS	5 (5)	0 (0)	3 (4)	2 (2)	10 (11)
Total	**201 (138)**	**45 (38)**	**53 (55)**	**20 (26)**	**319 (259)**

[3] Including permanent transfers from other departments

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

Diversity as at 31 March 2015 (31 March 2014)

Range	Women (per cent)	People from minority ethnic backgrounds (per cent)	People with disabilities (per cent)
B[5]	64.7 (61.1)	31.8 (30.0)	7.1 (6.7)
C	63.2 (66.7)	33.6 (34.1)	8.0 (8.3)
D	44.0 (44.4)	21.3 (20.8)	6.4 (6.6)
E	49.1 (41.1)	8.8 (5.5)	5.3 (4.7)
E2	47.6 (41.3)	4.9 (3.2)	3.9 (6.3)
F, G, H	42.1 (42.7)	2.3 (4.5)	3.4 (4.5)
Total	**48.6 (46.9)**	**17.4 (16.8)**	**5.7 (5.9)**

HM Treasury Staff Survey Results

	HMT	HP CSPS	CSPS
Employee Engagement Index	71%	(64%)	(54%)
Leadership and managing change	60%	(50%)	(36%)
My work	83%	(79%)	(71%)
My manager	73%	(65%)	(65%)
Organisational skills and purpose	88%	(71%)	(79%)
Learning and Development	55%	(55%)	(49%)
Pay and Benefits	20%	(35%)	(27%)
Resources and Workload	75%	(73%)	(70%)
Inclusion and fair treatment	82%	(79%)	(72%)
My team	85%	(83%)	(78%)

Off Payroll Engagements

Off Payroll engagements as of 31 March 2015 (for more than £220 per day and last longer than 6 months)

	HM Treasury	DMO	OBR	UKFI
No. of existing engagements as of 31 March 2015	5	6	0	0
of which				
No. that have existed for less than one year at the time of reporting	5	1	0	0
No. that have existed for between one and two years at the time of reporting.	0	4	0	0
No. that have existed for between two and three years at the time of reporting	0	1	0	0
No. that have existed for between three and four years at the time of reporting	0	0	0	0
No. that have existed for four years or more at the time of reporting.	0	0	0	0
No. that have existed for four or more years at the time of reporting.	0	0	0	0
Total	**5**	**6**	**0**	**0**

[5] Range B includes students

New off-payroll engagements, or those that reached six months in duration between 1 April 2014 and 31 March 2015 (for more than £220 per day and last longer than 6 months)

	Treasury	DMO	OBR	UKFI
No. of new engagements, or those that reached six months duration, between 1 April 2014 and 31 March 2015	5	8	0	0
No. of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	5	8	0	0
No. for whom an assurance has been requested	5	8	0	0
of which				
No. for whom assurance has been received	5	8	0	0
No. for whom assurance has not been received	0	0	0	0
No. that have been terminated as a result of assurance not being received	0	0	0	0
Total	**5**	**8**	**0**	**0**

For any off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2014 and 31 March 2015

	HM Treasury	DMO	OBR	UKFI
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility during the year	0	0	0	0
No of individuals that have been deemed "board members and or senior officials with significant financial responsibility during the year	12	4	6	1

B Sustainability report

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

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

- assess and manage environmental, social and economic impacts and opportunities in its policy development and decision making
- deliver the actions in the business plan to increase environmental sustainability, including by increasing the proportion of revenue accounted for by environmental taxes
- implement the department's plan to deliver on the Greening Government Commitments (GGC)
- procure from small businesses with the aspiration that 25% of contracts should be awarded to SMEs

Sustainable economic growth

The Treasury is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside the objectives of tackling climate change, and the sustainable use of natural resources.

As part of its role as the UK's economics and finance ministry, the Treasury is central to ensuring these aims are accounted for in policy appraisal and pursued through policies that deliver value for money and are affordable.

The department also has a key role in supporting the work of other departments on sustainability issues. For example the Treasury's Energy, Environment and Agriculture team look at issues including:

- DEFRA and DECC spending strategy
- Energy prices and bills
- Achieving the UK's climate change policy aims and objectives consistent with fiscal and economic interests
- Climate change adaptation
- Carbon Budgets and the low carbon economy

The Treasury asks all departments to adhere to the Green Book guidance when providing a business case for a policy, programme or project. The supplementary guidance to the Green Book covers the practical application of techniques for valuing environmental impacts in policy appraisal and conducting rural proofing. It applies to all programmes, policies and projects – not just those policies with a specific environmental focus.

The Treasury is also committed to ensuring all policies with long term implications developed within the Department take into account the need to adapt to climate change.

Internal Sustainability Plan

The Treasury Group has developed its Greening HMT Plan which addresses its GGC targets and lists a plan of works to meet these. The Plan is aligned with the pan-government strategy and will be endorsed by the Treasury's Executive Management Board.

The key elements of the Plan are:

- to develop internal corporate knowledge and engagement on climate change and sustainability;
- to realise Group financial savings by reducing the consumption of finite resources and energy; and
- to work with our suppliers to further reduce our environmental impact both at operational level and within the supply chain.

Treasury Environment Network

The Treasury Environment Network is organised for staff by staff and hosts monthly seminars on a range of energy and environment issues. Speakers come from a range of backgrounds – business, academia and international organisations, and cover a variety of topics.

As well as being of interest to those working on energy and environmental policy, discussions are relevant to those working across the department, including on infrastructure, competition, and living costs. Colleagues are encouraged to attend these seminars and raise questions with guest speakers. For those who are unable to attend, the presentation slides are posted on the network's intranet page.

Highlights from the 2014-15 programme of seminars included:

- Professor Paul Ekins, Director at UCL Institute for Sustainable Resources, discussed efficiency, effectiveness and feasibility in UK energy taxation, with a focus on how to make energy taxes more efficient and align them with wider energy policy
- Steve Elderkin, Deputy Director Analysis and Evidence at Defra presented on the circular economy (i.e. the aim to recycle and recover waste rather than it following a linear route to landfill)
- Peter Atherton of Liberum Capital discussed energy investments, asking "Why won't private investors fund energy projects in the UK and what can Government do about it?"
- Lord Browne joined the network for an informal discussion on UK energy policy
- A discussion on why liquidity is low in GB electricity markets, and what can be done about it.

Biodiversity and the Treasury estate

DEFRA published their National Pollinator Strategy in November 2014, highlighting the importance of pollinating insects and their impact on the health of the UK food industry. Without natural pollinators, food would be substantially more difficult and more expensive to grow in the UK. The strategy encourages land owners and local authorities to incorporate the support of pollinators in their estate management strategies.

In 2014-15 the Treasury introduced a new planting scheme in the courtyards of the Horse Guards Road building, designed to improve local biodiversity and attract more pollinators to the environment. Provided by contractors as part of the building's PFI contract, the plants are obtained from British growers and so have a low carbon footprint.

Regular checks are carried out to measure wildlife activity within the courtyards, checking for active pollination, and any new or declining species. Ladybird houses have been included in flower beds to help attract wildlife. In addition, biological pest controls have been introduced to replace chemical treatments therefore decreasing the risk to beneficial insects.

Sustainable Procurement

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

- utilising Crown Commercial Service (CCS) frameworks which include sustainability factors as a key criterion for award
- where relevant, including sustainability measures in tender evaluation criteria. Evaluation must include social and economic factors in addition to environmental factors
- encouraging SME participation in the replacement of the Treasury ICT services in 2015. The previous single provider arrangement has been broken down into a number of discrete "towers" of which two are managed by an SME
- including a sustainability focus in contracts agreed with new "towers" suppliers
- highlighting contract opportunities suitable for SMEs on Contracts Finder
- returning annual sustainable procurement data to Defra to meet GGC requirements

Performance against our Greening Government Commitments[1]

In 2014-15 the Treasury continued its strong performance against GGC waste and paper targets, exceeding these targets for the fourth consecutive year. The department has surpassed its greenhouse gas emissions reduction target, achieving a reduction of 60%. The Treasury's water consumption has also improved, and the department is working towards the government benchmark of 6m^3 per FTE.

Summary of performance against GGC targets in 2014-15

Key Target	Baseline		Actual
1. Reduce greenhouse gas emissions by 25%	4,338 tCO_2e	-60%	1,751 tCO_2e
2. Reduce waste by 25%	485 t	-68%	153 t
3. Reduce water consumption	14,738 m^3	-23%	11,327 m^3

[1] Data is included for the Treasury Group which is defined for sustainability reporting purposes as core Treasury in 1HGR and travel data for Debt Management Office (DMO) and Treasury Rosebery Court. Space in 1HGR is leased by Cabinet Office, Northern Ireland Office and UK Export Finance, for reporting purposes this space is excluded from the Treasury data. For 2014 to 2015, any shared costs for 1HGR are apportioned between the Treasury and other government departments, with Treasury averaging a 46% share over the year. In 2013 to 2014 the Treasury held a 47% share, in prior years, when only the Cabinet Office leased space in 1HGR, the Treasury's share was 64%.

Target 1: Reduce greenhouse gas emissions by 25%[2]

Cut carbon emissions from central government offices

The Treasury has reduced greenhouse gas emissions by 60% from its 2009-10 baseline figure of 4,338 tCO_2e. This has produced substantial savings in Treasury energy costs over the five year period.

Energy and CO_2 emissions

	2010-11	2011-12	2012-13	2013-14	2014-15
Electricity (mWh)	4,802	4,265	4,118	2,844	2,750
Gas (mWh)	476	281	285	87	35
Whitehall District Heating System (mWh)	1,813	1,229	1,833	1,082	1,005
Total CO_2 emissions (tCO_2e)[3]	**3,088**	**2,615**	**2,682**	**1,679**	**1,751**

Energy costs (£000s)

	2010-11	2011-12	2012-13	2013-14	2014-15
Electricity	343	362	362	302	268
Gas	2	2	2	2	1
Whitehall District Heating System	207	155	228	155	148
Total	**552**	**519**	**592**	**459**	**417**

Cut domestic business travel flights by 20%

2014-15 saw an increase in transport use, including increased travel to Scotland on referendum related business. Air travel is still considered the most appropriate method of travel for official business in Scotland and Northern Ireland. Taxi use increased considerably in 2014-15, but remains at less than a quarter of its 2010-11 level.

In the year ahead the department will look carefully at the reasons behind the increase in the use of private cars for business purposes, and will continue to educate staff on the use of video and audio conferencing in place of travelling to meetings where possible.

Group travel and CO_2 emissions

	2010-11	2011-12	2012-13	2013-14	2014-15
Fleet[4] (km)	12,144	13,988	13,561	21,119	35,156
Domestic rail (km)	707,960	508,765	555,577	536,316	731,257
Domestic flights (km)	159,796	122,547	218,706	204,640	314,809
Standard taxis[4] (km)	45,859	34,357	12,535	5,147	10,266
Hybrid taxis (km)	–	–	4,329	9,773	10,275
No. of domestic flights	264	237	345	314	372
Total CO_2 emissions (tCO_2e)	**78**	**59**	**78**	**67**	**92**

[2] Our reported greenhouse gas emissions only include emissions from our estate operations (gas, electricity and heating) and domestic travel as required by GGC. Costs shown relate to the Treasury's 1HGR building with the exception of travel costs which include both core Treasury and DMO.

[3] In line with DEFRA guidelines the Treasury has not weather corrected its building data and has applied the recommended conversion factors which were revised for 2014- 15.

[4] Fleet emissions relate to private individuals cars used for business purposes. Emissions do not include the government car service.

[5] Standard taxis include private hire, petrol or diesel and include people carriers or saloon cards. This does not include black cabs.

Group Travel Costs £000

	2010-11	2011-12	2012-13	2013-14	2014-15
Fleet (including Government Car Service)	296	168	214	235	274
Rail	378	329	358	351	410
Domestic flights	39	36	43	52	56
Taxis	104	83	53	57	47
Total	**817**	**616**	**668**	**695**	**787**

Target 2: Reduce waste by 25%

By continuing to recycle all waste where facilities exist and otherwise sending waste for energy recovered incineration, the Treasury has reduced its waste significantly from its 2009-10 baseline figure of 485 tonnes. This far exceeds the 25% GGC reduction target and has been achieved with no waste sent to landfill.

Waste (tonnes)

	2010-11	2011-12	2012-13	2013-14	2014-15
Waste incinerated with energy recovery	133	87	81	57	78
Waste recycled	161	107	101	84	69
Waste sent for anaerobic digestion	8	8	6	5	6
ICT waste recycled	–	2	19	–	–
ICT waste reused	–	–	1	–	–
Total	**302**	**204**	**208**	**146**	**153**

Ensure that redundant ICT equipment is re-used or responsibly recycled

Treasury ICT waste is re-used or disposed of responsibly in line with government standards. The Treasury uses an ICT contract take back scheme and a 'call-off' disposal contract with E-Cycle which meets the ISO 14001:2004 environmental management standard.

Cut paper use and move to closed loop paper supply

The department moved to a closed loop paper contract in June 2012; used printer paper is recycled and returned to the department for reuse

Paper consumption has reduced from a baseline figure of 27,030 reams of paper (A4 equivalent), however there has been an increase in 2014-15 as the Treasury settles into a single department paper contract.

Paper consumption (reams)

Reams	2010-11	2011-12	2012-13	2013-14	2014-15
A4	10,122	11,452	13,435	11,225	14,052
A3	230	198	281	237	139
Total (A4 Equivalent)	**10,352**	**11,848**	**13,997**	**11,699**	**14,330**

Target 3: Reduce water consumption

In 2014-15 the Treasury's water consumption in 1HGR, calculated per FTE equivalent, was $10m^3$/FTE. The department installed water meters across the estate in 2014-15 as part of a review of water consumption and these will allow the introduction of focused improvement measures. Subsequent reduction of water consumption will allow the department to move closer the government benchmark of $6m^3$ per FTE.

Water consumption (m^3)

	2010-11	2011-12	2012-13	2013-14	2014-15
Total consumption	11,854	11,193	16,992	11,465	11,327
Per FTE	8	7	13	11	10

Water cost (£000s)

	2010-11	2011-12	2012-13	2013-14	2014-15
Total cost	23	31	32	23	23

C Better regulation

Ensuring regulation doesn't impose unnecessary burdens on business is essential to growth. The Treasury has a key role in promoting the Better Regulation agenda across government, and the department applies Better Regulation principles to its responsibilities for insurance and financial services regulation, much of which comes from Europe, to ensure it is not unnecessarily burdensome.

The Better Regulation agenda

Businesses must be free of unnecessary regulatory burdens to realise their growth potential. In the last Parliament, the coalition government took important steps to reduce these burdens. By December 2012, the government had exceeded its target of 'One-In-One-Out' by reducing total net costs for business by £963 million. In January 2013, the target was raised with the introduction of a One-In-Two-Out[1] rule, which was recognised as the most ambitious deregulatory programme in Europe.

In 2010, the government launched the Red Tape Challenge (RTC),[2] with a target to identify over 3,000 regulations to be scrapped or improved. The government exceeded this target, identifying over 3200 measures to be scrapped or improved, bringing over £1,000m in annual savings to business.

As a result of these initiatives, overall, the government had reduced the net burden of regulations on business by £2.2 billion per year by the end of the Parliament.

Better Regulation in the Treasury

Over the course of the last Parliament, the Treasury was completing the reform of the regulatory framework for financial services, while deregulating wherever possible. Under the One-In-One-Out target, which ended in December 2012, the Treasury deregulated to save businesses £30 million per annum, while imposing £1.65 million in new regulatory costs. Under One-in-Two-out, the Treasury continued its progress on deregulation so that in total, the Treasury had succeeded in scrapping domestic red tape worth £38.19 million a year to business by the end of the Parliament.

Alongside this, the department also introduced regulations that met international or European obligations, or tackled systemic financial risk. These types of regulation were out of scope of One-In-One-Out and One-In-Two-Out.

All new regulations require an Impact Assessment (IA), which comprehensively evaluates the costs and savings to business, the economic impact and other impacts of proposed measures, to ensure they are properly assessed before being introduced. These are verified by the independent Regulatory Policy Committee (RPC).

The Treasury had an average of 71% fit for purpose IAs in 2014, and an average of 79% over the Parliament. Overall, the department had a higher than average number of 'fit for purpose'

[1] https://www.gov.uk/government/publications/one-in-two-out-ninth-statement-of-new-regulations

[2] http://www.redtapechallenge.cabinetoffice.gov.uk/home/index/

regulations scrutinised by the committee, and was amongst the top performing departments across government.

In March 2013 the government launched the National Savings and Investments (NS&I) theme of the Red Tape Challenge. 137 regulatory measures were in scope of the NS&I theme. Between January 2014 and the end of March 2015, the Treasury scrapped 22 of the NS&I regulations and consolidated a further 104, thereby scrapping or improving 92% of the regulations under the NS&I theme. These changes came into force in April 2015

The Treasury implements alternatives to regulation wherever possible. For example, at Budget 2015 the government announced it planned to work with the digital currency industry and the British Standard Institution (BSI) to develop best practice standards for consumer protection purposes, instead of introducing regulation.

Following a major evidence-gathering review, the government took the decision that a framework for best practice standards for consumer protection was the right step to take at this stage, in order to address the risks identified but without imposing a disproportionate regulatory burden on the industry.

A high proportion of the Treasury's regulatory responsibilities originates in the EU, which the department strives to ensure are proportionate and not overly burdensome for small and medium sized businesses in the EU. An example of the Treasury meeting this objective is the latest Single Euro Payments Area Regulation, adopted on 30 March 2012. During the negotiations, the UK secured more time for the necessary changes to be made and an exemption for micro businesses from some requirements of the Regulation.

Regulating for stability

Over the course of the last Parliament, the Treasury has carried out a fundamental reform of the UK's financial regulation system to deliver more judgement-led, focussed and effective regulation of the financial services sector.

The Financial Services Act 2012, which came into force on 1 April 2013, has strengthened the financial regulatory structure through establishing:

- the Financial Policy Committee (FPC), a strong expert macro-prudential authority within the Bank of England, responsible for protecting and enhancing financial stability
- the Prudential Regulation Authority (PRA), a new micro-prudential regulator responsible for the stability of around 1,700 firms, which is established as a subsidiary of the Bank of England
- the Financial Conduct Authority (FCA) has responsibility for regulating the conduct of all financial services firms – the first regulator of its kind in the UK – and is responsible for the prudential regulation of firms that do not fall within scope of the PRA .

The Financial Services (Banking Reform) Act 2013, which received Royal Assent in December 2013, represented the final step in the last government's plan to improve stability across the entire financial system. The Act implemented key recommendations of the Independent Commission on Banking (ICB), including the ring-fencing of important everyday banking activities from volatile investment bank activities, and the introduction of depositor preference and bail-in.

The Act also included some measures to strengthen the regulation of standards of individual conduct and accountability in the UK's banking industry. During 2014-15, the Treasury worked with the FCA and PRA to put in place the detailed implementing measures needed to deliver these reforms which will come into effect in March 2016.

At European level, the government also pursued measures that will enable a higher imposition of capital requirements on large ring-fenced banks in line with ICB recommendations, through powers in the Capital Requirements Directive (CRD) IV and Capital Requirements Regulation (CRR).

Competition

The Treasury has worked with the financial regulators to support competition by lowering regulatory burdens where appropriate. In 2012, the government requested the Financial Services Authority (FSA) investigate regulatory barriers to entry and expansion in the UK banking sector.

The subsequent report in March 2013 (by the new FCA and PRA) set out significant changes to make it easier for new banks to enter the market and compete, as well as more proportionate regulatory requirements for smaller banks that do not pose a systemic risk.

In addition, the government put competition at the heart of the regulatory system, by giving statutory competition objectives to both the FCA and PRA. The FCA has a primary competition objective to promote effective competition in the interests of consumers. In addition, the FCA's competition duty means that it must look to achieve its desired outcomes using solutions that promote competition regardless of which objective they are pursuing.

The PRA's secondary competition duty ensures it must facilitate effective competition whilst not compromising its vital role in ensuring the safety and soundness of firms.

D Core Tables

Introduction

The Treasury has prepared the following core tables in line with the PES (2014) 11 paper entitled 'Guidance on the preparation of the 2014-15 Annual Reports and Accounts' while pre-adopting some of the HM Treasury guidance for 2015-16 on streamlining of accounts.

Table A compares 2014-15 outturn figures against the original and final DEL budgetary control limits. Reasons for changes to the budgetary control limits and differences between budget and outturn are explained. Outturn against the administration costs limit best represents the Treasury's financial performance on its business as usual running costs.

Table A: DEL budgetary control limits

£ million	Original DEL budget	Final DEL budget	Outturn	Overspend/ (underspend)
Resource DEL	**138**	**156**	**125**	**(31)**
of which administration costs	127	146	142	(4)
Capital DEL	**14**	**47**	**36**	**(11)**

Table B summarises total expenditure by the department and its agencies, including both resource and capital expenditure, for the years 2010-11 to 2014-15 and planned expenditure for 2015-16.

Table B: Total resource and capital spending for the Treasury Group

£ million	Outturn					Budget
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Resource DEL						
Core Treasury	126	117	(232)	(282)	106	110
Debt Management Office	15	12	16	18	18	18
Government Internal Audit Agency	–	–	–	–	–	1
UK Financial Investments	3	5	2	2	3	3
Office for Budget Responsibility		2	2	2	2	2
Infrastructure Finance Unit Ltd	–	–	5	(4)	(4)	–
Eurostar	–	–	–	–	–	(16)
Business Finance Partnership	–	–	–	–	(11)	–
Asset Protection Agency (APA)	–	(1)	1	–	–	–
Non-voted: Banking & gilts registration services	11	11	11	11	11	11
Total Resource DEL	**155**	**146**	**(195)**	**(253)**	**125**	**129**
Resource AME						
Financial stability[1]	(13,825)	(16,138)	(17,699)	8,439	(48,570)	(485)
Credit easing	–	–	49	(68)	(64)	(63)
Help to Buy	–	–	–	2	1	–
Provisions[2]	1,493	(19)	38	107	448	–
Equitable Life administration	7	20	20	16	6	5
Investment in the Bank of England	(63)	(2,298)	(55)	(80)	(93)	(50)
Investment in the Royal Mint	(4)	(4)	(4)	(4)	(4)	(4)
Sovereign Grant[3]	–	–	33	36	36	40
Coinage metal costs	19	24	17	5	9	6
Coinage manufacturing	13	14	20	33	41	32
Core Treasury building impairment	–	–	7	–	–	–
MAS	–	–	(4)	–	1	–
FSCS	–	–	(405)	(736)	(393)	(300)
UKAR	–	–	(1,319)	(1,485)	(1,231)	(1,200)
Non-voted: Royal Household Pension Scheme[3]	3	3	3	3	3	3
Non-voted: Civil List[3]	8	8	–	–	–	–
Total Resource AME	**(12,349)**	**(18,390)**	**(19,299)**	**6,268**	**(49,810)**	**(2,016)**
Total Resource AME and DEL (income)/ expenditure	**(12,194)**	**(18,244)**	**(19,494)**	**6,015**	**(49,685)**	**(1,887)**
Of which: depreciation	8	7	8	6	6	6

[1] 'Financial stability' comprises fair value movements in derivatives, changes to financial stability provisions, fees and interest income arising from financial stability interventions, impairments of financial instruments and proceeds from the sale of Lloyds shares.

[2] Provisions relate primarily to the Equitable Life Payment Scheme and a tax provision relating to a court ruling against the Government Actuaries Department.

[3] From 2012-13, HM Treasury is responsible for the provision of a Sovereign Grant. This grant replaces previous funding from the Department for Transport and Department for Culture, Media and Sport. In addition to the Sovereign Grant, the Royal Household Pension Scheme and an element of the Civil List continue to be funded separately by the Treasury.

£ million			Outturn			Budget
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Capital DEL						
Core Treasury	40	36	–	(3)	9	3
Debt Management Office	1	–	1	–	1	–
Infrastructure Finance Unit Ltd	–	–	17	(3)	(5)	(2)
Eurostar	–	–	–	–		(741)
Business Finance Partnership	–	–	5	284	31	
Asset Protection Agency	2	–	–	–	–	–
Total Capital DEL	**43**	**36**	**18**	**278**	**36**	**(740)**
Capital AME						
Assistance to financial institutions	(2,241)	(4,571)	(461)	(4,937)	(3,030)	530
Sovereign Grant	–	–	–	–	2	5
Financial Services Compensation Scheme (net)	–	–	1	–	(587)	–
MAS	–	–	2	1	–	–
UKAR	–	–	(6,471)	(7,073)	(9,100)	(5,100)
Total Capital AME	**(2,241)**	**(4,571)**	**(6,924)**	**(11,725)**	**(12,715)**	**(4,565)**
Total Capital AME and DEL	**(2,198)**	**(4,535)**	**(6,906)**	**(11,731)**	**(12,679)**	**(5,305)**
Total departmental spending	**(14,392)**	**(22,779)**	**(26,400)**	**(5,716)**	**(62,364)**	**(7,192)**

Table C provides a detailed breakdown of budgetary changes and outturn for 2014-15.

Table C: Detailed breakdown of budgetary changes and outturn

£ million		2014-15 Original Plans Resource	2014-15 Original Plans Capital	2014-15 Final Plans Resource	2014-15 Final Plans Capital	2014-15 Outturn Resource	2014-15 Outturn Capital
Spending in Departmental Expenditure Limits (DEL)							
	Voted expenditure	**127**	**14**	**143**	**48**	**114**	**36**
Of which:	Core Treasury	101	4	122	9	106	9
	Debt Management Office	17	1	18	1	18	1
	Office of Tax Simplification	–	–	–	–	–	–
	United Kingdom Financial Investments Limited (Net)	3	–	4	–	3	–
	Office for Budget Responsibility (Net)	2	–	2	–	2	–
	Infrastructure Finance Unit Limited (Net)	–	–	–	(2)	(4)	(5)
	IUK Investments Limited (Net)	–	–	–	–	–	–
	IUK Investments Holdings Limited (Net)	–	9	–	9	–	–
	Royal Mint Advisory Committee on the design of coins (Net)	–	–	–	–	–	–
	Eurostar	–	–	–	–	–	–
	Business Finance Partnership	–		(3)	31	(11)	31
	Departmental; Unallocated Provision	4	–	–	–	–	–
	Non-voted expenditure	**11**	**–**	**12**	**–**	**11**	**–**
Of which:	Banking and gilts registration services	11	–	12	–	11	–
Total Spending in DEL		**138**	**14**	**155**	**48**	**125**	**36**
Spending in Annually Managed Expenditure (AME)							
	Voted expenditure	**(1,237)**	**(2,649)**	**(42,320)**	**(9,468)**	**(49,813)**	**(12,715)**
Of which:	UK Coinage metal costs	2	–	12	–	9	–
	Northern Rock	(230)	(1,690)	–	–	–	–
	Assistance to financial institutions	(614)	30	(40,433)	(970)	(47,344)	(1,227)
	Provisions	(2)	–	(2)	–	448	–
	Administration of the Equitable Life Payments Scheme	6	–	6	–	6	–
	Royal Mint dividend	(4)	–	(4)	–	(4)	–
	UK Coinage manufacturing costs	28	–	42	–	41	–
	Money Advice Service (Net)	–	–	3	–	1	–
	Financial Services Compensation Scheme (Net)	–	–	(570)	–	(393)	(587)
	Investment in the Bank of England	(30)	–	(30)	–	(93)	–
	Credit easing	(73)	334	(63)	–	(64)	–
	Sovereign Grant funding of the Royal Household (Net)	38	2	38	2	36	2
	Bradford & Bingley	(274)	(1,325)	–	–	–	–
	Loans to Ireland	(84)	–	(84)	–	(84)	–
	UK Asset Resolution Limited (Net)	–	–	(1,205)	(8,500)	(1,231)	(9,100)
	UKAR Corporate Services Limited (Net)	–	–	–	–	–	–
	Help to Buy (HMT) Limited (Net)	–	–	–	–	1	–
	Northern Rock (Virgin Money)	–	–	(30)	–	(153)	–
	Sale of shares	–	–	–	–	(989)	(1,803)
	Non-voted expenditure	**3**	–	**3**	–	**3**	–
Of which:	Royal Household Pensions	3	–	3	–	3	–
	Civil List	–	–	–	–	–	–
Total Spending in AME		**(1,234)**	**(2,649)**	**(42,317)**	**(9,468)**	**(49,810)**	**(12,715)**
Total		**(1,096)**	**(2,635)**	**(42,162)**	**(9,420)**	**(49,685)**	**(12,679)**
Of which:	Voted expenditure	(1,110)	(2,635)	(42,177)	(9,420)	(49,699)	(12,679)
	Non-voted expenditure	14	–	15	–	14	–

For a a more detailed analysis of administration costs refer to Table D below and Notes 7, 8 and 9 to the Annual Accounts in Chapter 6.

Table D: Analysis of administration costs

£ million			Outturn			Budget
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Core Treasury	127	117	117	109	123	103
Debt Management Office	11	8	13	14	14	14
Government Internal Audit Agency	–	–	–	–	–	1
Office of Tax Simplification	–	–	–	–	–	–
UKFI	3	5	2	2	3	3
OBR	–	2	2	2	2	2
APA	–	(1)	1	–	–	–
Total net administration costs	**141**	**131**	**135**	**127**	**142**	**124**
Of which:						
Staff costs	95	86	81	79	80	
Other expenditure	84	73	90	95	91	
Income	(38)	(28)	(36)	(47)	(29)	

Table E analyses the capital employed by the Treasury and its agencies and reconciles to the Statement of Financial Position in the Annual Accounts. It also shows as a separate line the capital employed by the department's NDPBs to give total capital employed by the Treasury Group.

Table E: Capital employed

£ millions						Outturn
	2009-10	2010-11	Restated 2011-12[4]	Restated 2012-13[4]	2013-14	2014-15
Assets and liabilities in the Statement of Financial Position at end of year:						
Assets						
Intangible assets	5	7	10	13	12	10
Property, plant and equipment	104	109	117	116	113	154
Trade and other payables due after more than one year	1,523	428	285	392	285	301
Other non-current financial assets[2]	122,993	118,903	96,625	97,662	96,782	93,261
Current assets	2,426	12,176	41,971	45,616	1,190	38,182
Liabilities						
Current liabilities	(725)	(864)	(680)	(697)	(173)	(678)
Non-current liabilities	(4,364)	(2,812)	(1,745)	(1,511)	(1,407)	(1,335)
Capital employed by the Treasury and its agencies	**121,962**	**127,947**	**136,583**	**141,591**	**96,802**	**129,895**
Net assets/(liabilities) of NDPBs	(350)	(213)	641	644	908	591
Total capital employed by the Treasury group	**121,612**	**127,734**	**137,224**	**142,235**	**97,710**	**130,486**

[4] Net assets of NDPBs have been restated for 2011-12 and 2012-13 to reflect the inclusion of UK Asset Resolution in the group boundary for the first time. For further details, see note 3 of the Annual accounts.

[5] Other non-current financial assets include Available-for-Sale assets and loans and advances.

E List of Abbreviations

AME	Annually Managed Expenditure
BAME	Black, Asian and minority ethnic
BEAPFF	Bank of England Asset Purchase Facility Fund
B&B	Bradford and Bingley plc
BFP	Business Finance Partnership
BSI	British Standard Institution
CCL	Climate Change Levy
CCS	Crown Commercial Service
CF	Consolidated Fund
CGNCR	Central Government Net Cash Requirement
CGT	Capital gains tax
CHP	Combined Heat and Power
CMA	Competition and Markets Authority
CML	Council of Mortgage Lenders
CPI	Consumer Prices Index
CPS	Carbon Price Support
CRD	Capital Requirements Directive
CS	Civil Service
CSPS	Civil Service People Survey
DAS	Dividend Access Share
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DfE	Department for Education
DfT	Department for Transport
DG	Director General
DMO	UK Debt Management Office
DWP	Department for Work and Pensions

EEA	Exchange Equalisation Account
EIR	Effective Interest Rate
EMB	Executive Management Board
EU	European Union
FCA	Financial Conduct Authority
FICC	Fixed income, currencies and commodities
FLS	Funding for Lending Scheme
FPC	Financial Policy Committee
FReM	Government Financial Reporting Manual
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act (FSMA) 2000
FTE	Full Time Equivalent
G7	A group of 7 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US)
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union
GB	Great Britain
GDP	Gross Domestic Product
GGC	Greening Government Commitments
GIAA	Government Internal Audit Agency
GRAA	Government Resource and Accounts Act 2000
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HS2	High Speed 2
HS3	High Speed 3
IA	Impact Assessment
IAC	Investment Approval Committee
IAS	International Accounting Standard
ICB	Independent Commission on Banking
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	Individual Savings Accounts
IUK	Infrastructure UK
LTV	Loan to Value
MAS	Money Advice Service
MPC	Monetary Policy Committee

NAO	National Audit Office
NDPB	Non Departmental Public Body
NLF	National Loans Fund
NLGS	National Loan Guarantee Scheme
NMW	National Minimum Wage
NR	Network Rail
NRAM	NRAM PLC
NS&I	National Savings and Investments
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
OTS	Office of Tax Simplification
PAC	Public Accounts Committee
PES	Public Expenditure System
PFI	Private Finance Initiative
PHSO	Parliamentary and Health Service Ombudsman
PRA	Prudential Regulation Authority
PSCE	Public Sector Current Expenditure
PSCSP	Principle Civil Service Pension Scheme
PSF	Public Sector Finances
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt
RBS	Royal Bank of Scotland
RDEL	Resource Departmental Expenditure Limit
RMAC	Royal Mint Advisory Committee on the design of Coins Medals Seals and Decorations
RMB	Remnimbi
RPI	Retail Prices Index
RPC	Regulatory Policy Committee
RTC	Red Tape Challenge
SCB	Strategy and Capability Board
SCS	Senior Civil Serivce
SME	Small and medium sized enterprises
SSA	Supras, Sub-sovereigns and Agencies Market
TFC	Tax Fee Childcare
TME	Total Managed Expenditure

UCL	University College London
UK	United Kingdom
UKAR	UK Asset Resolution
UKDMO	UK Debt Management Office
UKFI	UK Financial Investments Ltd
VAT	Value Added Tax
VOA	Valuation Office Agency
WGA	Whole of Government Accounts