DECC

Green Deal Finance

Accounting for the Green Deal in Energy Suppliers

October 2011

Deloitte LLP

2 New Street Square

London

EC4A 3BZ

Contents

1. Introduction 1

1.1 Purpose of this report 1

1.2 Limitations of our report 1

1.3 Key Assumptions 2

1.4 Use of our report 2

1.5 Information used in the production of this report 2

1.6 Structure of this report 3

1.7 Glossary of terms 3

2. Executive Summary 4

2.1 Background to the Green Deal 4

2.2 Potential accounting treatments in Energy Suppliers 4

3. Relevant accounting standards, princples and treatments 7

3.1 UK GAAP, IFRS, FRSME and IFRS for SMEs 7

3.2 Relevant accounting standards, princples and treatments 7

4. Accounting for the Green Deal in Energy Suppliers 11

4.1 Default liability scenarios 11

4.2 Bank Liable 13

4.3 Pari Passu 14

4.4 Green Deal debt seniority 14

4.5 Supplier Liable 14

4.6 Value limited (10%) obligation to pay 15

4.7 Time limited (3 month) obligation to pay 15

Appendix 1 - Glossary of Terms 17

Appendix 2 – DECC's representation of the financing structure 22

1. Introduction

Deloitte has been appointed by the Department for Energy and Climate Change ("DECC") to assist it in considering at a high level the potential accounting consequences of the Green Deal for Energy Supplier participants. The work we have carried out is in accordance with our letter of engagement dated 18 March 2011.

1.1 Purpose of this report

Because the Green Deal is intended to be a market-led private sector initiative, the exact terms of the Green Deal and the Green Deal finance mechanism are as yet unconfirmed and a range of possible contractual and financing arrangements is being researched by DECC. In addition, the legal framework for the Green Deal is not yet confirmed; draft primary legislation (The Energy Bill) is currently under discussion in parliament and we understand that DECC intends to consult on secondary legislation in Autumn 2011. The impact of these possible legislative, contractual and financing arrangements will vary with respect to the resulting financing, credit and accounting implications. This report outlines the potential accounting treatments of the Green Deal for Energy Supplier participants and the potential accounting consequences for their balance sheet and income statements.

This report does not constitute an accounting opinion. It merely looks at the theoretical accounting treatments inherent in the deal and in light of current UK GAAP, FRSME and IFRS accounting standards for potential Green Deal Energy Supplier participants and based on various assumptions as agreed with DECC. As the final contractual and finance structures for the Green Deal emerge, the expected accounting treatment for some of the parties may change.

1.2 Limitations of our report

This report assumes that the contractual and finance structure will be as set out in Section 2.1 "Background to the Green Deal" below, as agreed by you in your email of 21 April 2011. Any changes to the structure may result in a different analysis of the accounting consequences of the structure for some or all participants.

The scope of our work in preparing this report was limited solely to providing advice on the key potential accounting treatments of the Green Deal for Energy Supplier participants for the five potential default and liability models put forward by DECC. You are responsible for determining whether the scope of our work specified is sufficient for your purposes and we make no representation regarding the sufficiency of these procedures for your purposes. If we were to perform additional procedures, other matters might come to our attention that would be reported to you.

This report should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy your requirements and, in particular, we have not considered the commercial and economic merits of the Green Deal.

This report has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this report.

The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information contained in our report or given to us by DECC to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

1.2.1 Accounting Considerations

The following specific limitations of scope apply to section 4 "Accounting Considerations":

- Our advice is based on UK GAAP, FRSME and IFRS as at the date of the report. You should be aware that the requirements of UK GAAP, FRSME and IFRS may change over time and that it is your responsibility to take account of the impact of any such changes. We will not be under any obligation to update or otherwise alter our advice subsequent to the date of our final opinion.

  We have not considered the accounting impact on any theoretical Special Purpose Vehicles ("SPVs") which may be set up for the implementation of the Green Deal, as the contractual and finance structure are as yet undetermined.

1.3 Key Assumptions

The following general assumptions apply throughout:

- We have assumed the Green Deal will operate as described in section 2.1 below "Background to the Green Deal".
- We have assumed Energy Suppliers will receive remuneration for their role in collecting and distributing Green Deal repayments in line with finance industry norms. Note, we have not considered the structure of this remuneration nor mechanism for its payment as outside the scope of this report.
- Unless stated otherwise, we have assumed that:
  - All energy customers pay their energy charges and Green Deal charges via regular direct debit or BACS, irrespective of such charges being based on actual energy consumption or estimated consumption. We have not considered customers using prepaid energy meters.
  - All tenants who are Green Deal customers are directly responsible for energy payments to their Energy Suppliers, i.e. we have not considered, for example, tenants who pay their energy charges via service charges from their landlord.

1.4 Use of our report

This report has been prepared solely for the exclusive use of DECC and solely for the purpose of assisting you in your consideration of the potential credit implications and appropriate accounting treatments for the Green Deal as you develop further your proposed framework, operational, and structural options. This report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We have already consented to your publishing this report for the following purposes:

- publication on your website
- For inclusion in legislative guidance

We accept no duty, responsibility or liability to any party, in connection with the report or this engagement.

1.5 Information used in the production of this report

Our work has drawn on the following sources of information.

- The following attachments from an email from DECC of 21 February 2011:
  - "Figure C1.pptx" (included as Appendix 2 to this report);
  - "GD Participantsv4.pptx";
  - "Green Deal Finance consultation 25 1 11 FINAL.PDF";
  - "GD Finance community FINAL.ppt";
  - "GDLF Monzani Citi investor seminar 24 January 2010.ppt"
  - "GDLF Monzani Good Homes Alliance 1 December 2010.pptx"

- Minutes of the opening meeting with DECC on 22 February 2011. In this meeting DECC provided to us the background and structure of the Green Deal and list of expected stakeholders; and DECC's investment projections for the Green Deal provided to us via email on 1 March 2011.

1.6 Structure of this report

Our report is set out below as follows:

1. Introduction
2. Executive Summary
3. Relevant accounting standards
4. Accounting for the Green Deal in Energy Suppliers

Appendix 1 - Glossary of Terms

Appendix 2 - DECC's representation of the financing structure

1.7 Glossary of terms

Where names or phrases are capitalised, they are either titles of sections within this report (in which case this will be clearly indicated in the context) or they are specific terms which have been defined in the Appendix 1 "Glossary of Terms". The Green Deal specific terms have been agreed by you in your email of 21 April 2011.

2. Executive Summary

2.1 Background to the Green Deal

We understand from DECC that background to the Green Deal is as follows.

The Energy Bill includes provision for a new “Green Deal” which will allow private sector market participants to offer energy customers the opportunity to make energy efficiency improvements to their homes and premises at no upfront costs, potentially revolutionising the sector. Through the Energy Bill, DECC is developing a legal and regulatory framework to support the Green Deal. The Green Deal will be a market mechanism, funded by private capital and implemented by private sector market participants. The financing mechanism is key to the Green Deal; the upfront capital is paid by the Green Deal Provider who will recoup payments through a charge on the properties’ energy bills. The Golden Rule, the principle that the expected financial savings must be equal to or greater than the costs attached to the energy bill at the time of the assessment, sits at the heart of the Green Deal and is a key consumer protection mechanism. The Green Deal will be available to both owner occupiers and tenants in the domestic and commercial sector.

We understand that Green Deal customers will be able to see the Green Deal charge alongside the reductions in energy use which generate savings on their bill. The charge is attached to the energy bill at the property which means the energy customer is only liable to pay the instalments related to the period for which they are the energy bill payer. The charge remains with the energy bill for the property when they move out and the obligation to pay for future periods passes to the next bill payer at that property. In this way, the Green Deal differs from lending – it is not a conventional loan since the bill-payer is not liable for the full cost of the assessment, installation and financing, only the charges due in respect of the period for which they are the energy customer. The possible roles of the Green Deal Provider include:

(i) Assessment of the property for the purposes of the Green Deal, although this may be carried out by the Green Deal Providers themselves, by a subcontractor to the Green Deal Provider or by another independent accredited Green Deal assessor;

(ii) Installation of the recommended measures for that property, which may be carried out by the Green Deal Providers themselves, by a subcontractor to the Green Deal Provider or by another independent accredited Green Deal installer;

(iii) Planned and reactive maintenance services on the installations, which may be carried out by the Green Deal Providers themselves, by a subcontractor to the Green Deal Provider or by another independent accredited Green Deal installer; and

(iv) Financing of the assessment and installation of the recommended measures.

The customer’s main contractual relationship is expected to be with the Green Deal Provider.

2.2 Potential accounting treatments in Energy Suppliers

The contractual and finance structure of the Green Deal is subject to five different default liability scenarios. Consequently the level of liability (if any) which the Energy Suppliers may be required to take in respect of Green Deal repayments has not yet been established. Different default liability scenarios will result in potentially different accounting treatments.

We have assessed the accounting consequences for Energy Suppliers in light of each scenario. A summary of our findings is shown in Figure 2-1 below:

Figure 2-1

Option	Description	Accounting consequences in Energy Suppliers
1: Bank (Green Deal Provider) Liable	The Energy Supplier collects the Green Deal Payments from the consumer as a collection agent and remits such collections to the Green Deal Provider as and when received, i.e. the Energy Suppliers are only obligated to make payments to the Green Deal Provider as and when they receive payments from consumers and are not liable for any defaults or delays in customer payments. The Green Deal Provider(s) are at all times liable for any defaulted amounts.	Energy Suppliers' exposure to risk and reward is minimal. Therefore the Energy Suppliers would be acting as an agent in the arrangement; customers' liabilities would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.
2: Green Deal Payments rank Pari Passu	Proceeds of collections by the Energy Supplier are split pro rata between the energy Supplier and the Green Deal Provider according to ratio of the Energy Cost and Green Deal Payment component of the consumer's bill. The Energy Supplier will not be liable for any unpaid Green Deal Payments.	Energy Suppliers' exposure to risk and reward is minimal. Therefore the Energy Suppliers would be acting as an agent in the arrangement; customers' liabilities would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.
3: Green Deal Payments given seniority over energy payments	The Energy Supplier is responsible for making the Green Deal Payments to the Green Deal Provider(s) on a first-in, first-out basis, i.e. any monies received in respect of an energy bill will first be paid over to the Green Deal Provider until the full instalment due has been settled. Only once this has happened can the Energy Supplier recover payments due in respect of its energy supply. The Energy Supplier will remain liable for any unpaid Green Deal Payments.	Energy Suppliers' exposure to risk and reward over Green Deal repayments is minimal. Therefore the Energy Suppliers would be acting as an agent in the arrangement; customers' liabilities would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.
4: Supplier Liable	The Energy Supplier is responsible for making the Green Deal Payments to the Green Deal Provider(s) regardless of the level of consumer defaults, i.e. the energy Supplier will be fully liable for any and all defaults and/or delays in receiving Green Deal Payments.	The liability for customers to make repayments is to the Energy Suppliers rather than to the Green Deal Providers. Therefore the Energy Suppliers would have a contractual right to receive cash from the customers. Therefore a financial asset would be recognised equal to the present value of cash guaranteed from the customers. In turn, Energy Suppliers would be legally obliged to make payments to the Green Deal Providers irrespective whether they receive Green Deal repayments from their customers. This meets the definition of a liability. Therefore the Energy Suppliers would recognise a liability equal to the value of cash due to the Green Deal Providers.

Option	Description	Accounting consequences in Energy Suppliers
5: Energy Supplier Exposure Time or Value Limited	Energy Supplier responsible for collecting payments from the consumers but is only liable for defaulted payments for a certain time period or up to a total amount. The Energy Supplier remains responsible for collections, but its liability is limited to unpaid amounts outstanding up to a specified time or value limit. Any losses resulting from Green Deal Payment in default beyond the time or value limit are suffered by the Green Deal Provider(s)	The liability for customers to make repayments is to the Energy Suppliers rather than to the Green Deal Providers for the 'at risk balance'. The 'at risk balance' is measured as a function of value or time. Therefore the Energy Suppliers would have a contractual right to receive the 'at risk balance' from the customers. Therefore a financial asset would be recognised equal to the present value of 'at risk balance' guaranteed from the customers. In turn, Energy Suppliers would be legally obliged to make payments, reflecting the 'at risk balance', to the Green Deal Providers irrespective whether they receive Green Deal repayments from their customers. This meets the definition of a liability. Therefore the Energy Suppliers would recognise a liability equal to the value the 'at risk balance'.

3. Relevant accounting standards, princples and treatments

3.1 UK GAAP, IFRS, FRSME and IFRS for SMEs

This sub-section sets out the frameworks under which Energy Supplier participants in the Green Deal will have to account for their interests. Energy Suppliers would prepare accounts under UK GAAP or IFRS. The choice is permitted. The exception to this is if the entity is a plc or has listed debt. Then only IFRS may be used.

In light of these reporting frameworks and the contractual and finance structure for the Green Deal as currently envisaged by DECC, the following accounting standards are likely to be relevant, shown in Figure 3-1

Figure 3-1

UK GAAP	IFRS
FRS 5 'The substance of transactions'	No equivalent
FRS 5 Application Note G 'Revenue'	IAS 18 'Revenue recognition'
FRS 25 'Financial instruments: Presentation'	IAS 32 'Financial instruments: Presentation'
FRS 26 'Financial Instruments: Recognition and measurement'	IAS 39 'Financial Instruments: Recognition and measurement'
FRS 29 'Financial Instruments: Disclosures'	IFRS 7 'Financial Instruments: Disclosures'
FRS 4 'Capital Instruments'	No equivalent

Under UK GAAP, where an entity is classified for UK GAAP accounting purposes as small or medium (the definition of an SME for accounting purposes is included in Appendix 1 "Glossary of Terms"), FRSME may be used. This framework is broadly the same as UK GAAP but is simplified to be of more relevance to smaller entities. In practical terms the key difference is a reduction to the level of disclosures required. For the purposes of this report we have assumed that the FRSME and UK GAAP result in the same accounting treatments. Under IFRS, the same applies for IFRS for SMEs. Note, however, that IFRS for SMEs is still in development.

In light of the relevant standards cited above, the next Sections look at which elements of the Green Deal are likely to be assessed using those standards, and the clauses of the standards which will have the most use.

3.2 Relevant accounting standards, princples and treatments

3.2.1 Accounting for executory contracts

This Section sets out accounting for executory contracts under UK GAAP and IFRS.

Currently, customer contracts for the use of energy are deemed to be executory contracts. A consideration for the Green Deal will be whether the terms constitute an executory contract going forward. Both UK GAAP and IFRS describe executory contracts as contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. No specific standard in UK GAAP or IFRS exists which deals with executory contracts. However, the way executory contracts are accounted for falls under the 'accruals concept' for both frameworks. Executory contracts represent 'pay as you consume' arrangements. Therefore, under the frameworks, a buyer that consumes goods or services accrues a liability to pay and expenses the cost of the goods and services in the period in which they are consumed. In turn, an Energy Supplier only recognises a receivable once energy has been delivered to a customer.

3.2.2 Accounting for principal/agency arrangements

This Section sets out the accounting for principal and agency arrangements under UK GAAP and IFRS.

In the Green Deal it is as yet undecided the extent to which the Energy Suppliers will take on any obligation to repay the financial institutions for installations costs or whether they will act only as a collector and distributor of end user (customer) payments. Both UK GAAP and IFRS define the existence of an agency arrangement in the same way. For illustration, FRS 5 Application Note G (“ANG”) states that there is a rebuttable presumption that a seller is acting as principal unless otherwise elected. It further states that in order for a seller to account for transactions as principal, it should normally have exposure to significant benefits and risks associated with cash flowing through the entity.

In light of this illustration, if the Energy Suppliers are made liable for the repayments, regardless of any collections made, to the financial institutions, notwithstanding any customer liability to the Energy Suppliers further down the chain, they will be exposed to significant risk with respect to those repayments. Therefore a principal arrangement would exist and there would be a balance sheet impact to consider. Should the terms of the Green Deal stipulate that the financial institutions have no recourse to the Energy Suppliers and that they act as a collector and distributor only, then their risk may not be significant with respect to the repayments. An agency arrangement would exist and no balance sheet impact would be considered. This is discussed in greater detail in Section **Error! Reference source not found.Error! Reference source not found.**.

3.2.3 Accounting for financial assets/instruments

This section sets out the accounting for financial assets and financial liabilities within the context of the Green Deal under UK GAAP and IFRS. The standards are relevant for the Green Deal because there is a significant amount of financing occurring, resulting in potential financial assets and liabilities.

The UK standards on financial instruments, FRS 25 (IAS 32) *Financial instruments: Presentation*, FRS 26 (IAS 39) *Financial Instruments: Recognition and measurement* and *FRS 29 (IFRS 7) Financial Instruments: Disclosures*, embody the relevant IFRS, therefore only the International Standards have been considered here. FRS 25 and FRS 26 are only required to be adopted by certain UK entities, including financial institutions, and are not mandatory for others (but may be adopted). If an entity is not required, and does not choose to adopt FRS 25 and FRS 26, FRS 4 *Capital Instruments* is applied.

IAS 32 deals with the presentation and classification of financial instruments. Paragraph 11 defines a financial asset as:

“...any asset that is:

a. *cash;*
b. *an equity instrument of another entity;*
c. ***a contractual right:***
    i. ***to receive cash or another financial asset from another entity****; or*
    ii. *to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or*
d. *a contract that will or may be settled in the entity's own equity instruments and is:*
    i. *a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or*
    ii. *a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments... “*

IAS 32(11) defines a financial liability as:

“any liability that is:

a. ***a contractual obligation:***
    i. ***to deliver cash or another financial asset to another entity****; or*
    ii. *to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or*
b. *a contract that will or may be settled in the entity's own equity instruments and is:*
    i. *a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or*
    ii. *a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments...”*

IAS 39 contains all the key guidance for recognition and measurement of financial assets and financial liabilities. The measurement aspects of financial assets apply only if an entity is not applying IFRS 9 *Financial Instruments*, which is not required to be applied until periods beginning on or after 1 January 2013, and contains new guidance for the measurement of financial assets.

The treatment of financial assets depends upon their classification. The classification is important as it drives the subsequent accounting treatment (held either at fair value or amortised cost). There are four categories of financial asset under IAS 39 (three categories under IFRS 9) and therefore the rights to repayment held by parties involved in delivery of the Green Deal will need careful consideration as to which classification of financial asset is applicable and hence the accounting treatment required.

Financial liabilities are classified into one of two categories under IAS 39, being either financial liabilities at fair value through profit or loss, or other financial liabilities (measured at amortised cost). Again, the obligation to make payments to other parties involved in delivery of the Green Deal will need to be considered carefully in order to select the correct classification and accounting treatment.

3.2.4 Future developments

Classification of financial assets – the evolution of IAS 39: Financial instruments – recognition and measurement (IAS 39)

This report is provided based on IFRS as at the date of this report. However, there are some proposed changes to standards which financial institutions will need to consider as they emerge. One of these changes concerns IAS 39. In 2009, as part of an 18 month phased project to replace IAS 39, the International Accounting Standards Board issued IFRS 9 – Financial instruments: classification and measurement. While this standard has not yet been endorsed by the EU and therefore cannot yet be applied, mandatory application of the complete new standard is likely to be required on periods beginning 1 January 2013 and in most cases will need to be applied retrospectively. The standard deals with the classification of financial assets and may have an impact on the accounting for the Green Deal. This is discussed further below; however we have not taken these changes into account in our commentary in this Section.

Prior to the issue of IFRS 9 "Financial Instruments", IAS 39 states that financial assets are required to be classified in one of the four primary classification categories. Two of these categories, 'held-to-maturity' and 'loans and receivables' result in amortised cost measurement and the other two categories 'fair value through profit or loss' and 'available-for-sale' result in fair value measurement as shown in Figure 3-2 below.

Figure 3-2

Accounting Entries	FVTPL	Available for Sale	Loan or Receivable	Held to Maturity
Original Value	Fair value	Fair value	Fair value	Fair value
Subsequent value	Fair value	Fair value	Amortised	Amortised
Profit and loss	Changes in fair value	Interest	Interest	Interest
Equity	n/a	Changes in fair value	n/a	n/a

Under IFRS 9 the 'available for sale' and 'held to maturity' classifications are no longer used. Three categories are permitted; amortised cost, fair value through profit or loss and fair value through other comprehensive income, and are shown in Figure 3-3 below:

Figure 3-3

Accounting Entries	Amortised cost	FVTPL	FVTOCI
Original Value	Fair value	Fair value	Fair value
Subsequent value	Amortised	Fair value	Fair value
Profit & loss	Interest	Changes in fair value	n/a
Equity	n/a	n/a	Changes in fair value

IFRS 9 requires distinguishing between the two categories using the following principles:

- A financial asset must be measured at amortised cost (unless designated at FVTPL on initial recognition) if both of the following conditions are satisfied:
  - the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes); and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
- All other financial assets must be measured at fair value through profit or loss.

We have not considered IFRS 9 further other than to set out the changes above and we have not tailored our review to take these changes into consideration.

3.2.5 Accounting for liabilities

This Section looks at the nature of a liability within the context of the Green Deal under UK GAAP and IFRS.

Under UK GAAP, FRS 5 'The substance of transactions' states:

> "Evidence that an entity has an obligation to transfer benefits (and hence has a liability) is given if there is some circumstance in which the entity is unable to avoid, legally or commercially, an outflow of benefits."

No standard exists under IFRS that deals with the nature of assets specifically. However the IFRS framework defines a liability as:

> "An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities."

A key consideration in this project will be which parties to the Green Deal ultimately carry the obligation for making repayments for the installations under a range of scenarios.

4. Accounting for the Green Deal in Energy Suppliers

This section deals with the accounting for the Green Deal in Energy Supplier participants. We understand that Energy Suppliers will collect payments from customers relating to two streams (i) Green Deal repayments: the repayment of Green Deal charges including assessment, installation and finance costs and (ii) energy consumption. These are assessed separately below under five different default liability scenarios.

4.1 Default liability scenarios

The contractual and finance structure of the Green Deal is subject to five different default liability scenarios

4.1.1 Default Models Overview

Our understanding of the default models is as follows:

Option	Description
1: Bank (Green Deal Provider) Liable	The Energy Supplier collects the Green Deal Payments from the consumer as a collection agent and remits such collections to the Green Deal Provider as and when received, i.e. the Energy Suppliers are only obligated to make payments to the Green Deal Provider as and when they receive payments from consumers and are not liable for any defaults or delays in customer payments. The Green Deal Provider(s) are at all times liable for any defaulted amounts.
2: Green Deal Payments rank Pari Passu	Proceeds of collections by the Energy Supplier are split pro rata between the energy Supplier and the Green Deal Provider according to ratio of the Energy Cost and Green Deal Payment component of the consumer's bill. The Energy Supplier will not be liable for any unpaid Green Deal Payments.
3: Green Deal Payments given seniority over energy payments	The Energy Supplier is responsible for making the Green Deal Payments to the Green Deal Provider(s) on a first-in, first-out basis, i.e. any monies received in respect of an energy bill will first be paid over to the Green Deal Provider until the full instalment due has been settled. Only once this has happened can the Energy Supplier recover payments due in respect of its energy supply. The Energy Supplier will remain liable for any unpaid Green Deal Payments.
4: Supplier Liable	The Energy Supplier is responsible for making the Green Deal Payments to the Green Deal Provider(s) regardless of the level of consumer defaults, i.e. the energy Supplier will be fully liable for any and all defaults and/or delays in receiving Green Deal Payments.

Option	Description
5: Energy Supplier Exposure Time or Value Limited	Energy Supplier responsible for collecting payments from the consumers but is only liable for defaulted payments for a certain time period or up to a total amount. The Energy Supplier remains responsible for collections, but its liability is limited to unpaid amounts outstanding up to a specified time or value limit. Any losses resulting from Green Deal Payment in default beyond the time or value limit are suffered by the Green Deal Provider(s)

4.1.2 Default Model Scenarios

To illustrate the above models, the scenarios below consider each of the options where the consumer owes £100 (split £90 for Energy Supplier costs and £10 for Green Deal Payment) but only pays either £95 or £5, i.e. there is a £5 or a £95 delinquent amount.

Option	£95 received from consumer £5 delinquent	£5 received from consumer £95 delinquent
1: Bank (Green Deal Provider) Liable	£5 goes to the Green Deal Provider £90 goes to the Energy Supplier Energy Supplier remains responsible for recovering the £5 still due to the Green Deal Provider, but it is not liable if £5 Green Deal Payment remains outstanding	£0 goes to the Green Deal Provider £5 goes to the Energy Supplier Energy Supplier responsible for recovering their outstanding £85 and the outstanding £10 on behalf of the Green Deal Provider, but it is not liable if the £10 Green Deal Payments remains outstanding
2: Green Deal Payments rank Pari Passu	£9.5 goes to the Green Deal Provider £85.5 goes to the Energy Supplier Energy Supplier responsible for recovering £5 Recoveries and losses split pro rata between Green Deal Provider and Energy Supplier, therefore “first loss” is effectively shared.	£0.5 goes to the Green Deal Provider £4.5 goes to the Energy Supplier Energy Supplier responsible for recovering £95 Recoveries and losses split pro rata between Green Deal Provider and Energy Supplier, therefore “first loss” is effectively shared.
3: Green Deal Payments given seniority over energy payments	£10 goes to the Green Deal Provider £85 goes to the Energy Supplier Energy Supplier responsible for recovering £5 and suffers any losses resulting from non-collection.	£5 goes to the Green Deal Provider Energy Supplier responsible for recovering £95 First £5 it recovers goes to Green Deal Provider(s) therefore “first loss” is effectively suffered by the Energy Supplier.
4: Supplier Liable	£10 goes to the Green Deal Provider £85 goes to the Energy Supplier Energy Supplier responsible for recovering £5 and suffers any losses resulting from non-collection.	£10 goes to the Green Deal Provider (Energy Supplier pays £5 from its own resources) Energy Supplier responsible for recovering £95 and suffers any losses resulting from non-collection.
5: Energy Supplier Exposure Time or Value Limited - Assume maximum value limit is 10% of Green Deal Payment	£6 goes to the Green Deal Provider(£5 actually received + £1 Energy Supplier 10% of Green Deal Payment value liability) £89 goes to the Energy Supplier, who remains responsible for pursuing collection of all outstanding amounts, but it is not liable for the outstanding £4 Green Deal Payment.	£1 goes to the Green Deal Provider Energy Supplier remains responsible for pursuing collection of all outstanding amounts, but it is not liable for the outstanding £9 Green Deal Payment

Option	£95 received from consumer £5 delinquent	£5 received from consumer £95 delinquent
5: Energy Supplier Exposure Time or Value Limited - Assume maximum time limit liability is 3 months overdue (on a rolling basis if arrears are remedied before becoming 3 month delinquent)	3 months in arrears: £5 goes to the Green Deal Provider £90 goes to the Energy Supplier, who remains responsible for pursuing collection of all outstanding amounts up to hitting 3 months in arrears. Before: Energy Supplier liable for outstanding £5 Thereafter: Green Deal Provider liable for outstanding £5.	3 months in arrears: £5 goes to the Energy Supplier £0 goes to the Green Deal Provider Thereafter: Energy Supplier responsible for recovering £95 but not liable if unrecoverable. Recoveries before hitting 3 months in arrears go to Green Deal Provider after Energy Supplier collections First £85 of recoveries go to Energy Supplier, last £10 to Green Deal Provider

Consequently the level of liability (if any) which the Energy Suppliers may be required to take in respect of Green Deal repayments has not yet been established. Different default liability scenarios will result in potentially different accounting treatments. This section looks at the key considerations for Energy Suppliers under each scenario. Each scenario is discussed separately in the next sections.

4.2 Bank Liable

This section sets out the accounting consequences of the ‘bank liable’ scenario on Energy Suppliers.

4.2.1 Green Deal payments

Both UK GAAP and IFRS state, with respect to agency/principal arrangements, that there is a rebuttable presumption that a seller is acting as principal unless otherwise elected. It further states that in order for a seller to account for transactions as principal, it should normally have exposure to significant benefits and risks associated with cash flowing through the entity.

In this scenario Energy Suppliers will not be responsible for the repayments to the Green Deal Providers. Rather, they will collect repayments from customers and distribute the monies to the Green Deal Providers (perhaps via a Clearing House) without taking on any responsibility for bad debts in respect of Green Deal charges. The Energy Suppliers would only distribute cash which they have received already from customers. The collection service would be done in return for a management fee. The management fee would fluctuate subject to the level and volume of collections carried out.

In this instance the Energy Suppliers’ exposure to risk and reward is minimal; if no collections are carried out, no cash requires onward distribution, therefore no management fee is received. While this represents a risk that no management fee will be received, it does not represent exposure to significant risk within the meaning of the standards under UK GAAP and IFRS. Therefore the Energy Suppliers would be acting as an agent in the arrangement; customers’ liabilities would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.

4.2.2 Energy consumption

Accounting for energy consumption in the Energy Suppliers both before and after the Green Deal is the same. The Energy Suppliers have an executory contract with their customers. This means that to the extent that they deliver energy to customers they have a receivable (financial asset) on their balance sheet reflecting any unpaid energy bills. Energy meters, and their maintenance are accounted for as a business expense to the income statement in the corresponding year that activity is carried out. This is current industry practice.

4.3 Pari Passu

This section sets out the accounting consequences of the ‘pari passu’ scenario on Energy Suppliers.

4.3.1 Green Deal payments

This scenario only differs from the ‘bank liable’ scenario in that an underpayment from a customer would result in an equal, pro rata shortfall of receipts in the Energy Supplier’s energy debt and the remuneration to the Green Deal Provider.

In this instance the Energy Suppliers’ exposure to risk and reward is the same as in the ‘bank liable’ scenario with respect to unpaid Green Deal charges. Therefore the Energy Suppliers would continue to be acting as an agent in the arrangement; customers’ liabilities would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.

4.3.2 Energy consumption

Accounting for energy consumption in the Energy Suppliers both before and after the Green Deal is the same as in the ‘energy debt seniority’ scenario, since the differences in the scenarios do not impact on the accounting treatment for energy consumption.

4.4 Green Deal debt seniority

This section sets out the accounting consequences of the ‘Green Deal debt seniority’ scenario on Energy Suppliers.

4.4.1 Green Deal payments

This scenario only differs from the ‘bank liable’ scenario in that an underpayment from a customer would trigger the ‘Green Deal debt seniority’ mechanism which requires the Green Deal debt to be repaid in full before the Energy Supplier can recognise any cash flow against their energy debt receivable.

In this instance the Energy Suppliers’ exposure to risk and reward is the same as in the ‘bank liable’ scenario with respect to unpaid Green Deal charges. Therefore the Energy Suppliers would continue to be acting as an agent in the arrangement; customers’ liabilities would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.

4.4.2 Energy consumption

Accounting for energy consumption in the Energy Suppliers both before and after the Green Deal is the same as in the ‘energy debt seniority’ scenario, since the differences in the scenarios do not impact on the accounting treatment for energy consumption.

4.5 Supplier Liable

This section sets out the accounting consequences of the ‘Full obligation to pay’ scenario on Energy Suppliers.

4.5.1 Green Deal payments

This scenario differs from the ‘bank liable’ scenario in that the Energy Suppliers are at risk to make repayments to the Green Deal Providers for Green Deal charges. This means that if a consumer fails to make sufficient repayments, the Energy Suppliers are at risk and would be required to repay the Green Deal Providers regardless. Again, a management fee including an appropriate margin would be received by the Energy Suppliers. In this instance the Energy Suppliers are at risk for all of the repayments to Green Deal Providers and would therefore act as principal. Consequently there would be a balance sheet impact.

Financial asset

In the scenario above the liability for customers to make repayments is to the Energy Suppliers rather than to the Green Deal Providers. Therefore the Energy Suppliers would have a contractual right to receive cash from the customers. Therefore a financial asset would be recognised equal to the present value of cash guaranteed from the customers.

Financial liability

In the scenario above the Energy Suppliers would be legally obliged to make payments to the Green Deal Providers irrespective whether they receive Green Deal repayments from their customers. This meets the definition of a liability cited in Section 3.2.5. Therefore the Energy Suppliers would recognise a liability equal to the value of cash due to the Green Deal Providers.

4.5.2 Energy consumption

Accounting for energy consumption in the Energy Suppliers both before and after the Green Deal is the same as in the 'bank liable' scenario, since the differences in the scenarios do not impact on the accounting treatment for energy consumption.

4.6 Value limited (10%) obligation to pay

4.6.1 Green Deal payments

This scenario has similarities with the 'supplier liable' scenario in that the Energy Suppliers at risk to make some repayments to the Green Deal Providers for Green Deal charges. The liability is limited to 10% of the customer balance due. This means that if a consumer fails to make sufficient repayments the Energy Suppliers are at risk for 10% of any unpaid balance and would be required to repay that 10% to Green Deal Providers regardless. Again, a management fee including an appropriate margin would be received by the Energy Suppliers. In this instance the Energy Suppliers are at risk for 10% of the repayments to Green Deal Providers and would therefore act as principal in respect of the 10% balance. Consequently there would be a balance sheet impact. For the remaining 90% the Energy Suppliers would continue to be acting as an agent; customers' liabilities for the 90% would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.

Financial asset

In the scenario above the liability for 10% of customers' Green Debt is to the Energy Suppliers rather than to the Green Deal Providers. Therefore the Energy Suppliers would have a contractual right to receive that cash from the customers. Therefore a financial asset would be recognised equal to the present value of cash expected from the customers.

Financial liability

In the scenario above the Energy Suppliers would be legally obliged to make payments reflecting 10% of outstanding Green Deal debt to the Green Deal Providers irrespective whether they received Green Deal repayments from their customers. This meets the definition of a liability cited in Section 3.2.5. Therefore the Energy Suppliers would recognise a liability equal to the value of cash due to the Green Deal Providers.

4.6.2 Energy consumption

Accounting for energy consumption in the Energy Suppliers both before and after the Green Deal is the same as in the 'bank liable' scenario, since the differences in the scenarios do not impact on the accounting treatment for energy consumption.

4.7 Time limited (3 month) obligation to pay

4.7.1 Green Deal payments

This scenario has similarities with the ‘value limited (10%) obligation to pay’ scenario in that the Energy Suppliers at risk to make some repayments to the Green Deal Providers for Green Deal charges. The liability is limited to 3 months’ worth arrears of the customer balance due. This means that if a consumer fails to make sufficient repayments the Energy Suppliers are at risk for any unpaid balance less than 3 months old and would be required to repay that balance to Green Deal Providers regardless. Again, a management fee including an appropriate margin would be received by the Energy Suppliers. In this instance the Energy Suppliers are at risk for the repayments to Green Deal Providers up to 3 months in arrears and would therefore act as principal in respect of that balance. Consequently there would be a balance sheet impact. For the remaining balance the Energy Suppliers would continue to be acting as an agent; customers’ liabilities for the remaining balance would be to the Green Deal Providers directly, and no balance sheet impact would occur in the Energy Suppliers.

Financial asset

In the scenario above the Energy suppliers would need establish the ‘at risk balance’. This would be done by reliably estimating the annual rolling proportion of the outstanding Green Deal debt that reflects 3 months’ worth of arrears at the balance sheet date. The ‘at risk balance’ is due from customers to the Energy Suppliers rather than to the Green Deal Providers. Therefore the Energy Suppliers would have a contractual right to receive that cash from the customers. Therefore a financial asset would be recognised equal to the ‘at risk balance’; the present value of cash expected from the customers.

Financial liability

In the scenario above the Energy Suppliers would be legally obliged to make payments reflecting the ‘at risk balance’ to the Green Deal Providers irrespective whether they received Green Deal repayments from their customers. This meets the definition of a liability cited in Section 3.2.5. Therefore the Energy Suppliers would recognise a liability equal to the ‘at risk balance’.

4.7.2 Energy consumption

Accounting for energy consumption in the Energy Suppliers both before and after the Green Deal is the same as in the ‘bank liable’ scenario, since the differences in the scenarios do not impact on the accounting treatment for energy consumption.

Appendix 1 - Glossary of Terms

Green Deal Specific Terms

Green Deal	The Green Deal will be a market mechanism, funded by private capital and implemented by private sector market participants, which DECC believes will enable a revolutionary programme improving the energy efficiency of Britain's building stock and delivering savings to energy customers.
Green Deal Provider	The possible roles of the Green Deal Provider include: (i) Assessment of the property for the purposes of the Green Deal, although this may be carried out by the Green Deal Providers themselves, by a subcontractor to the Green Deal Provider or by another independent Accredited Assessor; (ii) Installation of the recommended measures for that property, which may be carried out by the Green Deal Providers themselves, by a subcontractor to the Green Deal Provider or by another independent Accredited Installer; (iii) Planned and reactive maintenance services on the installations, which may be carried out by the Green Deal Providers themselves, by a subcontractor to the Green Deal Provider or by another independent Accredited Installer; and (iv) Financing of the assessment and installation of the recommended measures. The customer's main contractual relationship is expected to be with Green Deal Provider.
Green Deal Agent	The possible roles which a Green Deal Provider may carry out via a Green Deal Agent include: (i) Assessment of the property for the purposes of the Green Deal, although this may be carried out by the Green Deal Agents themselves, by a subcontractor to the Green Deal Provider or by another independent Accredited Assessor; (ii) Installation of the recommended measures for that property, which may be carried out by the Green Deal Agent themselves, by a subcontractor to the Green Deal Provider or by another independent Accredited Installer; and (iii) Planned and reactive maintenance services on the installations, which may be carried out by the Green Deal Agents themselves, by a subcontractor to the Green Deal Provider or by another independent Accredited Installer.
Green Deal measures	The Green Deal measures are the physical equipment and building alterations which may be installed in a property in order to increase its energy efficiency and which are eligible for inclusion in the Green Deal. In order to be eligible for inclusion in the Green Deal the measure must: • Be recommended for that proeprty by and Accredited Adviser; and • Meet the criteria set out in secondary legislation to be eligible for inclusion in the Green Deal; and • Be included in the list of products and measures in the published Green Deal Code of Practice.
Green Deal Customer	The Green Deal Customer is the property owner or tenant who contracts with the Green Deal Provider for assessment, installation and financing of the Green Deal for the building which they own or occupy. Green Deal Customers are expected to include (but may not be exclusive to):

- Individual tenants, owner-occupiers or landlords
- Business tenants, owner-occupiers or landlords; and
- Public sector tenants, owner-occupiers or landlords.

Energy Supplier	The Energy Supplier is expected to be the customer's electricity energy supplier.
The Golden Rule	The Golden Rule is a key principle of the Green Deal whereby the expected overall cost to the consumer cannot exceed the total expected savings. Meeting the Golden Rule is a pre-requisite for acceptance of a customer into the Green Deal.

Corporate Finance Terms

Asset-backed securities	A type of note, bond or certificate backed by a pool of financial assets that are transferred to a bankruptcy-remote vehicle or special purpose vehicle (SPV). The SPV issues the notes, bonds or certificates. The cash flows related to the financial assets are used to make payments of the notes, bonds or certificates. The ratings of the notes, bonds or certificates depend upon the expected performance of the transferred financial assets and the structure of the notes (i.e., subordination, reserve accounts and/or third-party guarantees).
Commingling risk	The risk of cash receipts being mixed with a counterparty or third party's own cash, which cash is at risk of being used by such party for its own purposes or for purposes unrelated to the actual entitlement holder interests or be trapped in the event of insolvency of the counterparty.
Counterparty	In a commercial or contractual arrangement, the party with whom such a commercial or contractual arrangement has been entered with and being relied upon to perform and/or deliver specified services or product under the terms of such a commercial or contractual arrangement.
CRA	International recognised and regulated Credit Rating Agency
Delinquent	The state of having missed payments on a loan. A borrower who has missed two months' worth of payments is labelled 60, or 60-89, days delinquent, for instance.
Pass-through	The amount paid to the investors of an asset-backed security. The pass-through amount paid is equal to such principal amount received on the underlying loan repayments plus the net pass-through interest amount. The latter is lower than the average interest rate paid on the underlying loans, because SPV costs like guarantee and management fees must also be paid out of the interest income generated by them.
Prepayment rate	A rate equal to the proportion of principal voluntary balance paid off before such principal amount is due for repayment.
Prepayment risk	The risk that a borrower will repay a loan before its maturity.
Performance risk	The risk of counterparties not performing in accordance with the contractual terms or causes payment and reporting interruptions due to inefficient data capture, monitoring and controls or inefficient system, backup and recovery procedures.
Securitisation	The process of creating a security backed by a pool of financial assets. The process begins by transferring a pool of assets to a SPV. The SPV funds the purchase of the assets by issuing securities. Cash flows related to the assets are used to make principal and interest payments on the securities issued by the SPV.
SPV	Special purpose vehicle
Subordinated debt	A loan (or security) that ranks below other loans (securities) with regard to claims on assets or earnings. Known also as junior security or subordinated loan.

Tranche	A class of bonds in a securitisation offering referring to one of several related securitised bonds offered as part of the same deal. Usually referred to as "classes" of notes identified by letter (Class A, Class B, Class C securities, etc.)
Yield curve	The term structure of interest rates across a range of maturities derived from a defined group of financial instruments such as government bonds, interest rate swaps or segments of the credit markets.

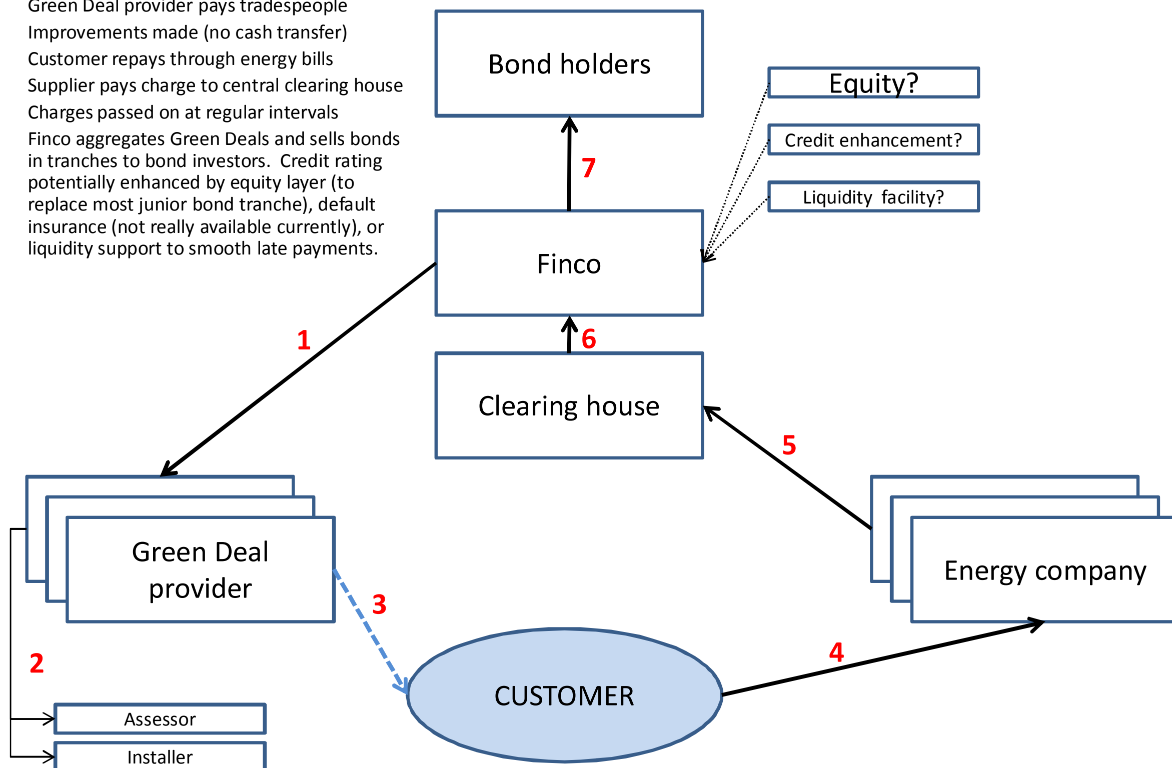
Accounting Terms

Administration Budget	The part of a Department's budget that is allocated to cover the costs of administrative activities, such as the costs of operating the finance function. Administration budgets can be used to fund programme activities, but programme budgets can only be spent on administrative activities with the approval of HM Treasury.
AME	**Annually Managed Expenditure** - Expenditure which is volatile and large, or that is not easily controlled, is significant and demand led. For example, social security payments are classified as AME spending. AME takes the first cut of the overall public spending envelope. AME forecasts are updated twice a year with HM Treasury holding the risk of variance in outturn compared to plan.
CBG	**Consolidated Budgeting Guidance** - The Resource Budgeting rules are defined by the Consolidated Budgeting Guidance
CDEL	**Capital Departmental Expenditure Limits** - The part of a department's DEL budget allocated to cover capital spending and net lending transactions. Includes spending on buildings, ships, roads, hospital equipment and any other capital expenditure, howsoever financed, as well as net lending. CDEL aims to constrain the impact of public sector activity on PSNI, PSNB and PSND, as measured by the National Accounts. Whilst RDEL can be spent on capital items, CDEL cannot be spent on resource items without the permission of the Chief Secretary to the Treasury.
CLOS	**Clear Line of Sight** – A project designed to better align the Estimates, Resource Budgeting and Resource Accounts with National Accounts. CLOS related changes have been partially implemented in 2010/11, with full implementation due in 2011/12.
CSR	**Comprehensive Spending Review** - A triennial review of public sector spending in which departmental spending limits are set for the forthcoming three financial years.
DEL	**Departmental Expenditure Limit –** In aggregate, DEL is the expenditure available to allocate to departments after the AME forecast has taken the first cut of the spending envelope. DEL is allocated to departments through the Spending Review process. Departments have separate RDEL and CDEL limits. RDEL cover may be switched to CDEL, but CDEL cover cannot be switched to fund RDEL pressures without permission of the CST.
ESA95	**European System of Accounts 1995** - A European Union wide set of national accounting standards, which EU member states are legally obliged to adhere to under the Maastricht Treaty. The ONS uses these standards to compile the National Accounts and Public Sector Finance Statistics. **(see also SNA and MGDD)**
Estimates	The process by which Parliament has the opportunity to vote on the Government's spending plans. There are differences between Estimates and budgets (e.g. Expenditure is shown net of receipts in budgets and gross in Estimates), but the Clear Line of Sight (CLOS) project aims to better align the two systems.

FRS	**Financial Reporting Standard** - FRSs form the majority of the UK GAAP accounting standards. For example FRS 15 deals with Fixed Asset accounting. SSAPs and UITFs are also standards included within the UK GAAP accounting standards.
GDP	**Gross Domestic Product** - A measure of the value of economic output across the economy (includes the output of both the public and private sectors).
IAS	**International Accounting standard** - IASs form the majority of the IFRS accounting standards. For example IAS 16 deals with Fixed Asset accounting. IASs are the IFRS equivalent of the UK GAAP FRSs. IFRICs and SICs are also standards included within the IFRS accounting standards.
IFRIC	**International Financial Reporting Interpretations Committee** – The IFRIC has issued a set of interpretations which form part the application of IFRS accounting. These pronouncements generally interpret the IASs for specific types of transactions/industries. For example, IFRIC 12 'Service Concession Arrangements' is an interpretation that deals with the accounting for PFI contracts by the private sector operator of such contracts.
IFRS	**International Financial Reporting Standards** - Set of accounting rules adopted across Europe. FTSE 100 companies are required by law to present accounts prepared under these standards. Central Government adopted IFRS from 1 April 2009, with Local Government adopting them from 1 April 2010.
MGDD	**Manual on Government Deficit and Debt** - A manual, issued by the EU statistical authority Eurostat, that supports and clarifies the ESA 95 National Accounts standards – especially relevant for PFI. **(see also SNA and ESA 95)**
ONS	**Office for National Statistics** - Independent non-ministerial government department responsible for compiling the National Accounts statistics (including GDP, PSNI, PSNB and PSND) in accordance with ESA 95 standards.
PFI	**Private Finance Initiative** - Schemes whereby the private sector finances, constructs and operates assets, including the subsequently provision of services associated with that asset over a number of years.
PPP	**Public Private Partnership** – often used as an umbrella term to describe a range of models under which the public and private sector contract. Commonly used to describe entities that are a collaboration between public and private bodies as well as PFI transactions.
Programme budget	The part of a Department's budget that is allocated to front line activities, such as the day to day costs of delivering policy objectives.
PSGI	**Public Sector Gross Investment** - A measure drawn from National Accounts of the investment in new public sector infrastructure, ignores the impact of depreciation on the existing stock of assets.
PSNB	**Public Sector Net Borrowing** - A measure drawn from the National Accounts of the amount the public sector needs to borrow each financial year to finance its capital and current spending. PSNB is defined as current receipts minus the sum of public sector current and capital expenditure.
PSND	**Public Sector Net Debt** - A measure of the stock of public sector debt. PSND is measured as the sum of certain financial liabilities of the public sector less the value of cash and cash equivalents at a given point in time. At the end of May 2010, PSND was £903bn
PSNI	**Public Sector Net Investment** - A measure drawn from the National Accounts of investment in public sector infrastructure, net of the depreciation charged against new and existing infrastructure.
RAB	**Resource Accounts and Budgeting** - Resource accounts are financial accounts prepared in accordance with the accounting standards. Resource budgets are prepared in accordance with the consolidated budgeting

	guidance, which broadly aligns with the accounting standards. Together they form a system used to score/classify, control and constrain public sector spending.
RDEL	**Resource Departmental Expenditure Limits** - The part of a department's budget allocated to current spending, which includes salary costs, rent, utilities, consumables etc. Together, RDEL and CDEL make up a department's controlled expenditure limits for which departmental management are held accountable for adhering to.
SME	**Small and medium sized entities –** a corporate entity which is beneath thresholds: turnover of £5.6m and a balance sheet total of £2.8m
SNA	**System of National Accounts (1993)** – System of national accounts to allow comparison of national economic statistics across UN member countries. **(See also ESA95 and MGDD)**
TME	**Total Managed Expenditure –** Total public sector spending, being the sum of public sector current and capital expenditure. CDEL, RDEL and AME sum to TME.
UK GAAP	**United Kingdom Generally Accepted Accounting Principles** - Set of accounting rules adopted in the UK. Central Government applied UK GAAP accounting standards up until 31 March 2009, but moved to IFRS as of 1 April 2009. Local government applied UK GAAP up to and including the 2009/10 financial year, but have moved to IFRS as of 1 April 2010.

Appendix 2 – DECC's representation of the financing structure



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2011 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu Limited