HM TREASURY

Whole of Government Accounts

Year ended 31 March 2010

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November 2011

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Contents

1 Foreword

1.1 Whole of Government Accounts (WGA) is a consolidated set of financial statements for the UK public sector. WGA consolidates the audited accounts of around 1,500 organisations across the public sector, in order to produce a comprehensive, accounts-based picture of the fiscal position in any one year. Today's publication represents an important milestone in a process that began over a decade ago, but it is also work in progress as we seek to further improve the quality of the data and its presentation.

1.2 WGA is based on EU adopted International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector, as adapted or interpreted for the public sector context. It complements the National Accounts figures, produced by the Office for National Statistics (ONS), by providing a set of financial statements based on standards familiar to users of private sector accounts.

1.3 WGA brings together, for the first time, audited financial information from central government, local government, the National Health Service (NHS) and public corporations. It makes clear a number of metrics that previously had been difficult to calculate, such as the net public service pension liability, the Government's commitments under Private Finance Initiative (PFI) contracts, total provisions, and contingent liabilities. In particular, the account includes:

- a consolidated Statement of Revenue and Expenditure;
- a consolidated Statement of Financial Position, showing public sector assets and liabilities;
- a consolidated Cash Flow Statement; and
- a Statement on Internal Control.

1.4 This first ever set of audited financial statements for the public sector is a significant milestone. Accruals accounting was introduced into central government around ten years ago, and the production of an accruals account for the whole of the public sector is the culmination of the journey towards full adoption of accruals accounting by the public sector.

1.5 WGA is the most ambitious financial consolidation of public sector accounts carried out so far. Creating this consolidated account for the whole of the public sector has been a large and complex task, and represents a step increase in transparency and accountability.

1.6 As this is the first year in which WGA is published, there is no historical data for comparison. Over time, annual publications of WGA will allow the user to build up a clear and consistent picture of trends and changes in the Government's fiscal position. WGA will also allow for international comparisons of fiscal balance sheets to be made, provided that other countries' accounts are produced on a comparable basis.

The origins and history of WGA

1.7 Parliament originally requested consolidated accounts for central government as long ago as the 1994-95 parliamentary session.[1] In July 1997, HM Treasury agreed to look at the feasibility of such accounts. The resulting 1998 scoping study[2] concluded that producing consolidated accounts for the whole public sector was the best way to proceed and that this would bring benefits for both government and external users, because:

> "such accounts would provide useful information additional to that in the National Accounts, and would be auditable. Users could therefore have real confidence that the figures they contained were constructed according to consistent well defined rules, which fit with the rules applied to the construction and presentation of commercial-style accounts."[3]

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1 Public Accounts Committee Fifteenth Report, Session 1994-95
2 Published by HM Treasury, July 1998
3 Page 5, Conclusions and recommendations, WGA Scoping Study, July 1998

1.8 The commitment to produce WGA was initially made in the Code for Fiscal Stability[4], and became a statutory requirement through the Government Resources and Accounts Act 2000 (GRAA)[5]. Whilst the GRAA created an obligation for Treasury to prepare WGA annually, it left the timetable for publication to be set at a later date.

1.9 The initial aim was to produce an audited account covering the central government sector for 2005-06. This was delayed until 2007-08 when the scope of the account was extended to include local government, NHS and public corporations. It was subsequently agreed that central government departments would move to IFRS, and so in the 2008 Budget, the then Chancellor announced that WGA would be published for 2009-10, in line with the move to IFRS in the central government sector.

1.10 Dry run accounts, starting in 2001-02, were initially produced for central government only, and were expanded to include local government, NHS and public corporations from 2005-06. The dry runs were used to inform the development of policies, processes and procedures. As part of the dry run process, progressive steps were taken to harmonise accounting standards across the public sector.

1.11 In 2010, the necessary parts of the GRAA were activated to enable publication. After consultation with the Comptroller and Auditor General (C&AG), it was agreed that:

- HM Treasury shall send accounts to the C&AG by the 28th February of the financial year following that to which the accounts relate;
- the Comptroller and Auditor General shall send the certified accounts and the report required by section 11(3)(b) of the Act to HM Treasury by the 31 October of the second financial year following that to which the accounts relate; and
- HM Treasury shall lay the accounts and report received under section 11(3)(b) of the Act before the House of Commons by 31 December of the second financial year following that to which the accounts relate.

The complexities of WGA

1.12 The UK has held a leading position in public sector financial reporting, and it will be the first country to publish information for the whole public sector. Internationally, consolidated financial statements are produced, but these consolidate only central government, falling short of the ambitious scope of WGA.

1.13 There are many challenges in producing this account, especially in the initial years of publication. These include:

- defining the coverage of the public sector and therefore which entities to include;
- the diversity of entities, which have a number of different statutory bases and different accounting frameworks, as well as accounting policies within those frameworks;
- the elimination of thousands of transactions and balances that exist between different parts of the public sector; and
- the scale of the data collection exercise.

1.14 These financial statements are produced by HM Treasury which is not the controlling parent of all the entities consolidated. This effectively places limits on what can be mandated in terms of data quality, disclosure preparation, interpretation of accounting standards, and timeframes. Resolving audit issues in the accounts of individual entities or financial management issues can therefore be outside the immediate control of HM Treasury.

1.15 WGA highlights these inconsistencies and complexities, and as a consequence action is being taken over time to ensure greater accounting consistency, better data quality, and therefore better information on which to make decisions. However, in the first few years of publication, these

[4] Laid before Parliament under Section 155 of the Finance Act 1998 in November 1998
[5] s.9-11 of the GRAA 2000

inconsistencies and complexities are expected to give rise to concerns, and possibly audit qualifications, by the Comptroller and Auditor General.

WGA process

1.16 HM Treasury issues a Designation Order for England and Wales, designating the entities which must provide WGA information. A separate Designation Order is issued for Northern Ireland entities, while Scotland uses administrative powers.

1.17 All government entities complete data collection packs based on their audited annual accounts, with additional information provided on transactions and balances with other WGA entities. Entities must have the information audited.

1.18 Transactions and balances between WGA entities are eliminated as part of the consolidation (for consolidation judgements see paragraph 1.21.2 in the Notes to the Accounts). The information from the different accounting frameworks also needs to be aligned to produce a consistent set of disclosures.

1.19 The financial statements, accompanying notes and annexes, and associated reports are prepared by HM Treasury, reviewing the overall picture that the financial information provides, and reviewing the accounts to see if it meets its objectives and presents a consistent set of disclosures that satisfy the accounting standards and provides a true and fair value of the accounts for the Whole of Government. This is subject to management review and audit.

Governance framework

1.20 The Director General for public services in HM Treasury is the Accounting Officer for WGA, and is accountable to Parliament for its preparation.

1.21 To support the Accounting Officer in his role, HM Treasury has formed a WGA Assurance Committee to provide advice to the Accounting Officer. The Assurance Committee members draw on a range of expertise to inform their advice. Committee members for the 2009-10 Account were:

- Ian Rushby (Chair) was a non-executive director of the Ministry of Defence and the Chair of its Audit Committee until 31 July 2011. He has held various business leadership, commercial, planning and control positions in BP plc, including Group General Auditor, and holds a number of non-executive directorships.
- Steve Freer is the Chief Executive of CIPFA. He is a board member of the Centre for Public Scrutiny and the Local Government Leadership Centre and is also an adviser to the International Federation of Accountants.
- Mike Hathorn is a partner at Moore Stephens LLP, leading the UK Public Sector Group. He is the former Chair of the International Public Sector Accounting Board and is a member of the Accounting Standards Board Committee on Accounting for Public-benefit Entities. He also chairs the Moore Stephens International and Europe Technical Committees, and holds a number of non-executive directorships.
- Roger Marshall is the interim Chair of the Accounting Standards Board and is a member of the Financial Reporting Council. He was an audit partner with PricewaterhouseCoopers, leading audits on a number of FTSE and other large multinationals, chairing PwC's Global Audit Policy Board and its global Corporate Reporting Task Force. He serves on several Boards and committees including Old Mutual plc where he is Chair of the Audit Committee.
- Richard Douglas is the Director General of Policy, Strategy and Finance at the Department of Health and, from 1 April 2011, Head of the Government Finance Profession.
- Jon Thompson is the Director General Finance at the Ministry of Defence and, until 31 March 2011, was Head of the Government Finance Profession.
- Simon Ridley is the Director of Local Government Finance at the Department for Communities and Local Government with responsibilities to develop and maintain a framework for local

government finance that supports the Government's fiscal consolidation, economic growth, localism and public service reform objectives.

- **Adam Sharples** was the Director General for Employment at the Department for Work and Pensions until 30 September 2011 with responsibilities for design and delivery of employment programmes and reducing child poverty.

Institutional framework

1.22 WGA sits within a broad framework of institutions and publications that contribute toward public understanding and trust in Government accounts and fiscal statistics. In summary:

- the independent Office for National Statistics publishes timely economic and fiscal statistics, consistent with the internationally-agreed National Accounts framework. These figures are used for fiscal policy-making, and for international and historical comparisons;
- each public sector entity publishes audited annual accounts consistent with its agreed accounting framework;
- the National Audit Office, the Audit Commission, audit bodies in the devolved administrations and private sector audit bodies scrutinise and challenge these accounts, and produce an audit report on each;
- WGA consolidates these accounts to produce a consistent snapshot of the public sector financial position in a given year. As well as providing a coherent set of financial statements, this offers insights into the long-term sustainability of the public finances; and
- the Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances through its annual Fiscal Sustainability Report, which, among other sources of information, draws on the aggregates published in WGA.

1.23 As with the National Accounts, WGA does not offer the Government a set of policy prescriptions. Nor is it the primary tool for controlling expenditure and ensuring value for money. Its role is to provide a consolidated view of the Government's finances, with particular added value in the presentation of forward-looking liabilities.

2 Introduction

The scope of WGA

2.1 WGA includes about 1,500 bodies from central government, the devolved administrations, local government, the health service and public corporations as listed in Annex 1. This is broken down as follows, (summarised in chart 2.1):

- central government bodies, which are directly accountable to the UK Parliament, except for the Scottish Government, Welsh Assembly Government, and Northern Ireland Executive, which are accountable to their respective parliaments and assemblies;
- non-departmental bodies are a mixture of crown and non-crown bodies that undertake a range of functions and are accountable through their sponsoring departments to their respective parliaments and assemblies;
- NHS bodies are accountable to the Department of Health and the devolved administrations, while Foundation Trusts are accountable to Monitor (an independent regulator established to monitor the performance of Foundation Trusts);
- academies provide education to children of school age and are funded by the Department for Education;
- local government includes local authorities, police and fire authorities, national park authorities, waste disposal authorities and other bodies classified to local government by ONS, such as Transport for London. Local and police and fire authorities are accountable to their local communities. Transport for London is accountable to the Mayor of London; and
- public corporations are created by statute (i.e. specific legislation) and are accountable to their respective parliaments and assemblies.

2.2 HM Treasury identifies the entities to be included in WGA in accordance with the legislation that required WGA to be prepared[6]. It is required to include entities that "exercise functions of a public nature" or that are "substantially funded from public money". The Treasury's decisions are consistent with the classification of entities to the public sector by the ONS. This is because the ONS takes account of these factors when making their classification decision as well as the degree of control that government has over each entity. As a result, the scope of WGA is similar to those included to produce other fiscal measures. This enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances.

2.3 WGA excludes a number of entities largely for pragmatic and materiality reasons. More information on these is available in Annex 2 and Annex 3 to these accounts.

[6] Section 9 of the GRAA 2000

Chart 2.1: Composition of bodies within WGA

<table>
<tr><td rowspan="4">Central government</td><td rowspan="4">Central government departments, including devolved administrations</td><td>Non-departmental public bodies</td></tr>
<tr><td>NHS Trusts</td></tr>
<tr><td>Foundation Trusts</td></tr>
<tr><td>Academies</td></tr>
<tr><td rowspan="4">Local government</td><td>England</td><td>Includes local authorities, police and fire authorities, and Transport for London</td></tr>
<tr><td>Scotland</td><td>Includes local authorities, and police and fire authorities</td></tr>
<tr><td>Wales</td><td>Includes local authorities, and police and fire authorities</td></tr>
<tr><td>Northern Ireland</td><td>Includes local authorities, and police and fire authorities</td></tr>
<tr><td rowspan="3">Public corporations</td><td>Trading funds</td><td></td></tr>
<tr><td>Public corporations</td><td></td></tr>
<tr><td>Other bodies</td><td></td></tr>
</table>

The objectives of WGA

2.4 The aim of WGA is to enable Parliament and the public to understand and scrutinise how taxpayers' money is spent. In particular, its objectives are to improve:

- Transparency: the accounts are prepared using standard accounting conventions that allow a wide range of users to understand the presentation of the figures and the framework that drives the numbers. Publication of the account supports the Government's agenda to make available more public data;
- Accountability: independent audit of the accounts by the NAO gives both Government and the outside world greater confidence in the figures supporting effective scrutiny by Parliament;
- Completeness: WGA brings together data similar to those produced for the Budget Report, the monthly Public Sector Finances report, the Public Expenditure Survey Analysis (PESA) and the National Accounts, but additionally includes data on public service pension assets and liabilities, provisions, PFI, future contract expenditure and contingent liabilities that are not included in these other data sources;
- Comparability: consistent data are required from all constituent bodies, and WGA is acting as a catalyst for the convergence of accounting policies across the public sector, enabling direct comparability of financial data; and
- Complementary information: there is a more complete and reliable balance sheet analysis of the Government's capital and long term financing positions, an accruals view of income and expenditure for the year, and more complete cash flow data which can support long term fiscal analysis and decision making.

2.5 The main objective for the 2009-10 account, as the first set of consolidated financial statements for the public sector, was to prepare a set of financial statements of a quality that could be audited and published. The Comptroller and Auditor General has provided his opinion on WGA, and whilst this opinion and associated report highlight that there are improvements that need to be made to achieve full compliance with regulatory and statutory requirements, there are many positives that can be taken from this first publication.

2.6 In July 2011, the Government published an unaudited summary report for 2009-10. This report enabled the Office for Budget Responsibility (OBR) to build into its analysis of the UK's fiscal sustainability (*Fiscal Sustainability Report*[7]) information about existing liabilities, which were not previously published in a consolidated form. This immediately put WGA to good use and, over time, WGA's value is expected to increase to those scrutinising the Government's financial performance and to decision makers, particularly as time series data become available.

2.7 The publication of the 2009-10 account marks the beginning of a new chapter in government reporting. Further developments are to come, and Annex 5 describes the steps that are planned over forthcoming years to ensure that WGA is more complete and internally consistent. In this context, the main objectives for the 2010-11 account are to:

- improve the consistency of the accounts by ensuring that all local government data are on an IFRS basis;
- address inconsistencies around PFI reporting, which will improve the disclosure of existing commitments;
- include the Bank of England for the first time; and
- bring forward certification of WGA by two months.

2.8 This 2009-10 account delivers the basic objectives of WGA. There is more to do to deliver all the objectives, but good progress has been made and this will be sustained to realise the full benefits of WGA.

[7] Fiscal Sustainability report (www.obr.gov.uk)

3 Commentary

Economic and fiscal context

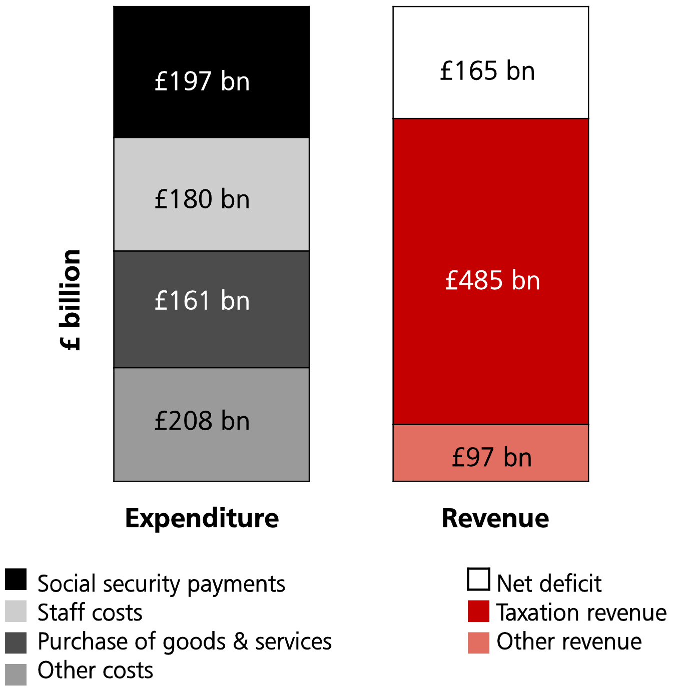
3.1 The financial position of the government in 2009-10 reflected the performance of the economy in that year, the structural levels of receipts and expenditure, the financial position in previous years, and Government policy decisions. The year was dominated by the financial crisis and recession, with the economy 4.9 per cent smaller than pre-crisis levels[8]. The public sector fiscal deficit was at a post-war peak. Tax receipts are closely linked to the performance of the economy, and therefore reflected reduced employment, earnings and profits. Public spending reflected the impact of the recession on cyclical areas of expenditure, such as social security, and the policy decisions of the Government of the day. Claimant count unemployment was 1.54 million, while the unemployment rate was 8.0 per cent at the end of March 2010.

Key figures

3.2 The Statement of Revenue and Expenditure sets out the scale and nature of the flows to and from the government. It shows that, in 2009-10, the public sector:

- received £582 billion in taxation and other operating revenue, including income of £285 billion from direct taxation, £148 billion from indirect taxation, and £52 billion in local taxation;
- spent £666 billion, including £197 billion on social benefit payments, and £180 billion employing staff. The largest elements of social benefit were the state pension at £70 billion, and tax credits at £27 billion. Staff costs included £151 billion in wages and salaries;
- incurred £81 billion on financing the deficit, debt accrued in previous years, interest on the pension liability, and gains and losses on assets; and therefore
- faced a total net deficit on an IFRS basis of £165 billion (12% of GDP).

Chart 3.1: Summary of revenue and expenditure

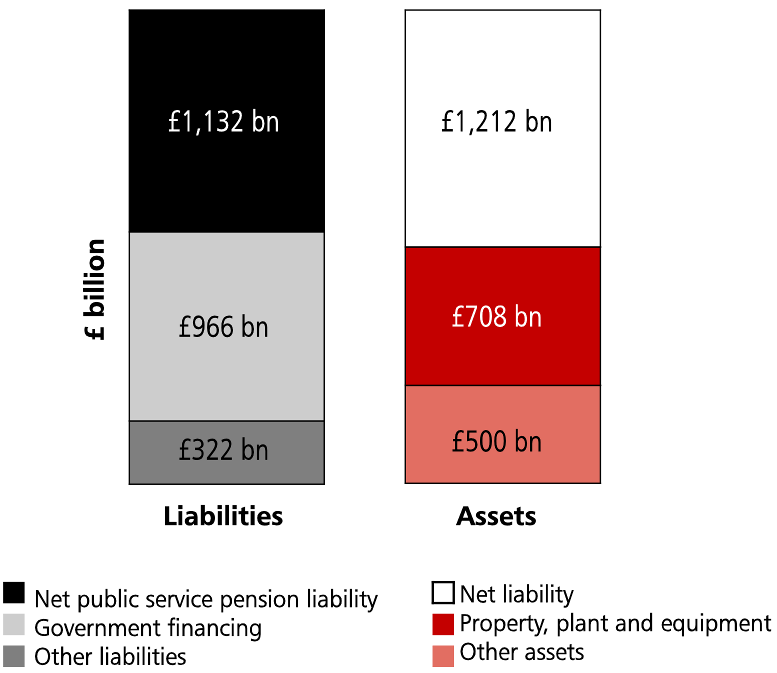


[8] As a measure of Gross Domestic Product (GDP) from December 2008 to December 2009 (ONS 'The Blue Book' 2010 edition)

3.3 The Statement of Financial Position sets out the assets held and liabilities owed by the government, in a snapshot of the public sector balance sheet as at 31 March 2010. It shows that, at 31 March 2010, the public sector:

- held assets valued at £1,208 billion, including:
    - £708 billion of property, plant and equipment, including buildings, infrastructure, equipment, hardware and software, PFI assets, plant and machinery, transport assets, and a range of other assets;
    - £65 billion of equity investments in public sector banks;
    - £166 billion of trade and other receivables, including £81 billion of accrued tax revenue, £28 billion of student loans, and £26 billion of tax receivables before provisions; and
    - £269 billion of other assets, including £58 billion of loans and advances by HM Treasury to financial institutions and £68 billion of other loans and deposits with banks.
- had total liabilities of £2,419 billion, including:
    - a £1,132 billion liability for public service pensions;
    - £966 billion of government borrowing and financing in the form of government gilts, treasury bills and National Savings & Investments products;
    - £102 billion of provisions; and
    - £220 billion of other liabilities such as trade payables, borrowings, deposits by or from banks, and other payables.
- The public sector therefore faced a total net liability of £1,212 billion on an IFRS basis, or 85% of GDP[9].

Chart 3.2: Summary of assets and liabilities



3.4 The servicing of this liability and the ongoing provision of public services is mainly met by tax revenue receipts. The Government has the ability to amend its taxation policy and framework from time to time to ensure these funding requirements are met. For this reason, the Accounting Officer adopts the going concern basis in preparing these financial statements. The nature of government financing is such that WGA can be expected to show a net liability.

[9] Nominal GDP centred on 31 March 2010.

3.5 The key figures above show the net position after balances and transactions between public sector bodies have been eliminated. They report the income received from households and businesses outside the public sector and on the same basis the expenditure incurred and paid.

Revenue

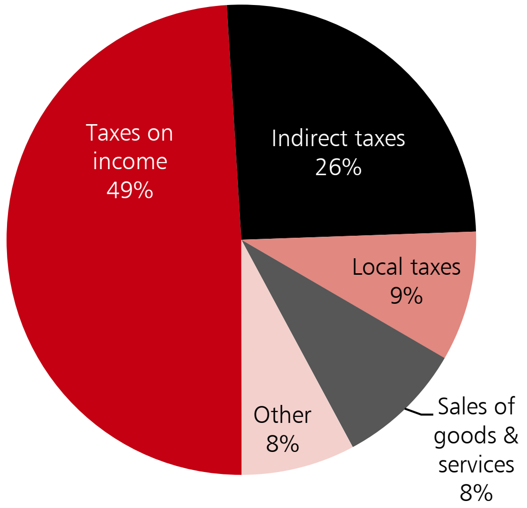


Chart 3.3: Composition of revenue (£582 billion)

3.6 The primary source of income is taxation (£485.3 billion), being 84% of total public sector receipts. Taxes can be direct, indirect or collected by local authorities. The primary purpose of the tax system is to raise revenue to fund public services and the delivery of other Government objectives.

Taxes on income

3.7 Taxes on income are direct taxes in that they are borne entirely by the entity that pays them, and cannot be passed on to another entity. The major components of taxes on income were income tax (£152.6 billion), national insurance (£90.4 billion), and corporation tax (£37.8 billion).

3.8 Income tax is applied to the total income of the individual from employment or income earned from self-employment in the case of unincorporated businesses. Therefore the Government's revenue stream from income tax is dependent on salaries and wages earned by individuals and levels of employment, and therefore it is driven by the economic cycle, particularly the labour market cycle. This is also the case for National Insurance Contributions (NICs).

3.9 Corporation tax is levied on profits made by companies or associations. The current economic climate is a key determinate in the profitability of many companies, and a recession will typically have a significant adverse effect on corporation tax receipts.

Indirect taxes

3.10 Indirect taxes are taxes on spending. The main components of indirect taxes were Value Added Tax (VAT) (£76.1 billion), excises duties (£25.1 billion) and hydrocarbon oils duty (£26.3 billion).

3.11 VAT is principally a tax on consumption, levied on the value added at each stage of production of goods and services. The Government's revenue stream from VAT reflects the level of GDP and is impacted by changes to the VAT rate.

3.12 Excise duties, such as alcohol duty, are dependent on the consumption of the product and changes in rates of duty. Consumption trends tend to follow the economic cycle, and in a downturn people tend to consume less than when the economy is stronger.

3.13 Hydrocarbon oils duty or fuel duty is also consumption led but is less cyclical than other tax revenue streams.

3.14 Taxes on income and indirect taxes were collected by Her Majesty's Revenue and Customs. Further information is available in its 2009-10 accounts which can be found on its website: www.hmrc.gov.uk

Local taxes

3.15 Local government taxes are administered and collected by local authorities and help pay for local services provided by local government such as social services, policing, waste collection and transport. Council tax is retained by local authorities, while national non-domestic rates are levied on local businesses and returned to central government. Council tax amounted to £29.4 billion and national non-domestic rates to £22.7 billion. Council tax revenue is driven by the number of occupied properties and the annual rate set by authorities.

3.16 National non-domestic rates or business rates are collected by local authorities, placed in a general pool and then redistributed back as part of their formula grant. It is calculated as a percentage of the rateable value of non-domestic properties and is a fixed cost to the occupier, payable regardless of revenue or profit, and so is less cyclical than most other tax revenue streams.

Non-tax revenue

3.17 The major component of non-tax revenue was revenue from the sale of goods and services. Local authorities received revenue from services provided to the public (£28.3 billion), including fare revenue from the London bus and underground transport service (£3.4 billion). Revenue streams were earned by public corporations for services (£16.1 billion), such as postal services (£8.4 billion).

3.18 Income was also received from fees, levies and charges made by central government entities to recover the cost of services, rental income from social housing, grants from the EU, and receipts into pension schemes from employees, and also receipts from those employers that are not an entity within WGA.

Expenditure excluding finance costs

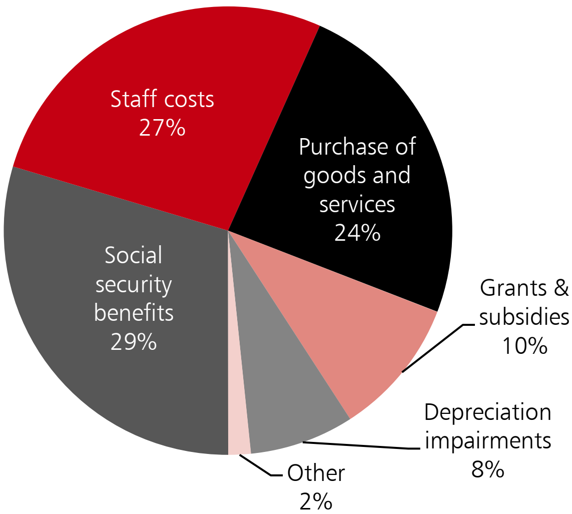


Chart 3.4: Composition of expenditure excluding financing costs (£666 billion)

Social security benefits

3.19 Social security benefits comprised payments made by central government and local government in accordance with the relevant statutory requirements. Social security costs are affected by the level of unemployment and the state of the economy, so to this extent they are cyclical. The state pension is driven largely by demographic trends.

3.20 The state pension was the largest benefit (£69.5 billion), followed by tax credits (£26.8 billion), housing and other local government benefits (£27.9 billion) and disability living allowance (£17.7 billion).

Staff costs

3.21 Staff costs were the net cost to the government of employing staff in the public sector including those involved in the delivery of front line services. As a consequence, they do not include national insurance and some pension costs, as they were not a net cost to the public sector. Staff costs include the salaries of permanent staff, temporary staff and contractors. More details of staff costs and numbers are provided in Note 7.

3.22 The majority of staff costs were incurred by central government. This was £114.9 billion, including staff costs in the health sector (£38.1 billion) and on defence (£12.2 billion), before eliminations of national insurance and pension costs. Local government staffing costs were £79.1 billion before eliminations of national insurance and pension costs, which include the costs of providing teachers, police and fire services. The remainder of staff costs were incurred by public corporations.

Purchase of goods and services

3.23 Goods and services were purchased to meet operational requirements. This included the maintenance of public sector buildings, such as schools and hospitals, maintenance of the London underground network, maintenance of the road network, the purchase of equipment for the armed forces, materials for schools, and medicines, as well as administrative costs, such as rent and utilities. The value of goods and services purchased by central government was £83.7 billion (which included military spend and health), £68.9 billion by local government (which included Transport for London and the majority of schools), and £8.3 billion by public corporations.

Grants and subsidies

3.24 The public sector makes grant and subsidy payments to private sector and third sector organisations to deliver public services or to facilitate their delivery. Grants can be given to fund the creation of new assets (capital grants), or to support ongoing services (revenue grants or subsidy payments). Total grants and subsidies were £66.2 billion, of which £15.6 billion were capital and £50.6 billion were revenue. The largest grants were in relation to education services funded by the Learning and Skills Council and Higher Education Funding Councils (£20.4 billion) and the UK's contribution to the European Union's budget (£6.4 billion).

Depreciation and impairments

3.25 Depreciation and impairment charges for the year were £51.6 billion. This comprised depreciation and amortisation of tangible and intangible non-current assets of £25.1 billion, impairments £25.9 billion, and revaluations £0.6 billion.

3.26 Impairments included £18.1 billion of permanent reductions to the value of non-current assets, such as property, that reduced their value below their original value. The value of impairments was driven by reductions to the value of land, buildings and dwellings, following falls in the property market.

3.27 Impairments to receivables of £7.8 billion, including £5.7 billion of irrecoverable tax-related debts, were driven by a prudent view of what receipts could be collected, given the prevailing economic conditions.

Net financing cost

3.28 The net financing cost of £80.5 billion included interest on pension scheme assets (£58.9 billion) and finance costs (£34.9 billion). These are discussed below in relation to net public service pension liability (paragraphs 3.47 to 3.54) and Government borrowing and financing (paragraphs 3.55 to 3.57).

Working capital

3.29 Working capital is a measure of current assets less current liabilities and stood at negative £101.4 billion as at 31 March 2010. The negative position reflected current government financing liabilities of £200.9 billion, being gilts and Treasury bills to be repaid in 2010-11. The components of current assets and current liabilities are shown below.

Current assets

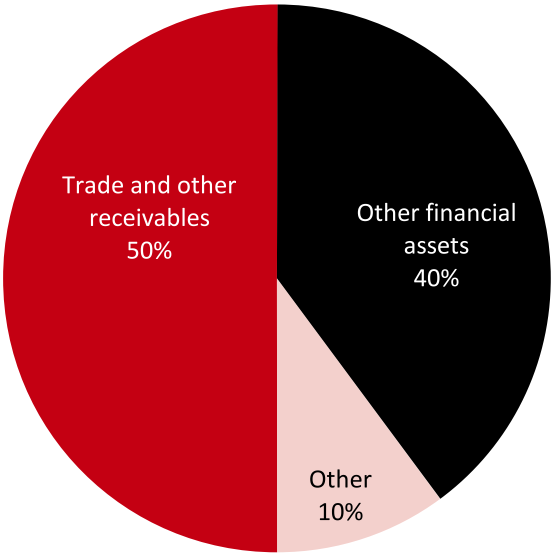


Chart 3.5: Composition of current assets (£254 billion)

3.30 Current trade and other receivables are amounts owed to the public sector due within the next year through the day to day operations of the public sector. Trade receivables included tax debtors (£23.8 billion) which are amounts notified to taxpayers but not yet collected. It also included an estimate of tax due but not yet advised to taxpayers (£80.9 billion). Tax estimates are necessary because tax reporting cycles mean that tax is generally paid and calculated after the period to which the tax related. By category, this estimate included income tax of £26.1 billion, value added tax of £22.1 billion, corporation tax of £13.0 billion and national insurance contributions of £11.5 billion.

3.31 Trade receivables included a current provision for bad debt of £18.2 billion. The majority of this related to tax, where the estimate of tax at risk of not being collected is £10.9 billion. The provision for irrecoverable debts reflected legal costs that arose as a result of legal proceedings against taxpayers for the recovery of outstanding tax liabilities, penalty receivables to allow for the remission of uncollectable penalties, and child benefit receivables to allow for potentially irrecoverable amounts. All provisions were estimated, having regard to the level of debts not recovered during 2009-10 and earlier years.

3.32 Other current financial assets included funds advanced to banks and central clearing counterparties under reverse sale and repurchase agreements (where securities were held as collateral and then returned when the funds were returned) of £48.1 billion, the Government's holdings of debt securities issued by foreign governments of £23.8 billion, and the holding of International Monetary Fund (IMF) Special Drawing Rights of £9.2 billion.

3.33 Other current assets are predominately inventories which included consumable items such as military equipment and medical items, as well as finished goods for resale and assets to be sold under long term contracts. The Ministry of Defence held 58% (£7.2 billion) of all public sector inventories. The Ministry of Defence received an audit qualification in respect of its inventory; details are available in its 2009-10 accounts.

Current liabilities

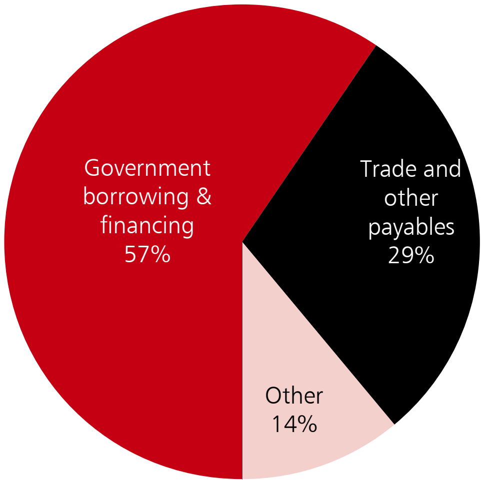


Chart 3.6: Composition of current liabilities (£355 billion)

3.34 Trade and other payables are the amounts of money owed by the public sector to private and third sector suppliers, households, and financial and international institutions. As at 31 March 2010, trade and other payables comprised: trade and other payables for goods and services provided to the private and third sector (£43.1 billion), accruals and deferred income for goods and services received but not invoiced at the year-end or monies received for services not yet provided (£30.0 billion), and amounts owed to taxpayers in respect of tax overpayments, refunds and receipts in advance of the tax period (£22.4 billion). With the exception of tax creditors, which were largely in HMRC, no one part of the public sector contributed significantly to these creditor balances.

3.35 The trade payables balance reflected the government's supplier payment policy for central government. From November 2008, the government introduced a 10 day payment target for Small and Medium Enterprise (SME) suppliers to receive payment.

3.36 Other financial liabilities included amounts that banks deposited with government of £18.1 billion as part of the government's cash management operations, and a liability to the International Monetary Fund (IMF) for the UK's allocation of IMF Special Drawing Rights of £10.1 billion.

3.37 Government borrowing and financing is discussed in more detail in paragraphs 3.55 to 3.57 below.

Non-current assets

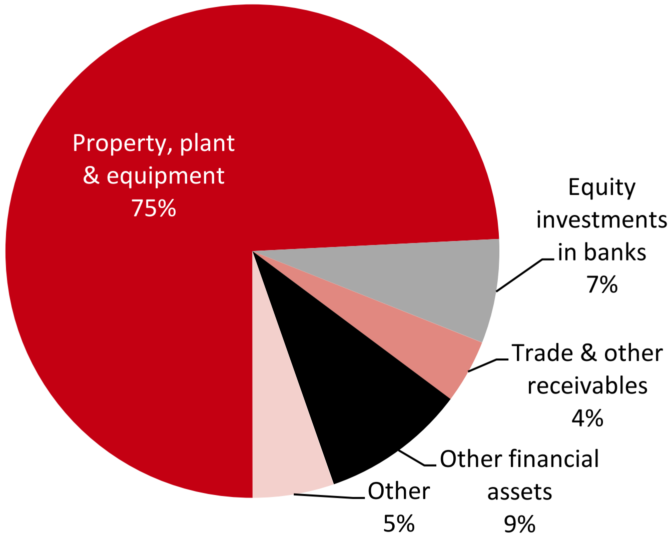


Chart 3.7: Composition of non-current assets (£954 billion)

3.38 Property, plant and equipment include all of the assets owned by the public sector to carry out its functions. It included £354.1 billion of land, buildings and dwellings (e.g. schools, hospitals and social housing), £233.0 billion of infrastructure (e.g. roads and the London Underground), and £36.0 billion of military equipment. The public sector made £46.7 billion of capital investment during the year, with new investment exceeding the depreciation of existing assets of £23.0 billion. This was in part influenced by the decision by the then Government to bring forward £3 billion of capital spending from financial year 2010-11 to financial years 2008-09 and 2009-10. However, taking into account impairments, particularly due to falling property values, net assets increased by £5.8 billion.

3.39 Impairments for property, plant and equipment in the year were £24.3 billion, including £20.1 billion due to falls in the value of land, buildings and dwellings, reflecting the market conditions, and £2.6 billion reflecting impairments in water and waste water systems.

3.40 Infrastructure assets include highways infrastructure assets (HIA) held by local authorities (£48 billion) and by the Highways Agency in central government (£86.9 billion). Local authorities prepared their accounts using historic costs as compared to the depreciated replacement cost basis (which better reflects the value of the asset) used by all other government entities. This means that local authority infrastructure assets are undervalued. The best proxy available for the depreciated replacement cost of local government HIA is the calculated asset value used by the Office for National Statistics from their perpetual inventory model, which estimated the value of the road network at £248 billion as at 31 December 2009. Therefore, infrastructure assets are likely to be understated by at least £200 billion. As required by HM Treasury, local authorities are working towards calculating a depreciated replacement cost valuation of HIA for inclusion in the 2012-13 Whole of Government Accounts.

3.41 Equity investments in the public sector banks totalled £65.3 billion at 31 March 2010. The government increased its investments by £39.8 billion in the year, as it provided an additional injection of capital in the Royal Bank of Scotland Group (£30.8 billion) and in Northern Rock plc (£1.4 billion) and purchased additional shares in Lloyds Banking Group plc to fund its redemption of preference shares (£7.6 billion). The value of the government's investments increased by £12.0 billion reflecting an improvement in the share value at 31 March 2010.

3.42 Other non-current financial assets included loans and advances to financial institutions by HM Treasury (£57.5 billion), equity investments other than in the public sector banks (£15.3 billion), and the UK's Quota Subscription to the IMF (£10.8 billion). Loans and advances to banks and other financial services entities included those made to Northern Rock (£22.9 billion), the Financial Services Compensation Scheme (£19.3 billion) and Bradford and Bingley (£10.7 billion). These loans are due to be repaid in accordance with agreed business plans and are interest-bearing. Equity investments include investments in the European Investment Bank (£5.5 billion), investments in international financial institutions (£3.3 billion), and repayable launch investments (£1.5 billion).

3.43 The majority of non-current trade receivables were student loans (£26.4 billion). This represented the value of student loans due to be collected after 1 April 2012. This reflects an estimate of the present cost of subsidising interest on loans over the life of the loan (interest subsidy impairment) and an estimate of the future cost of policy write offs (policy write off impairment), which reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student. Further details regarding student loans are available in the 2009-10 accounts of the Department for Business, Innovation and Skills.

3.44 Intangible assets held by the public sector relate primarily to IT software and associated development costs. The largest elements of intangible assets were military equipment, such as aircraft communication and software systems (£22.4 billion), development expenditure (£7.5 billion) and software licences (£3.4 billion).

Non-current liabilities

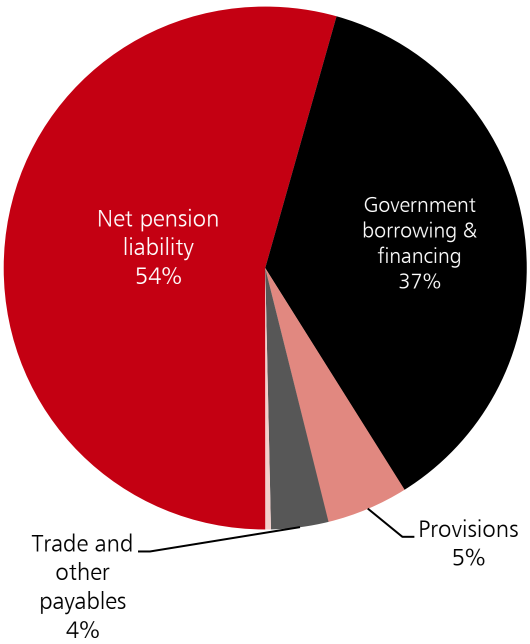


Chart 3.8: Composition of non-current liabilities (£2,064 billion)

3.45 Non-current trade and other payables included amounts payable under PFI contracts (£27.2 billion), bank and other borrowings falling due after more than one year (£25.8 billion), and amounts owed in line with contractual obligations (£9.8 billion). PFI contracts are discussed in more detail in paragraphs 3.66 to 3.69 below.

3.46 The largest non-current liabilities are net public service pension liabilities and government borrowing and financing. Details of these liabilities are in paragraphs 3.47 to 3.54 below (net public service pension liability), and 3.55 to 3.57 (government borrowing and financing). Other non-current financial liabilities included financial guarantees provided by the Government under a range of contracts of £6.0 billion.

Net public service pension liability

3.47 The Government operates a range of defined benefit pension schemes for past and present public servants. Schemes may be funded or unfunded and may be administered by central government departments, devolved administrations or other public bodies (such as local government bodies) or independent trustees. Information on the specific schemes can be found in the annual report of the relevant organisations.

3.48 Public service pensions formed a significant part of the Government's total liabilities, with a total net liability of £1,132.3 billion as at 31 March 2010. The pension liability increased by £330.3 billion in the year ended 31 March 2010, largely reflecting a decrease in the rate at which future payments were discounted to reflect their present value. Much of the information behind this increase has already been made available through publications by the major public service pension schemes.

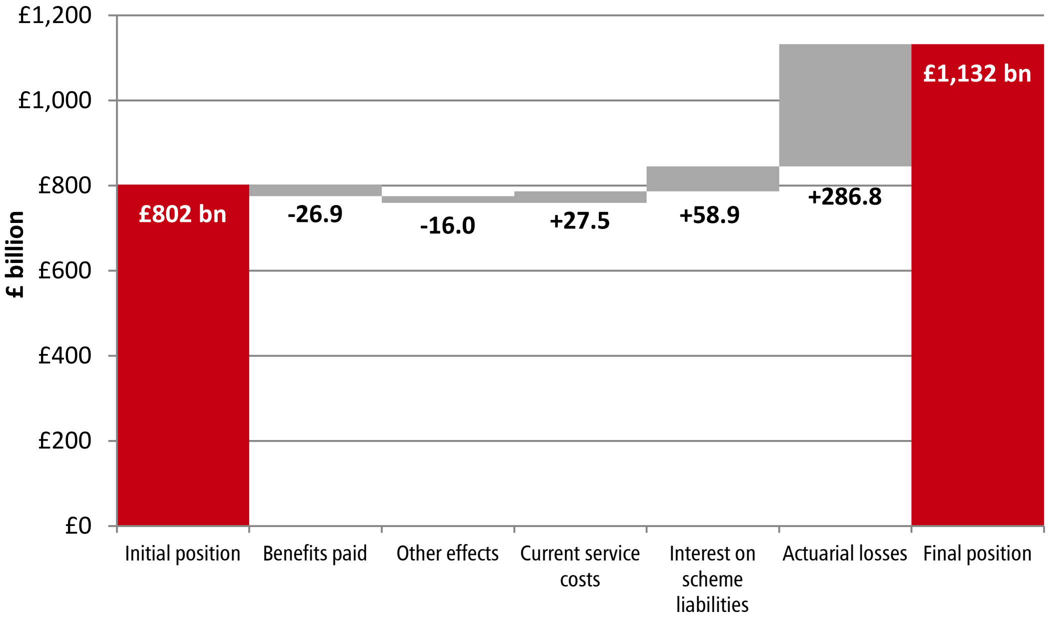
3.49 The scale of the net pension liability is determined by the way public service pension schemes are run, and how accounting standards stipulate it must be recorded. Total pension liabilities reflect the net present value of the total liability owed to current pensioners, deferred pensioners who are no longer in employment but are waiting to receive a pension when they reach retirement age, and current employees who will receive a pension on retirement. The liability allows for salaries projected to retirement or earlier leaving date, but only reflects the number of years of service to date. The liability does not reflect the pension that may be paid to current employees in respect of future years of service to retirement or to future employees. The net pension liability takes account of scheme assets held by funded pension schemes. Hence, while the balance of liabilities versus assets does represent the total liability faced by the public sector as calculated under accounting standards, it represents only a partial assessment of how pensions will affect the public finances in the future.

3.50 The major public service schemes, with the exception of the local government scheme, are unfunded. Pension payments for funded pension schemes were met by contributions made by the employer and employees. For unfunded schemes, expenditure on pension payments was met from employer and employee contributions, after netting off inwards and outwards pension transfers, with any shortfall financed from general taxation. The liability will be paid out over time as employees retire and draw their pension over a number of years.

3.51 A number of key assumptions were used to calculate public service pension liabilities. These include the rate of increase in salaries and pensions indexation as well as the discount rate. As with all long-term economic projections, these assumptions are inherently subject to significant uncertainty. The value of the public service pension liability is very sensitive to changes in these assumptions.

3.52 The chart below shows an analysis of the change in the net public service pension liability over 2009-10. Actuarial gains and losses were the largest source of movement in the pension liability, with the majority of this change relating to the movement in the discount rate.

Chart 3.9: Change in the net public service pension liability in 2009-10



3.53 The accounting standards require that entities set the discount rate reflecting the yield on high quality corporate bonds. Central government schemes use a centrally set real discount rate determined by HM Treasury, having obtained advice from the Government Actuary's Department. Other entities set their own discount rate, generally after obtaining the advice of an actuary. The centrally set discount rate in excess of the Retail Prices Index (RPI) changed from 3.2 per cent as at 31 March 2009 to 1.8 per cent as at 31 March 2010, reflecting movements in real yields on high quality corporate bonds, which were used as the basis for the discount rate calculation.

3.54 The central government inflation assumption reflects the long-term assumption for the RPI used in Treasury forecasting at that time. As announced in the June 2010 Budget, from 2010-11 the inflation assumption for public service pensions will be based on the Consumer Prices Index (CPI) rather than the RPI. CPI is generally lower than RPI over the long term, which is likely to reduce the value of the pension liability in the individual accounts of WGA entities, for the 2010-11 accounting period onwards.

Government borrowing and financing

3.55 As at 31 March 2010, the Government had current borrowing and financing liabilities due to be repaid within a year of £200.9 billion, comprising National Savings and Investment products (£98.8 billion), treasury bills (£63.0 billion) and gilt edged securities (£39.1 billion). In addition, it had non-current gilt edged securities of £764.7 billion that need to be re-paid over longer periods than a year.

3.56 Gilt-edged securities, or gilts, are UK Government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Prices Index. As the Government's debt manager, the Debt Management Office (DMO) sells gilts to the market to ensure sufficient funding is available to meet the Government's financial commitments. National Savings and Investments (NS&I) is one of the largest providers of savings and investments in the UK and the products also provide financing to the Government. In addition, the DMO issues treasury bills and undertakes other money market operations to meet the Government's daily cash requirements.

3.57 The UK made total interest repayments of £30.7 billion in 2009-10. Financing expenditure was driven by securities issued previously, the quantity of securities issued over the course of the year, and the long-term interest rates which applied at the time.

Provisions

3.58 Provisions represent the best estimate of the liability for an expected future expense, arising from events that have happened in the past, that have been discounted to present value. The Government's obligations are reviewed on a regular basis and provisions are updated accordingly. As at 31 March 2010, provisions amounted to £101.6 billion. The most significant amounts were the nuclear decommissioning provision and the provision for clinical negligence.

3.59 The provision of £56.7 billion for nuclear decommissioning included the cost of dealing with radioactive waste, nuclear fuels and materials, capital facilities, redundant facilities and contaminated materials. The provision and recoverable balances were expressed at current price levels to take account of the time value of money for the very long timescales over which work will be carried out, currently expected to be over 100 years. The ultimate liability will vary as a result of the subsequent information and events, and may result in significant changes to the overall costs of decommissioning.

3.60 The clinical negligence provision of £15.7 billion represented the likely value of future claims payments. This calculation is based upon the discounted gross value of all claims received together with an actuarial calculation to estimate the value of incidents which have occurred but not yet been reported. Clinical negligence claims which may succeed, but which were less likely or cannot be reliably estimated, are disclosed as contingent liabilities.

3.61 In October 2008, the government announced its intention to set up an Asset Protection Scheme (APS). At 31 March 2009, HM Treasury estimated its commitments under this scheme. However, as confidence returned to the banking sector, Lloyds Banking Group decided not to participate in the scheme and revised data from the Royal Bank of Scotland showed an improved picture. The provision of £25 billion created at 31 March 2009 was therefore reversed, and was the key driver in reducing the government's total provisions from £129.6 billion at the beginning of the financial year to £101.6 billion at 31 March 2010.

3.62 The Government also held a number of other provisions, including provisions for the European Economic Area, medical costs and industrial diseases, such as asbestos-related diseases.

Contingent liabilities

3.63 Contingent liabilities are liabilities associated with events that, while possible, are considered sufficiently improbable (or unquantifiable) that they are not included in the Statement of Financial Position. WGA includes those contingent liabilities that were disclosable in accordance with accounting standards, and also goes further to show other commitments, even though the likelihood of them occurring is considered to be remote.

3.64 The majority of the Government's contingent liabilities arose from the guarantees and indemnities provided as part of the financial stability interventions. As detailed in HM Treasury's 2009-10 accounts, they included:

- the Special Liquidity Scheme (£165 billion);
- an agreement to provide contingent capital to the Royal Bank of Scotland (£8 billion);
- an agreement to provide capital to meet regulatory requirements of Northern Rock Plc and Northern Rock (Asset Management) Plc (£1.6 billion);
- financial stability interventions, where the likelihood of the liability crystallising is remote, for example, total potential exposures for the Bank of England Asset Purchase Facility (£200 billion), the Asset Protection Scheme (£153.8 billion), the Credit Guarantee Scheme (£125 billion), and guarantees and indemnities in relation to Northern Rock Plc (£23 billion) and Bradford & Bingley Plc (£6.8 billion); and
- non-quantifiable contingent liabilities arising from the financial interventions.

3.65 There were a number of other potentially significant contingent liabilities, details of which can be found in the accounts of the relevant department. These include:

- legal claims, compensation claims and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made;

- commitments made by a number of WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded. This included the Financial Assistance Scheme in relation to certain fully funded pensions and other associated benefits in qualifying schemes, as detailed in the 2009-10 accounts of the Department for Work and Pensions;
- indemnities to cover civil nuclear liabilities and claims for damage caused by nuclear matter in the course of carriage, as detailed in the 2009-10 accounts of the Department for Business, Innovation and Skills;
- indemnities and guarantees in respect of rail franchising agreements, and the Network Rail debt issuance programme and standby credit facility, as detailed in the 2009-10 accounts of the Department for Transport;
- the UK's share of European Commission guarantees to EU Member States and Third Countries in respect of borrowing and lending operations, guarantees to the European Investment Bank (EIB) in respect of lending to UK Overseas Territories, and callable capital on investments in international financial institutions, including the EIB and regional development banks, as detailed in the 2009-10 accounts of the Consolidated Fund and the Department for International Development;
- assets backing the notes in circulation not represented by Government securities, and the value of UK coins in circulation, as detailed in the 2009-10 accounts of the National Loans Fund and the Consolidated Fund;
- reinsurance arising from acts of terrorism, as detailed in the 2009-10 accounts of HM Treasury; and
- guarantees, indemnities and letters of comfort in respect to the Olympic and Paralympic Games, as detailed in the 2009-10 accounts of the Department for Culture, Media and Sport and the Olympic Delivery Authority.

Private Finance Initiative

3.66 Private Finance Initiative (PFI) projects are schemes involving the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk to the private sector, including the design, construction, maintenance and operation of the asset. In return, the Government pays an annual charge over the lifetime of the contract, which is typically 25-30 years.

3.67 There are three key elements to the annual charge: the service element to run the project (which could include cleaning, catering, maintenance and security), repayment of the capital asset built and interest on the capital. The interest payable on these existing capital commitments was £33.4 billion for the year ended 31 March 2010.

3.68 The majority of the 609 PFI contracts reported by entities included in WGA were held by central government (including the NHS) and local government. Over the course of the 2009-10 financial year, 39 PFI projects were signed, with a total capital value of £4.4 billion.

3.69 At 31 March 2010, the net book value of PFI assets was £30.9 billion and the associated liability for capital repayments was £28.1 billion. The present value of future obligations was £131.5 billion, including service charges and some life cycle replacement costs. The amount of service charges includes an estimate of £6.4 billion, using current year service charges multiplied by the average remaining years left on the PFI contracts, where total service charges were not available from individual WGA entities.

Financial sector interventions

3.70 In response to the financial crisis in 2008 and 2009, the then Government made a number of interventions in the financial sector. These included equity investments in banks which were classified to the public sector, as well as the creation of the Special Liquidity Scheme, the Bank of England Asset

Purchase Facility and the Asset Protection Scheme. The Special Liquidity Scheme was created in 2008 to encourage banks to lend to each other, by allowing banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills. The Asset Purchase Facility was created in January 2009 to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK, and for monetary policy purposes. The Asset Protection Scheme was created in January 2009 to provide certainty and confidence to banks in their lending, when the Government offered capital and asset protection on assets most affected by the current economic conditions. These all hold assets against Government liabilities, and the Government stands behind these schemes and has provided financial guarantees and indemnities. To the extent that these guarantees and indemnities were expected to be drawn upon, amounts have been included in the accounts and shown in Note 32. Otherwise, they are shown as contingent liabilities in Notes 33 and 34. The Government also provided support to financial institutions in the form of loans and advances, shown in Note 21. The equity investments in the public sector banks are shown in Note 18.

3.71 UK Financial Investments Limited (UKFI) was established to manage the Government's shareholdings in UK financial institutions acquired in 2008 and 2009 through recapitalisation and other financial stability interventions. UKFI is responsible for managing the Government's shares in Royal Bank of Scotland Group Plc, Lloyds Banking Group Plc, Northern Rock Plc, Northern Rock (Asset Management) Plc and Bradford & Bingley Plc (see Note 37 to the Accounts).

3.72 The financial statements of the public sector banks have not been included in the 2009-10 WGA. The Bank of England will be fully consolidated for 2010-11. We propose over time to consolidate Northern Rock (Asset Management) plc and Bradford and Bingley into WGA, as they are expected to be a permanent part of government until their mortgage books have expired. The remaining banks will continue to be held as available-for-sale financial assets and liabilities. Their scale would dwarf other aspects of WGA, distorting the accounts and, therefore, making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of public sector banks in the long term and, in due course, they will return to the private sector. For example, the Chancellor announced in June 2011 the decision to pursue the sale of Northern Rock plc. Where the financial interventions have had a direct effect on the public sector balance sheet, such as through the purchase of equity, this is reflected in the accounts.

Events since 31 March 2010

3.73 Since the accounts of the individual entities that form WGA were prepared there has been a number of events that could have a bearing on the balance sheet position as at 31 March 2010. These events are shown in Note 39 to the Accounts). The most significant events have arisen as a consequence of the change of government following the General Election on 6 May 2010. Subsequently the Government has introduced a number of reforms which will impact on future accounts. For example, changes are being introduced into the way pensions are calculated, so that they are inflated on the basis of the consumer prices index rather than the retail prices index. This will reduce the size of the future pension liability.

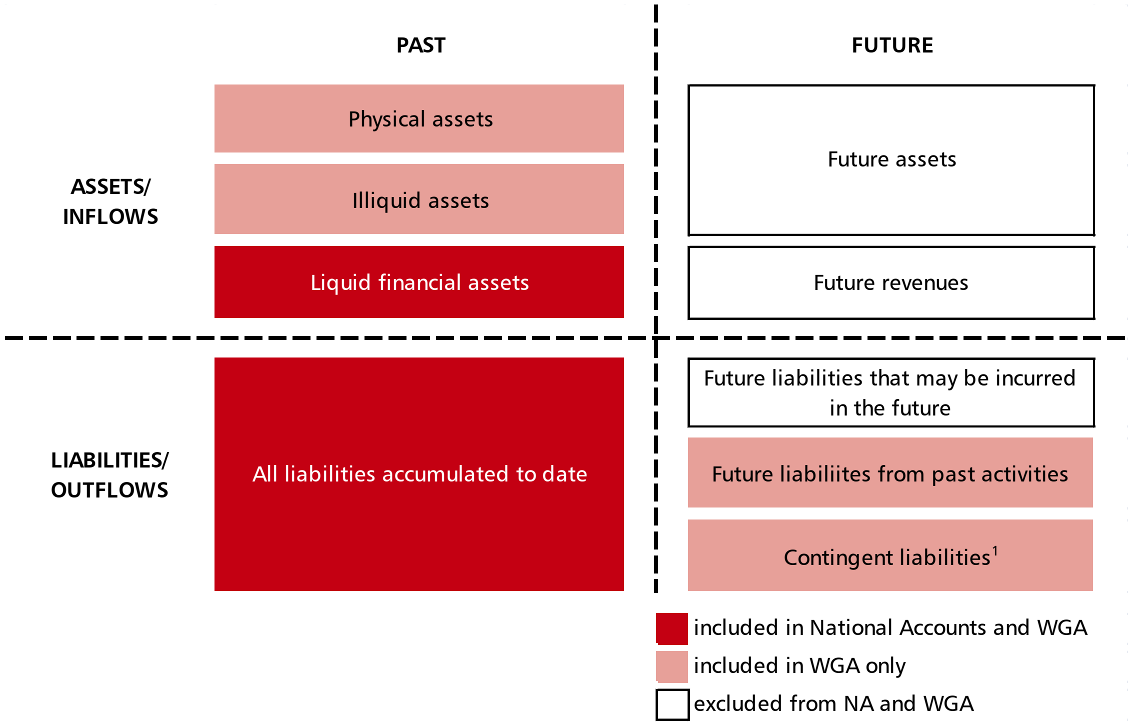
Comparison with National Accounts

3.74 WGA is a complement to, rather than a substitute for, the financial information the Government and other independent bodies already publish. WGA does not replace the statistics published by the independent Office for National Statistics (ONS), which follow the internationally agreed National Accounts system. The two systems of accounting have evolved independently of each other, use different international standards, and have been designed for different purposes. While the National Accounts remain the measures used to assess the economic and fiscal position of the UK for policy purposes, WGA provides an accounting standards-based presentation to offer new insights into long-term sustainability, as well as presenting the figures in a format familiar to the commercial sector and the wider accountancy profession.

3.75 The diagram below compares the coverage of the IFRS-based WGA measure of net liabilities and the National Accounts measure of net public sector debt. It offers a simple presentation of the differences between what National Accounts and WGA cover, split into the past and the future, and assets and liabilities. The key differences are that WGA measures of net assets and liabilities using IFRS include a full assessment of the Government's assets, including physical and illiquid financial assets, and include liabilities on future payments, such as public service pensions. WGA also discloses contingent liabilities.

3.76 Neither National Accounts nor WGA provide a complete assessment of the future fiscal position of the public sector. Both exclude future tax revenue, future assets, and liabilities that will be incurred in the future, such as future benefit and pension payments. WGA does include future liabilities from past activities and contingent liabilities, and so offers greater coverage of some future liabilities than in the National Accounts.

Chart 3.10: Coverage of WGA net liabilities and National Accounts measure of public sector net debt



[1] Contingent liabilities are reported in WGA but not included on the Statement of Financial Position

3.77 The ONS has recently published an article *Comparison between Public Sector Finance measures from the National Accounts and Whole of Government Accounts* (June 2011), which explains the main conceptual differences between the National Accounts and WGA. These conceptual differences have a direct impact on the calculation of fiscal aggregates, which are sourced from the National Accounts.

3.78 Two key fiscal aggregates published in the National Accounts are public sector net debt and the current deficit. The nearest equivalents in WGA are the total net liabilities and net deficit for the year. The key differences between the 2009-10 WGA and National Accounts[10] measures are explained below.

[10] As per the May 2011 ONS Public Sector Finances release, excluding financial interventions

High level reconciliation of public sector net debt

	£bn
Net liabilities (WGA)	**1,212**
Net public service pensions liability	(1,132)
Provisions	(102)
PFI contracts	(23)
Unamortised premium or discount on gilts	(16)
Tangible and intangible fixed assets	759
Payables and receivables	40
Investments	16
Other	6
Public sector net debt (National Accounts)	**760**

High level reconciliation of current deficit

	£bn
Net deficit for the year (WGA)	**165**
Public service pensions	(52)
Impairment of assets	(25)
Capital grants	(16)
Depreciation of assets	(6)
Provisions	28
Military expenditure not capitalised	5
Other	8
Current deficit (National Accounts)	**107**

Differences in relation to pensions

3.79 The main difference between the WGA measures of net liabilities and net deficit and the National Accounts measures of public sector net debt and current deficit relate to public service pensions. WGA is prepared on an accruals basis in accordance with accounting standards. It takes into account all future pension liabilities from the service already provided by past and current public servants. Therefore, WGA net liabilities include the net public service pension liability for public sector pension schemes. The National Accounts include only the cash payments and receipts associated with these pensions, and, therefore, do not show the public service pension liability. There were similar differences in relation to interest on pension liabilities of £50 billion which is included in WGA but not National Accounts, and in relation to the recording of pension contributions net of pension payments of £2 billion.

Differences in relation to assets

3.80 The other large difference between WGA and the National Accounts is in relation to non-current assets, such as property, plant and equipment, intangible fixed assets, payables and receivables, investments, and other illiquid financial assets. These are included in the WGA measure of net liabilities in accordance with IFRS, but are not included in the National Accounts measure of public sector net debt.

3.81 While fixed assets are not included in public sector net debt, they do form part of National Accounts. However, there were conceptual differences in the valuation of fixed assets and the measurement of impairment and depreciation. The National Accounts are constructed using the Perpetual Inventory Method (PIM) to calculate net capital stock and capital consumption (depreciation), whereas WGA recognises fixed assets and depreciation in accordance with accounting standards.

3.82 The WGA measure of net deficit includes depreciation and impairments resulting from an annual review of asset values. The National Accounts measure of current deficit includes impairments and depreciation based on the PIM. This latter model takes account only of those impairments caused by normal obsolescence or accidental damage, whereas WGA includes all impairments, no matter what their cause.

Differences in relation to provisions

3.83 WGA measures of net liabilities and net deficit include provisions and movements in provisions, to take account of liabilities that will be paid in the future arising from events that have occurred in the past and that create a legal or constructive obligation that can be measured reliably. The National Accounts measures of public sector net debt and current deficit do not record these items, and the National Accounts recognise expenditure only in the accounting period that the cash is paid.

Differences in relation to PFI

3.84 Differences arise in relation to PFI contracts as WGA takes into account PFI contracts that were not included in the National Accounts. The National Accounts recognition of PFI contracts is determined by judgements on the balance of risks and rewards arising from the contract, whereas the WGA recognition of a PFI contract is determined by judgments on the balance of control in accordance with IFRS. For WGA, PFI contracts are included within current liabilities, with their associated assets included in property, plant and equipment. If these PFI schemes are included in the National Accounts, the value of the PFI contract would increase public sector net debt.

Differences in relation to capital grants

3.85 Capital grants are treated differently in WGA and the National Accounts. WGA treats capital grants as expenditure, as the investment does not create assets directly for public sector bodies. The National Accounts treat capital grants as a capital charge and therefore they do not form part of the current deficit.

Other differences

3.86 There are a number of other differences between the National Accounts and WGA. The most significant of these relate to the treatment of unamortised premium or discount on gilts, trade payables and receivables, and the treatment of capital military equipment. The National Accounts include gilts based on their historic cost, whereas WGA follows the accounting standard that requires discounts and premiums to be amortised.

3.87 As with trade receivables, trade payables are not included within public sector net debt as they were considered to be too illiquid to meet the definition of Public Sector Net Debt. This, therefore, generates a difference between the two measures.

3.88 National Accounts rules require that new military capital equipment is expensed in the year that it is purchased and treated as a current expense. WGA treat this equipment as a non-current asset, which is then depreciated over its useful life.

Conclusion

3.89 The publication of the data in this account is a major step forward in the transparency of the public finances. Whilst it does not as yet include any comparatives, it is an important baseline that can be used to monitor and assess future trends.

3.90 Producing WGA is the most ambitious financial consolidation of the public sector being carried out by any government. The 2009-10 account has been audited by the Comptroller and Auditor General who has qualified his audit opinion, as set out in his Audit Certificate. In the light of experience with major accounting changes here and in other countries, it was highly likely that the first years would produce some difficult challenges, and some of these have led to the qualification of this account. We are working to address these issues, and improve the account, with a view to getting to a position where qualifications can be removed. Notwithstanding the qualifications, I believe that WGA can start to make a positive contribution to the richness and accessibility of information about the public sector finances.

Andrew Hudson
Accounting Officer
27 October 2011

4 Statement of Accounting Officer's Responsibilities

4.1 Under section 9 of the Government Resources and Accounts Act 2000, Her Majesty's Treasury is required to prepare in respect of each financial year a set of accounts for a group of entities each of which appears to HM Treasury:

(a) to exercise functions of a public nature, or

(b) to be entirely or substantially funded from public money.

4.2 The account is prepared on an accruals basis and in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2009-10 Government Financial Reporting Manual (FReM), which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The accounts must give a true and fair view of the Whole of Government's finances.

4.3 The responsibilities of the Accounting Officer are set out in the FReM. They are to:

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FReM, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

4.4 In addition to these responsibilities, specifically with regard to WGA, the WGA Accounting Officer is responsible for:

- drawing up WGA in accordance with the GRAA;
- ensuring that WGA complies with the FReM and generally accepted accounting practice;
- agreeing the process of producing WGA and also for ensuring that relevant data are collected and accurately and appropriately processed; and
- ensuring that there is an appropriate control environment for the production of WGA.

4.5 The responsibilities of an Accounting Officer are also set out in Managing Public Money published by HM Treasury. This includes the need for efficiency, economy, effectiveness, and prudence in the administration of public resources to deliver value for money.

4.6 The WGA Accounting Officer is responsible for signing the WGA Statement on Internal Control. When signing the Statement on Internal Control, the WGA Accounting Officer places reliance on the assurances made for each individual entity by the Accounting Officer or their equivalent, as documented through the Statement of Internal Control for those bodies.

5 Statement on Internal Control

Scope of accounting officer's responsibility

5.1 This is the first annual Statement on Internal Control for the Whole of Government Accounts (WGA). It relates to the full financial year from 1 April 2009 to 31 March 2010.

5.2 As Accounting Officer, I am responsible for maintaining a system of internal control to support the efficient and effective production and audit of the Whole of Government Accounts for the year ended 31 March 2010 and subsequent years. The WGA is a consolidation of audited accounts. My responsibilities are for the consolidation process as well as for the preparation of the consolidated financial statements, supporting disclosures notes, and the commentary.

5.3 HM Treasury is responsible for the consolidation process and prepares the consolidated financial statements on my behalf. In November 2009, an Assurance Committee for WGA was set up, whose role includes providing me with independent advice to inform my decisions and to help me to monitor and review the consolidation processes for managing risk, control, governance and assurance.

The purpose of the system of internal control

5.4 The WGA system of internal control is designed to minimise the risks to the process of preparing and publishing the consolidated account. The accounts of individual entities consolidated within WGA are subject to their own systems of internal control.

5.5 The system is intended to manage risk to a reasonable level rather than to eliminate all risk of failure to the consolidation and preparation process. It provides reasonable, but not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process, designed to identify and prioritise the risks, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently.

5.6 The WGA system of internal control has been in place for the year ended 31 March 2010 and up to the date of approval of the account, and accords with Treasury guidance.

Capacity to manage risk and the risk and control framework

5.7 The publication of the account is one of HM Treasury's key delivery objectives and priorities and included in the department's business plan.

5.8 The internal control system is based on a control and risk management framework developed specifically for the production of the consolidated account. This framework defines the control environment over the preparation of the accounts and is used to monitor the effectiveness and completeness of the controls in place.

5.9 Operational responsibility for the production of the account is handled by a dedicated team within the department. Senior staff provide leadership for the process and own and support the risk assessment and control activity.

5.10 I am further supported by Treasury's Internal Audit function and an Assurance Committee which provides me with advice on managing risk and controls.

5.11 I must rely on the Accounting Officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process and, in these instances, the risks can be identified and, where appropriate, are reported in paragraphs 5.21 to 5.22 below.

5.12 The key risks in the preparation of the consolidated account for the Whole of Government include:

- inaccuracies in entities' WGA returns, resulting in materially misstated balances;
- failure to provide data or delays in the submission of WGA returns; and

- mismatching and non-elimination of intra-group transaction streams and balances, resulting in materially misstated figures.

5.13 To manage the key risks to the WGA consolidation and preparation process, HM Treasury has regularly reviewed the key risks, and identified and implemented mitigating actions. HM Treasury has also implemented a control and validation framework to define the controls over the preparation of the accounts and to monitor the effectiveness and completeness of the controls in place.

Information and data handling

5.14 In preparing WGA, HM Treasury does not collect any personal data from WGA entities.

5.15 WGA data collected from WGA entities are held on HM Treasury's Combined Online Information System (COINS) database. This information will be published on http://www.data.gov.uk as part of a scheduled release of COINS data after the account has been published.

Review of effectiveness

(a) Addressing significant internal control weaknesses in the WGA consolidation process

5.16 Based on learning from the dry run of processes in previous years, HM Treasury has taken a number of steps to strengthen its internal controls over the consolidation process:

- the control and validation framework has been reviewed and updated regularly, incorporating suggestions from the National Audit Office (NAO). This has, for example, improved the robustness of the account, by highlighting areas where data quality and the delivery of information to auditors could be enhanced;
- controls over data collection have been strengthened, through greater validation within the data collection tools and the requirement to explain major divergences or changes;
- a communications strategy was prepared to identify and manage the risks in the publication of the account. This included discussion with key stakeholders to ensure a good understanding of the new information and its relationship with the existing data; and
- documentation of procedures and management reviews within the HM Treasury team have been improved to provide greater assurance over the data produced, and to ensure that the outcome of the processes used can be reliably re-performed.

5.17 During the course of the preparation of the 2009-10 account, weaknesses were identified, which form part of the process of continuous improvement. These weaknesses are primarily concerned with the quality of the data being used to produce WGA (principally data about transactions and balances between entities within WGA), consistency of the accounting frameworks across the public sector, the timeliness of the inclusion of entities within WGA and how we can better produce the account itself.

5.18 For the 2010-11 accounts, the following mitigating actions are planned:

- further strengthening of controls over data collection, through greater validation of data on input to the various data collection packs;
- strengthening of controls over the elimination process, primarily through the greater involvement of entities themselves in resolving data differences, supported by the improvements to recording systems;
- a review of inconsistencies in the interpretation of the accounting standards used in preparing the underlying accounts and their root causes, and the development of an action plan to address these inconsistencies;
- improvements to the arrangements for inclusion of new bodies in WGA, so that this can done on a timely basis; and

- improvements to procedures and processes, enabling users to complete their data collection packs more easily.

5.19 HM Treasury's COINS system collects financial data from WGA entities, which are used to prepare the consolidated account. The system continues to meet its objectives, but for future demands, its reliability and performance need to be improved. Work has commenced on replacing the existing system, the first phase of which will be completed in 2012. Development of this system will support further analysis of expenditure, which is currently constrained by the functionality of the existing system. The new system will be available for WGA use in 2013, and it will be used to produce the 2012-13 accounts.

5.20 I am satisfied that effective remedial action is being taken to address the internal control issues identified above. However, these improvements may take several years to implement fully, particularly in relation to the elimination process, and I anticipate that these will be recurring issues for 2010-11. In part, this is because, at this point, lessons are being learned after the accounts of the previous year have been completed. I have procedures in place to monitor the progress being made to tackle these weaknesses.

(b) Addressing significant internal control weaknesses in underlying accounts

5.21 The underlying accounts show that there are significant internal control weaknesses in a small number of entities that have resulted in audit qualifications of those accounts. These weaknesses are the responsibility of the Accounting Officer (or equivalent) of those accounts and cannot be managed by the WGA Accounting Officer. The most significant of these weaknesses are summarised below:

- the Ministry of Defence identified several significant internal control issues, including weaknesses in payroll related payments to personnel, and concerns about inventory management processes and systems.

  The audit opinion on the 2009-10 accounts was limited in scope in relation to these matters. The accounts were also qualified due to material error arising from adopting policies in relation to accounting for lease-type arrangements which did not fully comply with International Financial Reporting Standards.

- HM Revenue and Customs identified several significant internal control issues, notably the levels of error and fraud in tax credits each year, and concerns about data quality.

  The 2009-10 accounts received a qualified opinion on regularity in relation to the first of these matters. The Department had no estimate of the total levels of potential fraud in 2009-10, but it estimated in 2008-09 that error and fraud resulted in overpayments of between £2.0 billion and £2.3 billion and underpayments of between £0.2 billion and £0.3 billion.

  The Comptroller and Auditor General also disclosed an Emphasis of Matter noting that there is significant uncertainty in the estimates of accrued revenue receivable and accrued revenue payable in the Department's accounts.

- the Department for Work and Pensions (DWP) identified some significant internal control challenges in 2009-10: the level of fraud and error in benefit expenditure; Social Fund account production; debt referrals and recovery; resource management manual payments; recording of national insurance credits; and accounting issues at the Child Maintenance and Enforcement Commission.

  The 2009-10 accounts received a qualified opinion on regularity in relation to the first of these matters. The Department estimated in 2009-10 that error and fraud resulted in overpayments of benefits of £3.1 billion and underpayments of benefits of £1.3 billion.

- the Department for Environment, Food and Rural Affairs (Defra) identified the significant weaknesses in the Rural Payments Agency (RPA): control issues with disallowance penalties imposed by the European Commission, where EU regulations were not applied correctly.

  The 2009-10 accounts of RPA received a qualified audit opinion as the NAO were unable to obtain sufficient evidence to support the value of overpayments and underpayments made to farmers under the Single Payment Scheme. The Defra accounts received a similar qualification in 2009-10 as they consolidate the financial results of the RPA. Defra also received a regularity qualification in its 2009-10 accounts in relation to financial penalties imposed by the European Commission relating to the RPA's scheme administration.

- a small number of other WGA entities also received qualified audit opinions. They have not been disclosed here as the amounts involved were immaterial to WGA. Annex 1 includes a list of all WGA entities and indicates those which had qualified accounts.

5.22 Internal control weaknesses that led to qualifications (other than regularity) are considered for their impact on WGA and whether they may affect the true and fair view of the accounts. The most significant of these qualifications is in respect of inventory held by the Ministry of Defence, which accounts for approximately 58% of the inventory balance. This qualification has been highlighted in the commentary.

(c) Assurance in making this judgement

5.23 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control for the preparation of WGA. My review of the effectiveness of the system of internal control conducted by HM Treasury is informed by the Assurance Committee, the WGA team at HM Treasury, which has responsibility for the development and maintenance of the internal control framework, the HM Treasury internal audit function, comments made by the external auditors in their Management Letter and other reports, and in the adequacy of responses made to issues raised through audit activity.

5.24 Whilst there are improvements that can be made to the system of internal control, the framework currently in place ensures that we can accurately process the data that we receive. There are material issues arising from the fact that we were unable to identify and eliminate all intra-group transactions and balances, resulting in a qualification of the Comptroller and Auditor General’s Opinion, but we are taking steps to reduce the impact of this in future years.

Disclosure of information to auditors

5.25 As Accounting Officer, I confirm that there is no relevant audit information of which the National Audit Office is 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 National Audit Office is aware of that information.

Andrew Hudson
Accounting Officer
27 October 2011

6 Remuneration Report

6.1 A remuneration report is required to be prepared by individual companies and WGA entities in compliance with the Companies Act 2006 and the 2009-10 Government Financial Reporting Manual (FReM). The requirement for a similarly detailed remuneration report does not apply to the Whole of Government Accounts, as the inclusion of all the details of about 1,500 entities would result in an unwieldy and lengthy document that would detract from the overall publication. This report sets out the remuneration arrangements for the public sector where there are different pay setting processes in different areas of the public sector, as shown below.

Pay review bodies

6.2 There are six independent Pay Review Bodies that advise the Prime Minister and relevant Secretaries of State on matters referred to them, primarily making annual recommendations about pay levels. The Review Bodies weigh evidence from interested parties, including Government departments and trade unions, and their own independent research to formulate recommendations on the remuneration of their remit groups. The Government then decides whether to accept, reject or stage the pay awards recommended by the Review Bodies.

6.3 The Pay Review Bodies comprise:

- Armed Forces' Pay Review Body - remit group: Members of the Naval, Military and Air Forces of the Crown up to and including the rank of Brigadier (one star) or equivalent;
- Review Body on Doctors' and Dentists' Remuneration - remit group: Hospital doctors and dentists, public and community health doctors, ophthalmic medical practitioners, general medical practitioners, general dental practitioners, and community dental and dental public health staff;
- NHS Pay Review Body - remit group: All NHS staff, excluding doctors, dentists and very senior managers;
- Prison Service Pay Review Body - remit group: Prison staff in England, Wales and Northern Ireland and includes governors and other operational managers, principal and senior officer grades, and prison officer and support grades;
- School Teachers' Review Body - remit group: School Teachers in England and Wales; and
- Senior Salaries Review Body - remit group includes senior civil servants, members of the judiciary, and senior officers in the armed forces.

6.4 Following devolution, reports may also be sent to the First Ministers of the Scottish Parliament and The National Assembly for Wales, and the Presiding Officer of the Northern Ireland Assembly on pay related matters affecting the devolved bodies.

Central government civil service

6.5 In the Civil Service, pay policy for staff below the Senior Civil Service is delegated to central government departments. Each year, HM Treasury provides guidance on the overall parameters for the pay increases that should be provided to staff. However, it is for departments to negotiate their individual settlement with the trade unions, within these parameters. These arrangements also cover non-departmental public bodies, where staff may not themselves be civil servants.

Local government

6.6 The pay and conditions for the vast majority of the local government workforce is set by the National Joint Council (NJC) for local government services. The NJC is a negotiating body comprising trade unions and employers. It sets the pay on a national pay scale, but it is for individual authorities to decide where to place their employees on that scale or whether to opt out completely.

6.7 There are separate Joint Negotiating Committees (JNC) for chief officers and chief executives, comprising employers and employees, to determine terms and conditions. The JNCs undertake an annual survey to establish the national average and average maximum chief executive salary, which provides guidance to authorities. Salary remains, however, for the employing local authority to determine, in the light of local circumstances.

Fire and rescue authorities

6.8 Two NJCs negotiate the pay and terms and conditions for Fire and Rescue Service operational staff. The NJC for Local Authority Fire and Rescue Services negotiates for UK firefighters and control room staff (up to and including the Area Manager role) and the NJC for Brigade Managers negotiates for Chief Fire Officers, Deputies and Assistants. These NJCs comprise trade unions and employers. The NJC for firefighters agrees national pay rates and negotiates any uplift in national allowances. Fire and rescue authorities also agree some additional allowances locally. The NJC for brigade managers negotiates the basic award applicable based on size of population served, and individual fire and rescue authorities determine the actual pay package by considering whether or not local circumstance supports any increase in excess of that.

Police authorities

6.9 Police staff pay is a matter for individual police authorities in England and Wales and in Scotland, although there are national fora that negotiate agreements on pay and conditions that police authorities may choose to implement. In Northern Ireland, police staff pay is a matter for the Chief Constable and the Northern Ireland Policing Board, with the approval of the Northern Ireland Department of Finance and Personnel. There are three Police Advisory Boards for England and Wales, Scotland and Northern Ireland, as well as the Police Negotiating Board which negotiates the hours of duty, leave, pay and allowances, pensions and other matters for police officers across the UK.

Health sector

6.10 Staff pay for those working for NHS Trusts and NHS Foundation Trusts is a matter for those individual entities. Specific details can be found in the reports of those entities. Statutory requirements are contained in the National Health Service Act 2006, and examples of best practice are provided to NHS Trusts, for example the '*Healthy NHS Board: Principles for Good Governance*' guidance. Foundation Trusts must consider the *NHS Foundation Trust Code of Governance* and guidance, such as '*Your Statutory Duties: A Reference Guide for NHS Foundation Trust*'. The main principle contained in the NHS Foundation Trust Code of Governance is that: "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality and with the skills and experience required to lead the NHS Foundation Trust successfully, but an NHS Foundation Trust should avoid paying more than is necessary for this purpose".

Public sector remuneration

6.11 Statistical details of pay in the public sector are available on the Office for National Statistics (ONS) website (www.ons.gov.uk). These statistics are drawn from pay information provided independently by each entity in accordance with ONS requirements.

6.12 In response to the Government's drive for transparency, details of senior civil servants and senior officials in central government departments, agencies and non-departmental public bodies earning over £150,000 a year are available on the Cabinet Office website. These may not reflect the pay earned in 2009-10:

http://www.cabinetoffice.gov.uk/resource-library/senior-civil-servants-high-earners-salaries
http://www.cabinetoffice.gov.uk/resource-library/non-departmental-public-bodies-high-earners-data-release

6.13 Details of local government pay in England and Wales are available from the Local Government Association, which published 'Local Government Pay and Workforce: Facts and Figures' and an annual Local Government Earnings Survey. These documents provide pay bill, average pay rate and demographic information for all local government employees in England and Wales (excluding teachers). They are available on its website: www.local.gov.uk. An overview of English local government pay and workforce figures is published annually by the Department for Communities and Local Government in their report 'Local Government Financial Statistics England' available on its website: www.communities.gov.uk. Specific details of remuneration for each local authority are available in their individual accounts and on www.data.gov.uk.

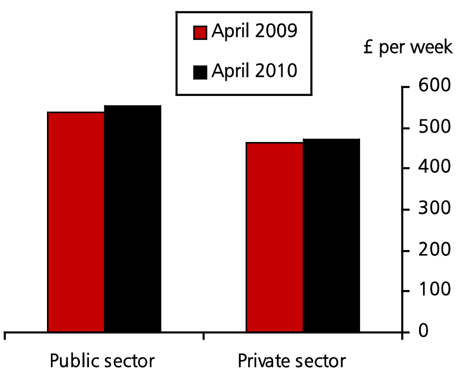
6.14 Median earnings across the public sector for the years 2008 and 2009 are shown below, based on the Local Government Association publication 'Local Government Pay and Workforce: Facts and Figures'[11] issued in April 2011, largely sourced from the Office for National Statistics (other sources are quoted in the publication).

	Median earnings 2008 and 2009 £
Central Government Civil Service	21,560
Mainstream Local Government	18,248
Police Officers	37,130
Teachers	31,613
Nurses	24,693
Public Sector	21,379
Private Sector	20,761

6.15 2010 median annual pay, excluding overtime or one-off bonuses, of full-time civil servants in central government was £23,680, and median pay for all civil servants in central government was £22,850, based on the Civil Service Statistical Bulletin issued by the Office for National Statistics (ONS) for March 2010. This included only home civil service employees in central government and excluded the Northern Ireland civil service and employees of non-departmental public bodies.

6.16 Median gross weekly earnings for the public sector were £554 as at April 2010, based on the 2010 Annual Survey of Hours and Earnings conducted by ONS, as shown below.

Median gross weekly earnings[1]



1 Employees on adult rates, pay unaffected by absence

[11]Extract from table 5 of 'Local Government Pay and Workforce: Facts and Figures' (http://www.lga.gov.uk)

6.17 Further details on public sector wages costs are provided in Note 7 to these accounts. These include staff costs and numbers for all staff employed within central government, local government, health sector, non-departmental public bodies, and public corporations in England, Wales, Northern Ireland and Scotland.

7 Certificate and Report of the Comptroller and Auditor General

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

I certify that I have audited the financial statements of the Whole of Government (the Account) for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Consolidated Statement of Revenue and Expenditure, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Taxpayers' Equity, the Consolidated Cash Flow Statement, the related notes and Annexes 1 to 4. 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 a consolidated account for a group of entities each of which appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money, which presents a true and fair view of the state of affairs of the whole of government and of its net deficit, changes in taxpayer's equity and cash flows for the year then ended. My responsibility is to examine the accounts with a view to satisfying myself that they present a true and fair view. I have audited the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances 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.

Basis for qualification on accounts

Qualification arising from disagreements on the definition and application of the Account boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. The Act also states that the Accounts should present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context. HM Treasury has adopted a framework for these Accounts which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.21.1 to these Accounts, HM Treasury defines the accounting boundary for the Account by reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with reference to the accounting standards[12]. By applying such accounting standards, I consider that the Account should include Network Rail.

I also consider that HM Treasury's accounting policy has not been applied consistently in 2009-10 as a number of significant bodies[13] have not been included in the Accounts, even though they are classified by Office for National Statistics as being in the public sector and which I also consider should be included in the Accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the Accounts with certainty as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view, the most significant impact could be on the Account's Statement of Financial Position. The exclusion of the following categories of bodies could affect this Statement. To illustrate the potential impact:

- Network Rail which has gross assets of £41.7 billion and gross liabilities of £35.7 billion;
- Publicly-owned banks which have gross assets of £2,862.1 billion and gross liabilities of £2,720.9 billion; and
- Other bodies, such as the Bank of England, which have estimated gross assets of £263.3 billion and gross liabilities of £250.1 billion.

Qualification arising from disagreement relating to inconsistent application of accounting policies

HM Treasury's accounting policies state that the Accounts are prepared on an International Financial Reporting Standards (IFRS) basis, as adapted or interpreted for the public sector context[14]. A number of bodies consolidated in these Accounts do not adopt the same framework under which these Accounts are prepared. These bodies fall under the following categories:

- Bodies in the local government sector follow the Local Government Statement of Recommended Practice (SORP) for 2009-10, which is based on UK Generally Accepted Accounting Practice (UK GAAP); and
- Bodies that do not apply the Government Financial Reporting Manual but do apply IFRS, UK GAAP, the Charities SORP or NHS Manuals, where appropriate.

Accounting standards require that, where the effect of such inconsistent accounting policies are material, adjustments should be made on consolidation. HM Treasury has not been able to fully quantify the impact of the different accounting frameworks or accounting policies on the Accounts but it is material in some areas. An example of the use of different accounting policies is where infrastructure assets included in the Accounts are not valued on a consistent basis. Assets held by local government bodies are valued at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost. HM Treasury's estimate of the understatement of assets due to the differences in valuation between historic cost and depreciated replacement cost for local government assets could be at least £200 billion (Note 14.1 to the Accounts).

Qualification arising from limitation in audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

Accounting standards require that balances and transactions held and made between bodies consolidated into these Accounts shall be eliminated in full. HM Treasury has a process in place to

[12] IAS 27 - Consolidated and Separate Financial Statements
[13] The significant bodies excluded are listed in Figure 12 in my Report.
[14] This framework is set out in the Government Financial Reporting Manual (FReM)

identify intra-government balances and transactions between bodies consolidated into the Accounts, and most balances and transactions have been eliminated.

However, there remains material values of intra-government transactions and balances which have not been eliminated and the effect of not adjusting for these could lead to a potential overstatement of up to £17.0 billion in gross income and expenditure and up to £6.8 billion in gross assets and liabilities.

I have reviewed the impact of this uncertainty and have assessed that the maximum uncertainty resides within the gross figures in the individual primary statements rather than on the net deficit or net liabilities. The totals reported for the net deficit and the net liabilities are subject to a maximum uncertainty of some £3.2 billion. There is also uncertainty about whether there are amounts which both bodies involved in a relationship have not declared, leading to further overstatement.

Qualification arising from disagreement in the accounting for 3G licences

In April 2000, the government issued licences to access the 3G telecommunications spectrum. Each licence was awarded for 20 years and the total raised was £22.5 billion. This was recognised as £22.5 billion income in 2000-01. I consider that it would be more appropriate to recognise this income in the Accounts over the life of the licences as the licence holders have the right to access the spectrum for 20 years and the government has an ongoing obligation to ensure that the spectrum remains available to licence holders. The impact of this difference is that income would be £1.1 billion greater; liabilities would be £11.4 billion greater; and the value of the general fund would be £11.4 billion less.

Qualification arising from disagreement and limitation in audit scope from underlying statutory audits of bodies falling within the Accounts

The external auditors of the financial statements of a number of bodies that are consolidated into these Accounts qualified their audit opinion. Of material significance to these Accounts, I qualified the Ministry of Defence's Resource Accounts on two grounds. Firstly, the Ministry has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with *International Accounting Standard 17 Leases* as interpreted by *International Financial Reporting Interpretations Committee 4 Determining whether an Arrangement Contains a Lease*. Consequently, the Ministry has omitted a material value of assets and liabilities from its Consolidated Statement of Financial Position as at 31 March 2010. This has also led to a consequential misstatement of the Consolidated Statement of Revenue and Expenditure for 2009-10. I am unable to quantify the impact on the financial statements because the Ministry has not maintained the records or obtained the information required to comply with the relevant accounting standards in this respect.

Secondly, I was unable to obtain sufficient, appropriate audit evidence to support the existence and valuation of certain Ministry inventory and non-current assets which are recorded in the accounts at £6.3 billion and the accuracy and completeness of the associated transactions in the Consolidated Statement of Revenue and Expenditure because the evidence available to me was limited due to a failure to maintain adequate accounting records and supporting evidence to operate adequate stocktaking and asset verification procedures.

Qualified opinion on financial statements

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above:

- the financial statements give a true and fair view of the state of the affairs of the Whole of Government as at 31 March 2010 and of its net deficit, changes in taxpayers' equity and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government

Resources and Accounts Act 2000.

Emphasis of matter – significant uncertainty

In forming my opinion on the truth and fairness of these Accounts, I have considered the adequacy of the disclosures made in areas where there is significant uncertainty in the values reported in Note 1.21.6 to these Accounts, which concerns the uncertainties inherent in estimating the likely costs of the liabilities of the Nuclear Decommissioning Authority. As explained in the Note, the lengthy timescales, final disposition plans for waste and spent fuel, timing of final site clearance and the confirmation of site end states mean that the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustment over time to the value of the provision, which currently stands at £45.1 billion.

Opinion on other matters

In my opinion, the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

For those areas, in respect of my limitation in scope qualifications above:

- the financial statements are not in agreement with the accounting records or returns; and
- I have not received all of the information and explanations I require for my audit.

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

- returns adequate for my audit have not been received from component bodies not visited by my staff; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

My Report on pages 43 to 70 includes more details of these matters.

Amyas C E Morse
Comptroller and Auditor General
31 October 2011

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

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

Summary

7.1 This report provides my assessment of the first audited Whole of Government Accounts (WGA) for 2009-10. It covers the extent to which the WGA has met HM Treasury's aims to help Parliament and the public understand and scrutinise how taxpayers' money is spent (Part 1), and the reasons why I qualified my audit opinion (Part 2).

7.2 The publication of the first WGA is an important step in the Treasury's efforts to increase transparency in its management of public finances.

7.3 The development of WGA in the UK can be traced back to 1995, when the Committee of Public Accounts concluded that audited whole of government accounts would allow the public and Parliament to see more clearly how taxes have been spent, and what assets and liabilities were held on their behalf by government.[15] The Treasury accepted the Committee's recommendation to carry out further research.[16] In 1998 the Treasury confirmed its aim, in a scoping study, to prepare whole of government accounts.[17] Parliament made this a statutory requirement when it passed the Government Resources and Accounts Act 2000,[18] with a Statutory Instrument in March 2010 providing for the implementation of the first and subsequent WGAs.[19]

7.4 The Treasury, which is responsible for preparing the accounts, currently has five objectives for the WGA, to:

- improve **transparency** by providing more public data using standard accounting conventions to enable a wider range of users to interpret them;
- increase **accountability** and confidence in the data by publishing accounts that have been audited by the National Audit Office;
- provide more **complete** data for the public sector than existing sources, such as the *National Accounts* prepared by the Office for National Statistics;
- use WGAs to encourage public bodies to prepare their accounts consistently, so data are **comparable**; and
- provide **complementary** and complete information on the government's capital and long-term financial position, income, spending and cash flow to support long-term fiscal analysis and decision making.

Key findings

7.5 **The publication of WGA 2009-10 is a major landmark in improving transparency in how government manages public finances.** This WGA is the first and most comprehensive audited account of what the UK government spends and receives, and what it owns and owes. Its ambition significantly exceeds that of similar accounts published by other countries as it includes the accounts of central government, the devolved administrations, local government, the health service and public corporations.

[15] Committee of Public Accounts *Resource Accounting And Budgeting In Government*, Fifteenth Report 1994-95, HC 407 Session 1994-95.
[16] Treasury Minute on the Fifteenth Report from the Committee of Public Accounts 1994-95, Resource Accounting and Budgeting in Government, CM 2990.
[17] http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/E/B/wga_scopingstudy.pdf
[18] www.legislation.gov.uk/ukpga/2000/20/contents/made
[19] www.legislation.gov.uk/uksi/2010/570/pdfs/uksi_20100570_en.pdf

7.6 WGAs can help Parliament hold the Treasury, as the government ministry with overall responsibility for public spending, to account. The publication of the first audited WGA has not altered the existing framework for managing public money, and accounting standards do not require the WGA to include targets or forecasts against which performance can be measured. However, the WGA for 2009-10 marks a substantial improvement as it gives Parliament and the public additional information, all in one place, on the government's overall financial position.

7.7 The WGA 2009-10 does not cover the entire public sector, but it includes a wider range of assets and liabilities than existing sources. The WGA 2009-10 leaves out some organisations, notably the publicly-owned banks, the Bank of England, and Network Rail which, in my view, are owned and controlled by government. It therefore understates the true value of public sector assets and liabilities. However, it complements existing statistical information on public finances, such as the *National Accounts* produced by the Office for National Statistics, by providing combined financial data on a wider range of public assets, liabilities and spending.

7.8 The WGA 2009-10 provides an overview of spending across the entire public sector and how it is funded. It shows how spending is spread across central and local government, NHS trusts and public corporations, and analyses spending on areas such as benefits, grants and staff costs. It does not show how spending is distributed across policy areas such as defence and education, or analyse spending on different types of goods and service such as consultancy or office accommodation. It also excludes analysis of spending within individual nations or regions. Also, due to gaps in the evidence it received from bodies included in the WGA, the Treasury could not show that it had eliminated all transactions and balances made between these bodies.

7.9 Differences between accounting policies used by some public sector organisations mean the value of public assets is currently understated. An important difference is between how central and local government account for infrastructure assets, and the Treasury estimates that this resulted in assets being understated by at least £200 billion in WGA 2009-10. Local government organisations are planning to provide the Treasury with additional information from 2012-13 so that the Treasury can align their policies in valuing assets.

7.10 The WGAs do not show the government's current position, but they can still inform long-term fiscal analysis and decision-making. The time taken to prepare an audited WGA 2009-10 means that it shows the government's financial position some 19 months previously rather than the current position. The Office for Budget Responsibility nevertheless confirmed that it drew on unaudited WGA figures published by the Treasury[20] in July 2011 in its first report on the sustainability of public finances. It is, however, too early to determine how the use of WGAs in fiscal planning will develop.

Conclusion

7.11 This first WGA, for 2009-10, is the culmination of a project that has spanned more than a decade and is a major landmark in reporting on public finances. It has been prepared in accordance with accounting standards and has been fully and independently audited by the National Audit Office, using auditing standards, and has made a significant advance towards improving scrutiny and transparency.

7.12 The breadth and scale of the WGA have presented a number of challenges for the Treasury as it compiled these accounts. Some of these have been difficult to resolve and the Comptroller and Auditor General has qualified his audit opinion on the WGA 2009-10 as the WGA has a number of material omissions and misstatements (Part 2 of this report). Except for these qualifications, the WGA 2009-10 gives a true and fair view, based on accounting standards, of the financial affairs of government.

7.13 The aim of the WGA is to provide robust financial information to help inform debates on the state of the public finances, how effectively government manages these, and to support long-term fiscal analysis and decision-making. It is, however, at this stage too early for me to determine how far the Treasury will achieve these ambitions, given this is the first published WGA.

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[20] Whole of Government Accounts: Unaudited Summary for the year ended 31st March 2010. July 2011 Cmd 8127

Recommendations

7.14 To address potential qualification issues in future WGAs and bring the accounts fully into line with applicable accounting standards, the Treasury should:

- include all bodies that are owned or controlled by government in accordance with accounting standards; and
- improve the accuracy of information by ensuring that it is adjusted for differences between the accounting frameworks and policies used by different parts of government.

7.15 To further strengthen scrutiny of the public finances, the Treasury could improve future WGAs by:

- including additional disclosures that show how public spending is distributed between individual nations or regions within the UK, and spending on different types of goods and services such as consultancy and accommodation;
- adding disclosures analysing spending across the main areas of government such as defence, health and education; and
- helping Parliament and the wider public interpret the data by including budgets and forecasts which, although not required by accounting standards, would provide benchmarks against which results could be compared.

Part One: Achieving the WGA's objectives

7.16 In this part of my report, I examine:

- the progress that the Treasury has made towards improving transparency;
- how the WGAs can support Parliament and the public in scrutinising how government manages public finances;
- the impact of the Treasury excluding some government-controlled bodies;
- the additional information that the accounts give on the public finances;
- where the analysis of spending in the WGA is limited and where there are inconsistencies in accounting frameworks; and
- the time taken to prepare the accounts.

WGA 2009-10 is an important milestone in improving transparency and accountability

7.17 The 2009-10 WGA is an important milestone for the Treasury in its ambition to improve the transparency of public finances. This process started with the production of individual central government departmental accounts on a resource, rather than cash, basis from 1999-2000. Much of the information contained in the WGA is already available in around 1,500 individual published accounts that were consolidated into the WGA.[21] However, consolidating the assets, liabilities, income and spending of these bodies gives, for the first time and in one place, an audited accounts-based view of what the UK public sector owns and owes, and what it earns and spends (Figure 1).

7.18 Other countries have published consolidated financial statements that show the overall financial position and performance of central government, but the UK WGA is more ambitious as it also includes local government bodies (Figure 2). The differences in scope, as well as timing and accounting

[21] The individual accounts designated for inclusion are listed in Annex 1 of the WGA.

frameworks, mean that the UK WGA cannot be compared directly with equivalent accounts prepared by other governments.

Figure 1
Key elements of the Whole of Government Accounts 2009-10

	Description	Examples	Value in WGA 2009-10 (£bn)
Assets	Resources controlled by government from which future benefits can be generated	Gold reserves, student loans, the national road network, military equipment	1,207.5
Liabilities	Obligations on government arising from past transactions or events	Deficit on the public sector pension schemes, gilt-edged stock, future cost of decommissioning existing nuclear facilities	(2,419.3)
Net liability	The difference between what the government owned and what it owed at the end of the financial year		(1,211.8)
Revenue	Income received from government activities	Taxation, rental from local government housing, funding received from the EU	582.0
Expenditure	The cost of running government and providing public services	Benefits payments, staff costs, grants, depreciation, contributions to the EU	(665.7)
Net financing cost	Costs recognised in relation to the funding of government activities	Investment revenue, interest paid on gilts, interest on pension scheme liabilities	(80.5)
Net loss on the sale of assets			(0.3)
Net deficit for the year	The shortfall between operating revenue and expenses (including finance costs) during the year		(164.5)

Source: National Audit Office analysis of WGA 2009-10.

7.19 The WGAs put the financial position of individual parts of government within the context of the public sector's overall financial position. For example, WGA 2009-10 shows that as at 31 March 2010:

- military equipment accounted for just over 5 per cent of the total £708.0 billion net book value of all government property, plant and equipment;[22]
- government has provided for irrecoverable debts of some £20.3 billion, of which around £10.9 billion relate to the risk of non-payment of tax;[23]
- the provision to cover the cost of nuclear decommissioning accounted for 56 per cent of the total £101.6 billion provision for meeting future liabilities arising from previous activities;[24] and
- NHS (UK) accounted for 29 per cent of the total net public service pension liability of £1,132.3 billion.[25]

[22] WGA note 14.1.
[23] WGA note 17.
[24] WGA note 25.
[25] WGA note 27.3.

Figure 2

The UK's WGA has a wider scope than similar accounts produced by other countries

	UK	France	USA	Australia	New Zealand	Canada
First published account, and audit opinion	2009-10 Qualified	2006 Qualified	1996-97 Disclaimed	1996-97 Qualified	1991-92 Unqualified	More than 30 years ago[3]
Latest available account (year end)	31 March 2010	31 December 2010	30 September 2010	30 June 2010	30 June 2011	31 March 2011
Audit opinion	Qualified	Qualified	Disclaimed	Unqualified	Unqualified	Unqualified
Published (months after year-end)	19	7	3	6	4	7
Accounts included	c. 1,500[4]	Not reported	149	203	156	Not reported
Examples of bodies in scope of accounts	Central and local government, health sector, public corporations	Central government, Head of State	Office of the President, Federal government and its agencies, Supreme Court	Central government, Parliament, courts	Central government, Crown bodies, Courts, Parliament	Central government, Crown corporations
Examples of bodies outside scope	Parliament, Crown Estate	Local government, rail companies	State and other local government, nationalised companies	State and other local government	Local government	Province, territory and other local government
Results from latest available account						
	(£ bn)	(€ bn)	(US$ bn)	(AUS$ bn)	(NZ$ bn)	(CA$ bn)
Assets	1,207.5	891.2	2,883.8	377.2	245.2	370.5
Liabilities	(2,419.3)	(1,647.7)	(16,356.6)	(430.1)	(164.3)	(920.9)
Net liability	(1,211.8)	(756.5)	(13,472.8)	(52.9)	80.9	(550.4)
Revenue	582.0	253.9	2,215.7	301.3	86.5	237.1
Expenditure	(746.5)	(365.9)	(4,296.0)	(360.4)	(100.0)	(270.5)
Net deficit for the year	(164.5)	(112.0)	(2,080.3)	(59.1)	(13.5)	(33.4)

NOTES
1. Figures from different countries are not directly comparable because they are stated in different currencies, the accounts have different scope, are prepared according to different accounting standards and at different points in time.
2. Expenditure includes finance costs.
3. Canada's accounts have received an unqualified audit opinion for the last 13 years.
4. This number reflects the bodies included in HM Treasury's Designation Order set out in Annex 1 to the WGA and those bodies agreed for inclusion under administrative arrangements.

Source: NAO analysis of latest available audited accounts from listed countries.

The WGA 2009-10 can help Parliament hold the Treasury to account in its role as the UK's Ministry of finance but it has some limitations

7.20 As the UK's Ministry of Finance, the Treasury has overall responsibility for the public sector's financial position, public spending, and financial reporting. In presenting the financial position of the whole public sector, the WGA gives Parliament and the public additional information to help them assess the Treasury's delivery of its responsibilities in these areas. The WGA also gives the Treasury the means to improve the consistency of financial reporting across government.

7.21 The statement of accounting officer's responsibilities and the statement on internal control, included in the WGA, set out the Treasury's responsibilities in preparing the WGA. The Treasury is responsible for making sure that its systems are sufficiently robust to produce a WGA, but it relies on the underlying data provided by those bodies included in the WGA and their own systems of internal control. As the Treasury is not the parent body for this consolidated group, it is not responsible for the individual balances and transactions included in the WGA. In the existing framework, the Treasury delegates accountability for using public resources to the Accounting Officers of individual bodies and to those governing local authorities and other public sector bodies.[26] The WGA does not therefore alter the existing framework for managing public money.

7.22 As this is the first year of publication, the 2009-10 WGA has no data from the previous year to compare trends, nor does it include targets or budgets for assessing performance. It does, however, provide an initial baseline against which future trends in spending, income, liabilities and assets can be assessed. Including budget information and forecasts in future WGAs could help Parliament and the public interpret trends and understand how the government has used taxpayer resources and how effectively it manages public resources.

7.23 To provide a reasonable basis for holding government to account, the WGA must present a true and fair view that is free from material misstatement. There are a number of areas where the WGA for 2009-10 does not present a true and fair view of the government's financial position and performance, and I have therefore qualified my audit opinion in a number of important respects. I have set all these out in Part 2 of this Report but, in summary:

- WGA 2009-10 excludes some government-controlled bodies that in my view should have been included to comply with International Financial Reporting Standards. The main exclusions were the banks that the government owns or partly owns and Network Rail.
- the accounts of the bodies consolidated into the WGA have not all been prepared under the same accounting framework. For example, local government will not adopt International Financial Reporting Standards until 2010-11.
- the Treasury could not demonstrate that it had removed all transactions and balances between the individual bodies included within the WGA. Removing these intra-government transactions is necessary to show the government's true financial position but, because there were gaps in the information provided to the Treasury, there is a potential overstatement of £17.0 billion in gross income and expenditure, and £6.8 billion in gross assets and liabilities. I estimate that the potential maximum impact on the net annual deficit and net liabilities of the uncertain transactions is £3.2 billion.
- income for the April 2000 auction of licences to access the 3G telecommunications spectrum has not, in my view, been accounted for in line with accounting standards. The entire £22.5 billion income was recognised in 2000-01 instead of being spread over the 20-year term of the licences.

[26] Chapter 3 of HM Treasury *Managing Public Money* www.hm-treasury.gov.uk/d/mpm_whole.pdf.

- the issues raised in my qualification of the Ministry of Defence *Departmental Resource Account 2009-10*, which is included in the WGA, are also material to my opinion on the WGA. I qualified my opinion on the Ministry of Defence *Departmental Resource Account 2010-11* and was able to recognise that the Ministry had addressed a number of issues from the previous year – however, my opinion for 2010-11 will inform my opinion on the next WGA.

WGAs should cover the entire public sector, but some significant entities were excluded from the WGA 2009-10

7.24 The WGAs should cover the entire public sector, encompassing central government, local authorities, public corporations and all other bodies that exercise public functions or are funded entirely or substantially by public money. Determining which bodies fall within the public sector group can be complex. There is no single controlling entity with legal ownership or economic control of all of the other bodies, and some public sector bodies have statutory, legal or financial independence from the executive arm of government.

7.25 The Government Resources and Accounts Act 2000 gives the Treasury discretion to determine which bodies should be included in the WGA and requires that the Treasury prepares the WGA so that it presents a true and fair view and conforms to generally accepted accounting standards. The Treasury has adopted the definition of public sector bodies used by the Office for National Statistics in preparing the *National Accounts*. While this definition is appropriate for the *National Accounts*, in my view it is not appropriate for the WGA, which should use definitions based on accounting standards, which Treasury must have regard to in preparing the accounts.[27] By adopting definitions used for the *National Accounts*, instead of accounting standards, the WGA excludes Network Rail, which in my view should be included within the WGA.

7.26 Additionally, the Treasury has excluded some entities from the WGA even though they were classified as public sector bodies by the Office for National Statistics:[28] The exclusion of bodies that are not responsible to the government,[29] such as Parliament, the National Audit Office, and the Crown Estate, is in line with accounting standards, in that they are not controlled by government. The exclusion of bodies that met the inclusion criteria, but which the Treasury considered too small to warrant the cost of including them into the WGA, was also appropriate as it did not have a material impact on the accounts. These bodies had net assets totalling some £92 million and total spending of £365 million.[30]

7.27 The following exclusions did not follow accounting standards:

- bodies where their classification as public sector bodies changed. For example, further education institutions were originally classified as private sector bodies but were retrospectively reclassified as public sector organisations in October 2010. This reclassification was backdated to 1993 (1989 for Northern Ireland institutions).

- bodies where their classification as public sector bodies is expected to change at some point in the future. For example, the government has committed to returning Royal Bank of Scotland and Lloyds Banking Group to private ownership.

- bodies where the Treasury has not been able to arrange for their consolidation in 2009-10. In some cases, the Treasury expects to include such entities in future years' WGAs. This class includes the government's wholly owned banks (Northern Rock (Asset Management) and Bradford & Bingley), the Bank of England (which the Treasury intends to include from 2010-11), and Directly Operated Railways (which the Treasury intends to include from 2011-12).

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[27] Government Resources and Accounts Act 2000, section 9(5)a.

[28] WGA Annex 1 lists the entities that were designated for inclusion and Annex 2 lists bodies that are excluded from the 2009-10 WGA despite meeting the criteria for inclusion.

[29] WGA note 1.21.1.

[30] WGA Annex 3.

7.28 In these cases, the Treasury's departure from the relevant accounting standards means that, in my view, assets and liabilities reported in the WGA are materially understated. Figure 12 in Part 2 sets out the potential financial impact in more detail.

The WGA complements existing statistical information on public finances by giving a view based on accounting standards

7.29 Statistics on the government's financial position are routinely published in the *National Accounts*, monthly *Public Sector Finances Report*, the *Public Expenditure Survey Analysis* and other sources.[31]

7.30 The WGAs are designed to complement existing statistical information on public finances by providing an account based on International Financial Reporting Standards that are used in the private sector but adapted for use in the public sector. These standards require including a wider range of assets and liabilities than the standards used to prepare the *National Accounts*. The WGA therefore includes:

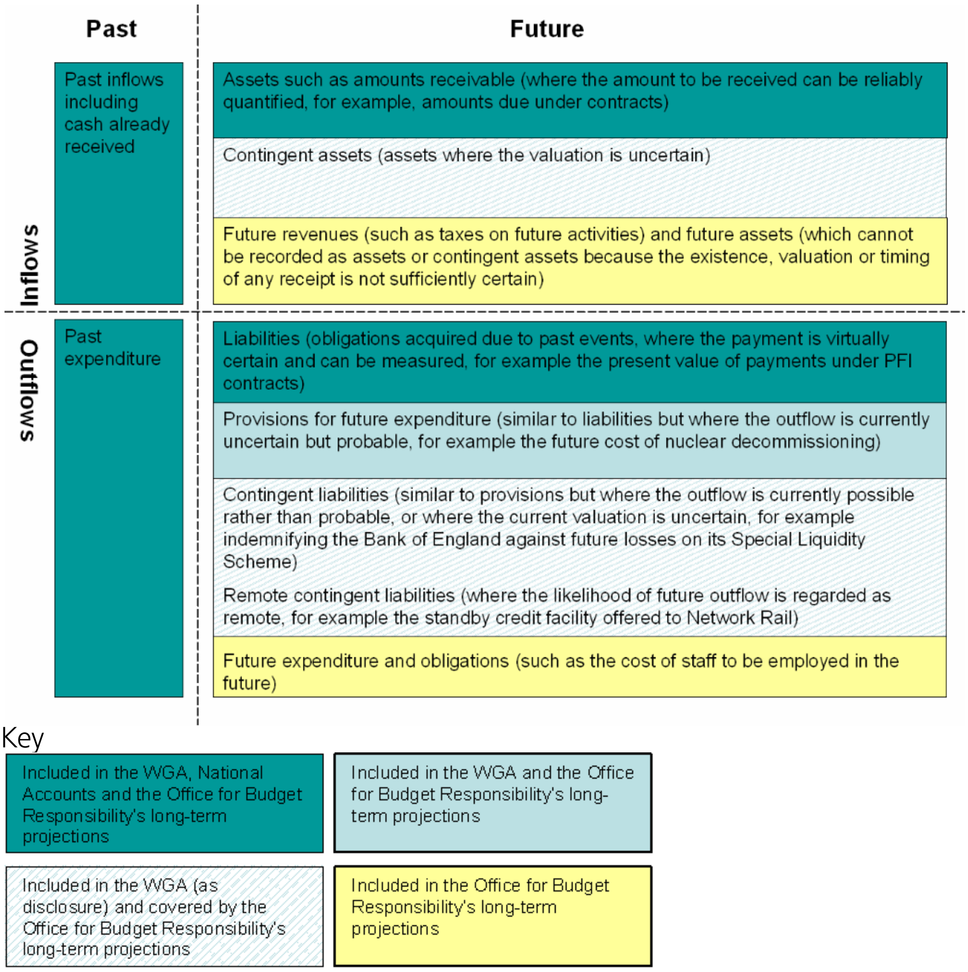
- public service pension assets and liabilities netting to £1,132.3 billion as at 31 March 2010;[32]
- provisions totalling £101.6 billion to cover future spending that will be needed to meet current obligations in areas such as decommissioning legacy nuclear facilities;[33] and
- contingent liabilities (which will only arise if certain future events occur, for example through indemnities provided to the Bank of England) of £206.4 billion.[34]

[31] See http://www.hm-treasury.gov.uk/national_statistics.htm
[32] WGA note 27.
[33] WGA note 25.
[34] WGA note 33.2. There are also unquantified contingent liabilities listed in notes 33.3 and 34.2.

7.31 Neither the WGA nor the *National Accounts* reflect the government's future ability to raise taxes or the estimated value of assets or liabilities relating to future events. The Office for Budget Responsibility produces long-term projections of future public sector income and spending as a percentage of the UK's gross domestic product, which are informed by the *National Accounts* and the WGAs (Figure 3).

Figure 3

The relationship between data in the WGA, *National Accounts* and Office for Budget Responsibility's long-term projections



NOTES

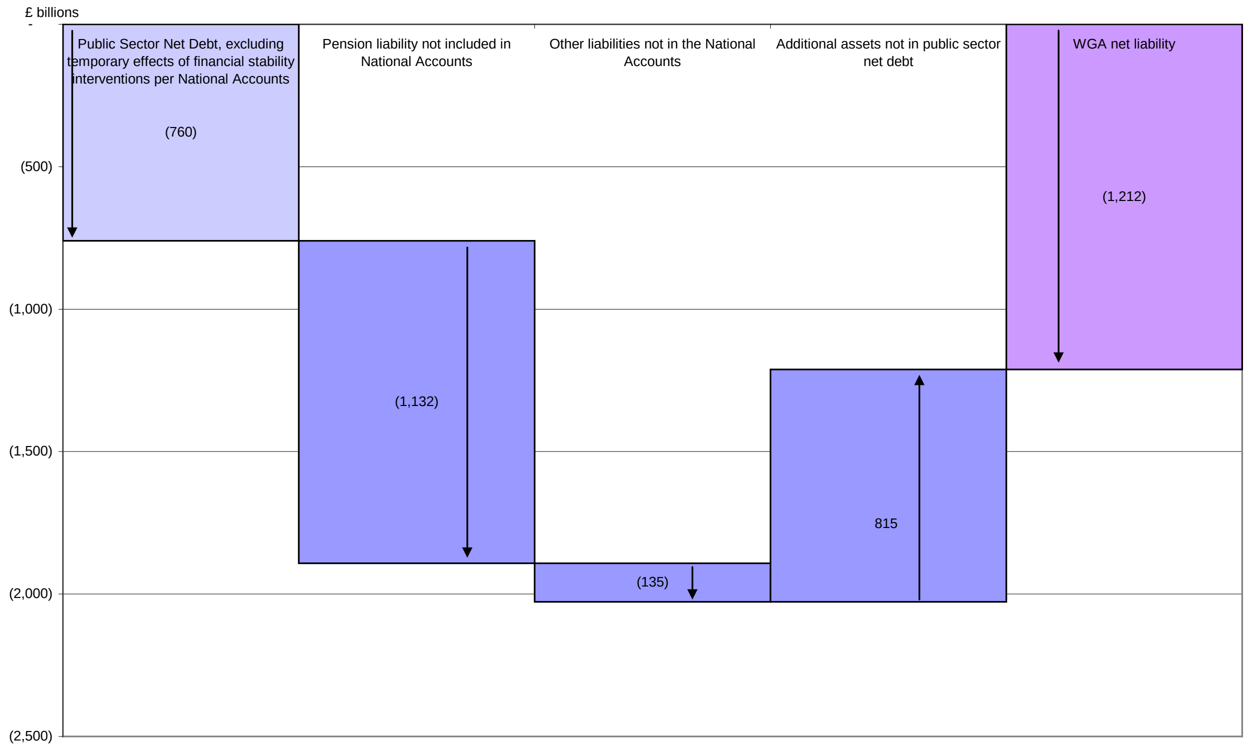
1. Figure shows the inflows and outflows covered by the WGA, the *National Accounts*, and the Office for Budget Responsibility's long-term projections.
2. The Office for Budget Responsibility's long-term projections do not include future physical assets

Source: National Audit Office analysis.

7.32 The main indicator of the government's financial position that the Treasury uses in its fiscal planning is public sector net debt, as published in the Public Sector Finances Statistical Bulletin, a publication based on *National Accounts* produced jointly by the Office for National Statistics and the Treasury.[35] As at 31 March 2010, public sector net debt was £760.0 billion (using the version of this measure that excludes the temporary effects of financial sector interventions). The nearest accounting equivalent in the WGA is the 'net liability'. The key differences are that the net liability includes pension liabilities, provisions for future spending that will be needed to meet current obligations, PFI liabilities which are not included in the *National Accounts* and assets that are reported in the *National Accounts* but not included in the net debt figure. Reflecting this wider scope, the net liability in the WGA was 59 per cent higher at £1.2 trillion than public sector net debt (Figure 4).[36] The net liability represents the difference between the public sector's £2.4 trillion liabilities and its £1.2 trillion assets as recorded in the 2009-10 WGA.

Figure 4

WGA and Public Sector Finances measure of the public sector debt as at 31 March 2010 (£ billions)



NOTES

1. The measure of public sector net debt used excludes the temporary effects of the financial stability interventions.
2. The adjustment of £815 billion additional assets includes assets that are reported in the *National Accounts* but excluded from the calculation of the public sector net debt, using statistical reporting standards.
3. The £135 billion represents liabilities included in the WGA but not in the *National Accounts*. It consists of £102 billion of provisions for future expenditure, £23 billion liabilities under PFI contracts and £10 billion other differences.

Source: Treasury reconciliation of net liabilities in the WGA to public sector net debt in the Public Sector Finances Statistical Bulletin.

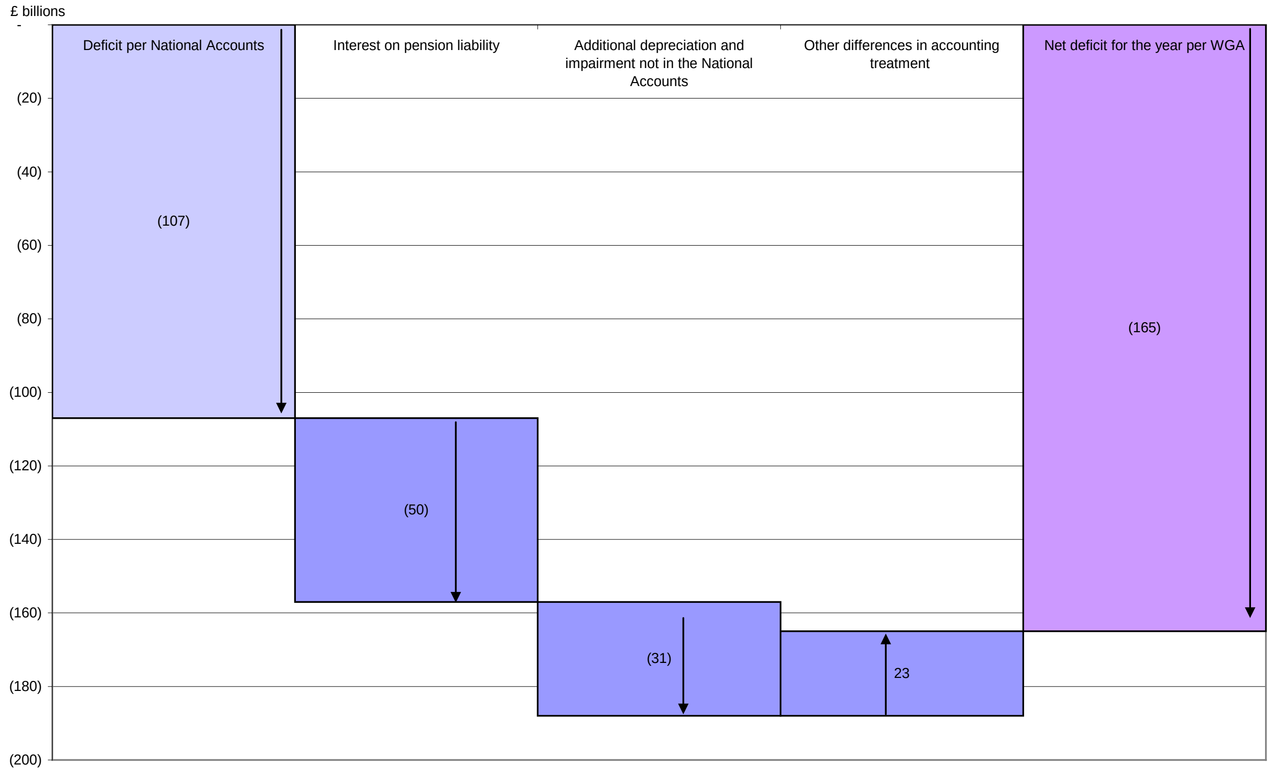
[35] http://www.hm-treasury.gov.uk/national_statistics.htm

[36] A trillion is one thousand billion (1,000,000,000,000).

7.33 The public sector current deficit in the Public Sector Finances Statistical Bulletin was £107 billion in 2009-10 (excluding financial interventions). The nearest equivalent in the WGA is the net deficit for the year. This is the public sector equivalent of a private sector company making a loss in a single year and, at £164.5 billion in 2009-10, was more than 50 per cent higher than the equivalent measure used in the Public Sector Finances Statistical Bulletin (Figure 5).

Figure 5

Comparing the WGA and Public Sector Finances measure of the annual deficit for 2009-10 (£ billions)



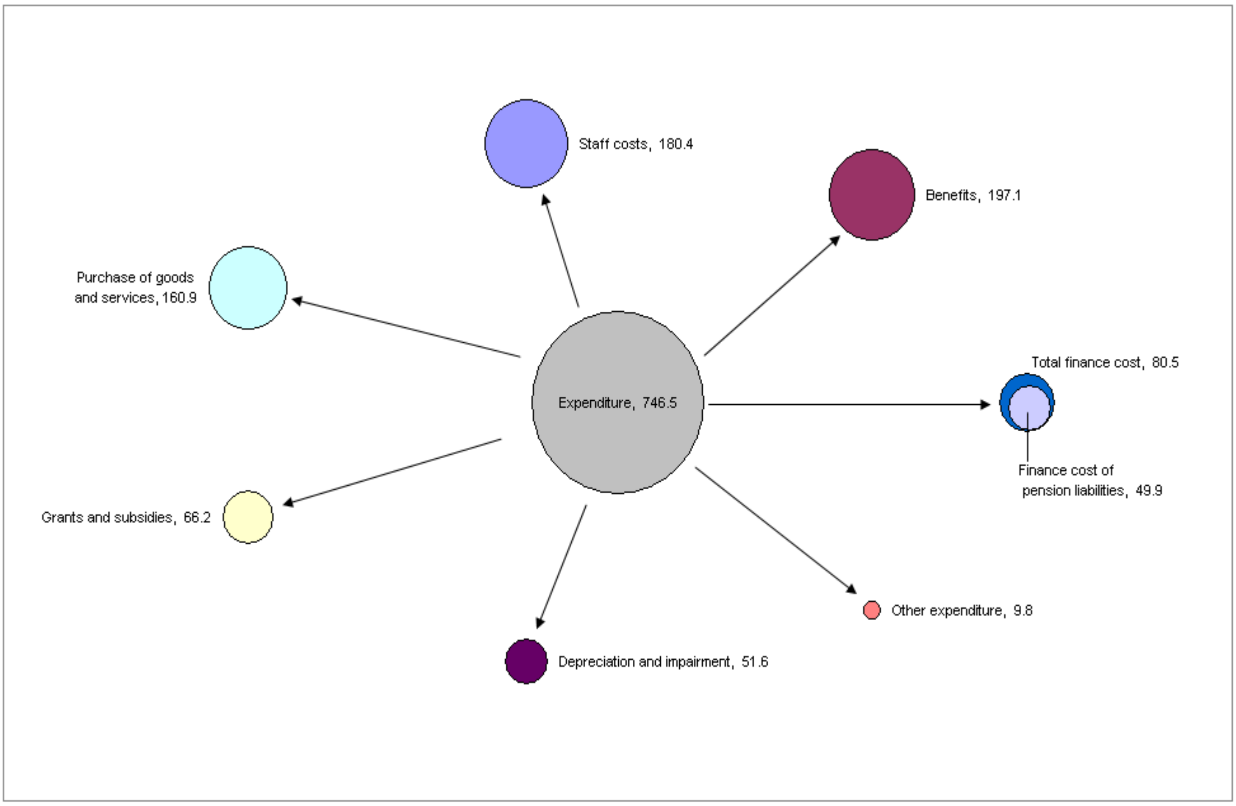
Source: Treasury reconciliation of the deficit in the WGA to the deficit in the Public Sector Finances Statistical Bulletin.

The WGA shows what total public spending was in 2009-10, but does not provide a detailed analysis of where it was spent

7.34 The WGA shows that in 2009-10, the public sector spent £746.5 billion. It shows how this spending was distributed across central government, NHS trusts, local government and public corporations.[37] It also analyses the distribution of spend by type, which shows that the largest components were state benefits (£197.1 billion), staff costs (£180.4 billion) and the purchase of goods and services (£160.9 billion) (Figure 6).

Figure 6

Government spending in 2009-10 (£ billions)



NOTES

1 Total expenditure is net of items which are netted off expenditure in the WGA, which includes intra-government transactions removed, the release of provisions no longer required, investment revenue, and expected return on pension assets.

Source: WGA, Consolidated statement of revenue and expenditure.

7.35 By excluding any analyses of spending across the main policy areas of government such as defence, health and education, which are examined in the *National Accounts* and the *Public Expenditure Statistical Analyses*, the WGA 2009-10 does not fully comply with requirements for segmental reporting under International Financial Reporting Standards. This could limit Parliament and the public's understanding of how, and where, public resources have been used or the reasons for trends over time. There are additional areas where, although not required by accounting standards, the WGA 2009-10 could have provided more analysis to support transparency and scrutiny:

- it could show spending within individual nations or regions;
- it could provide the same level of detail disclosed in the accounts of those bodies covered by the WGA. For example, *Note 8: Expenditure on purchases of goods and services*, provides an

[37] WGA note 2.

analysis by government sector rather than by type of spending such as consultancy, accommodation costs, staff training or charges under PFI arrangements; and

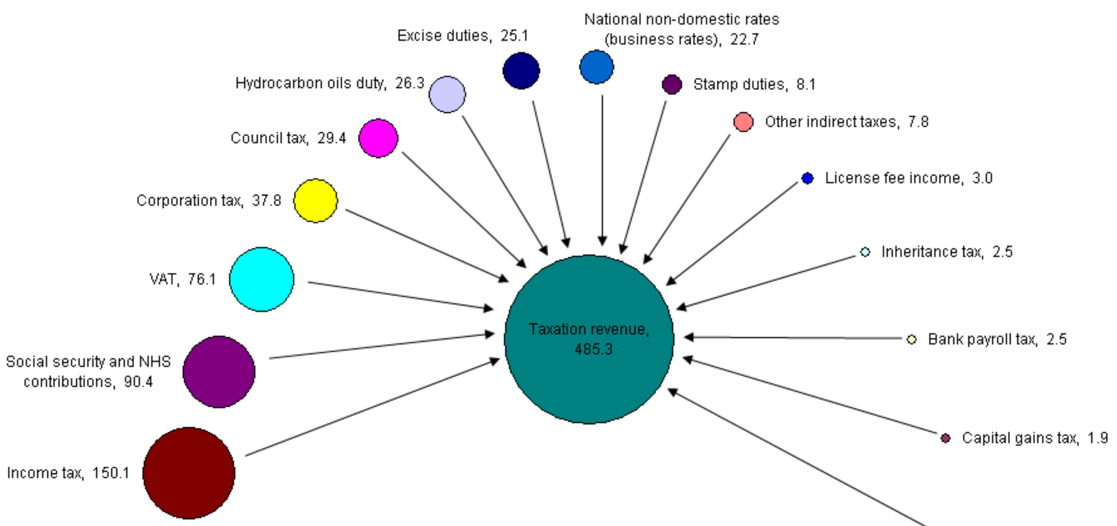
- it could show the major flows of funds betweens particular government sectors and bodies, for example the grants paid by central government departments to local authorities.

The WGA gives a full account of revenue from taxation and details of government borrowings

7.36 The government funds its activities through a combination of income (mainly taxation) and borrowing. The WGA shows that the revenue from each of the main taxes and duties totalled £485.3 billion in 2009-10 (Figure 7), which was 34.5 per cent of gross domestic product.

Figure 7

Taxation revenues in 2009-10 (£ billions)



NOTES
1. Figures differ from those reported in the accounts of HM Revenue & Customs because £107.2 billion of transactions with other WGA bodies have been removed. This includes public sector employers' national insurance contributions.
2. Bank payroll tax is included within income tax in the WGA.
Source: National Audit Office analysis of WGA note 3.

7.37 The WGA gives a figure of £965.6 billion for total outstanding central government borrowing[38] consisting of £803.8 billion of gilts, £63.0 billion of Treasury bills and £98.8 billion of National Savings & Investment products. The WGA also shows other liabilities have been incurred to fund the public sector's activities, including:

- £31.0 billion of bank and other borrowings, including those held by local authorities;[39]

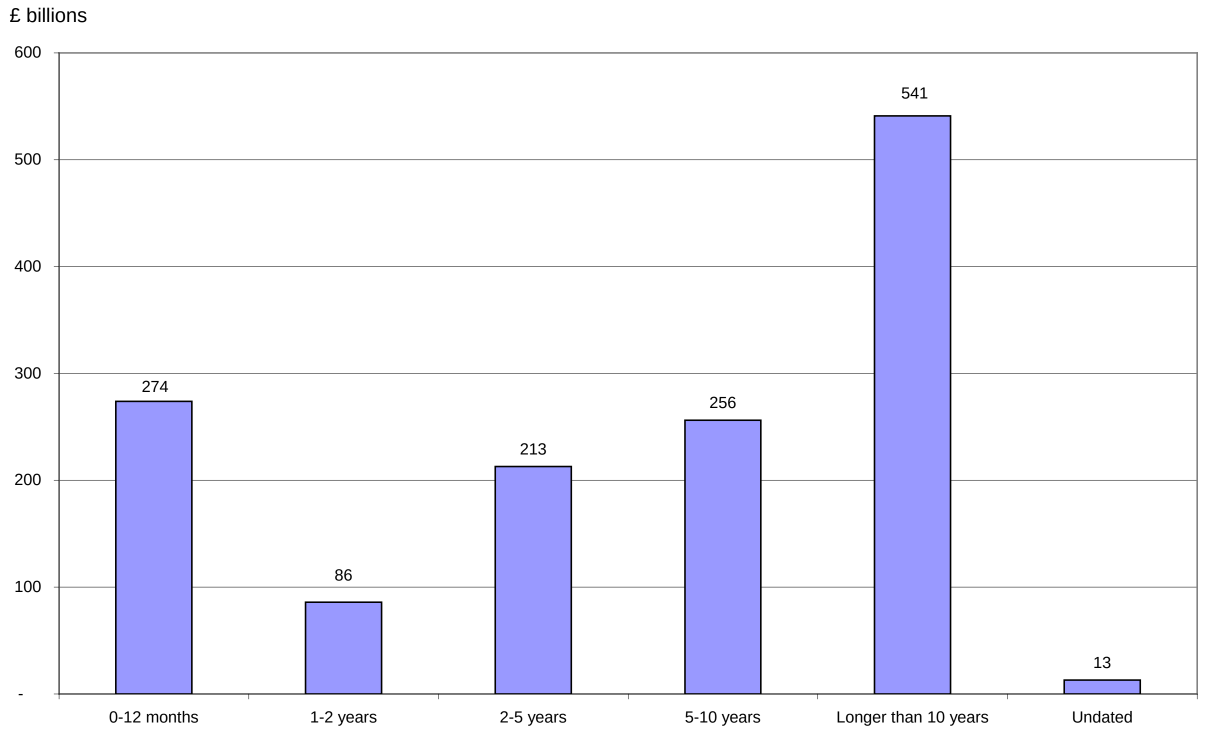
[38] WGA note 24.
[39] WGA note 23.

- £18.1 billion of liabilities created by money market operations[40] used to meet the Government's cash requirement;[41] and
- overdrawn bank accounts of £2.6 billion held at the Office of the Paymaster General.[42]

7.38 As debts come to the end of their term, the original amount must be repaid. As at 31 March 2010, financial liabilities (debts) held by the Treasury, Debt Management Office, the National Loans Fund and the Exchange Equalisation Account of £273.9 billion were due in 2010-11 (Figure 8). This total includes £39.1 billion gilts and all £63.0 billion Treasury Bills issued during 2009-10. Other bodies, such as local government, do not provide details of when debts are due in their WGA returns.

Figure 8

Maturity profile of financial liabilities



NOTES

1. Undiscounted financial liabilities held by HM Treasury, Debt Management Account, National Loans Fund, and the Exchange Equalisation Account

Source: WGA note 36.5.3.

Not all public bodies in the WGA use the same accounting framework, but the Treasury is addressing this

7.39 One of the aims of the WGA is to encourage public bodies to align accounting policies, to support direct comparisons between organisations. The chosen accounting framework for the WGA is the International Financial Reporting Standards adapted for the public sector[43]. Where individual accounts use different accounting frameworks, the data in these accounts should be adjusted by the Treasury, where there are material inconsistencies, so that the WGA can be prepared on a consistent basis.

[40] Sale and repurchase agreements where a bank sells securities to the public sector for later repurchase.

[41] WGA note 26.

[42] WGA note 20.

[43] The Government Financial Reporting Manual (FReM)

7.40 Local government organisations did not prepare their 2009-10 accounts in line with International Financial Reporting Standards. The Treasury did not adjust the data supplied by local government to take account of this. This should improve for 2010-11 when local government organisations are preparing their 2010-11 accounts in line with International Financial Reporting Standards.

7.41 Using the same financial reporting standards would improve the quality of data in the WGA, although in some instances those standards allow a choice of accounting treatments. For example, local government organisations value infrastructure assets, such as local road networks, at their original cost rather than their replacement cost, as required by the central government accounting framework. The Treasury estimates that this resulted in the value of such assets in the WGA being understated by at least £200 billion (86 per cent).[44] Local government organisations do not expect to be able to provide a valuation of their infrastructure assets on a basis consistent with central government until 2012-13. Different approaches may be appropriate for the accounts of individual public bodies but, for the WGA, a common accounting treatment should be used for consistent financial reporting.

7.42 The Treasury has not been able to fully quantify the impact of the different accounting frameworks or policies on the WGA. However, the most significant impact is expected to be limited to certain areas of the accounts, such as assets. Therefore, the information currently presented in the WGA is still useful to give a view of the public sector and is broadly on the same basis on which large private-sector companies report.

WGA may inform fiscal planning by providing a range of information on the government's financial position

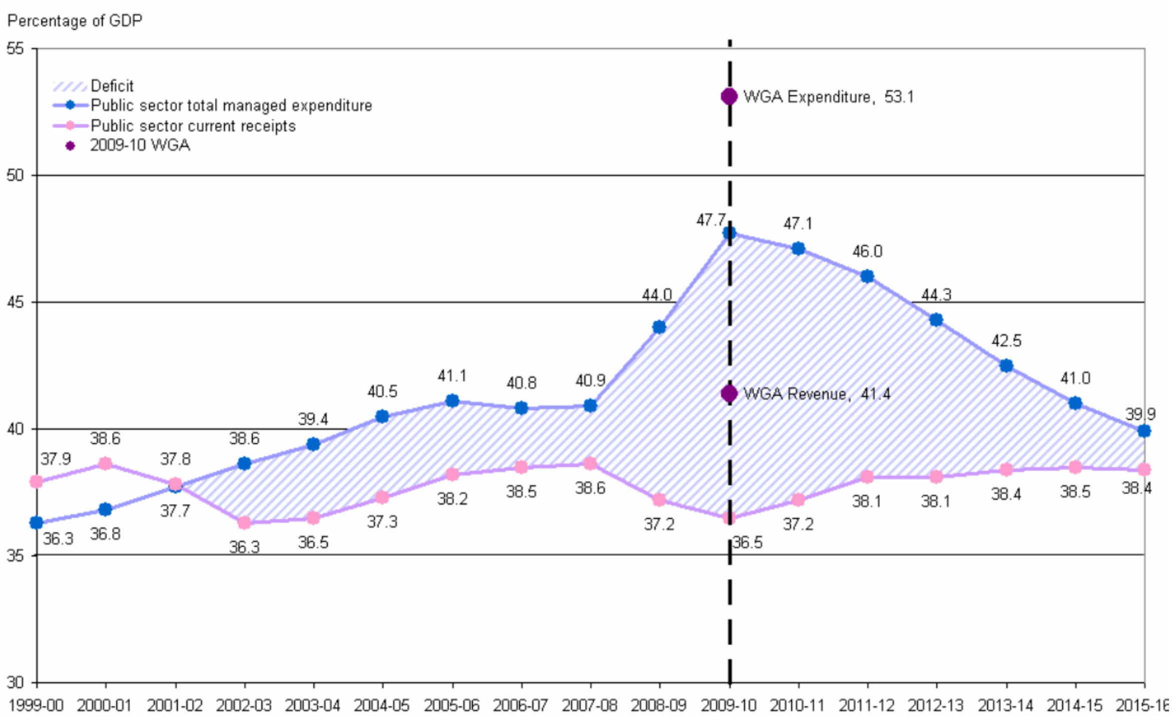
7.43 The WGA is consistent with accounting standards in only including information that can be reliably estimated, and excluding the value of revenue, liabilities and assets arising from future transactions or events that are too uncertain to include. For example, pension liabilities for the past service of public sector employees can be reliably estimated and are included in the WGA, but the cost of future service by current or future employees is less certain and is therefore excluded. The WGA also excludes the present value of future tax revenues for the same reasons. As a set of accounts, WGAs can *inform* long-term fiscal analysis and decision-making, but they are not designed to *measure* the government's long-term position.

[44] WGA note 14.1.

7.44 It is too early to say how the WGA will actually be used to inform the preparation of longer-term fiscal projections in practice. However, the Office for Budget Responsibility, a non-departmental public body established under the Budget Responsibility and National Audit Act 2011, confirmed that it drew on the unaudited WGA published by the Treasury in July 2011[45] in preparing its first annual report on the sustainability of the public finances.[46] Figure 9 shows the Office for Budget Responsibility's forecast of how the public deficit will change over the next few years.

Figure 9

The Office for Budget Responsibility has forecast that the public deficit will reduce as a percentage of gross domestic product, mainly through reducing spending



NOTES

1. Figure shows actual spending and receipts up to 2009-10, which the Office for Budget Responsibility sourced from the Treasury's Public Sector Finance's databank, and forecasts up to 2015-16.

Source: Office for Budget Responsibility, Economic and Fiscal Outlook March 2011, http://budgetresponsibility.independent.gov.uk/wordpress/docs/economic_and_fiscal_outlook_23032011.pdf and supplementary tables http://budgetresponsibility.independent.gov.uk/pubs/obr_fiscal_supplementary_tables1.xls ; and WGA 2009-10

7.45 The Office for Budget Responsibility considers that the WGA is more complete than the *National Accounts*, but the additional information included in the WGA is subject to greater uncertainty. The uncertainties include the impact of varying the discount rates used to calculate the present value of future liabilities. For example, the net public service pension liability in WGA increased by 41 per cent to £1,132.3 billion between March 2009 and March 2010 largely as a result of changes to the discount

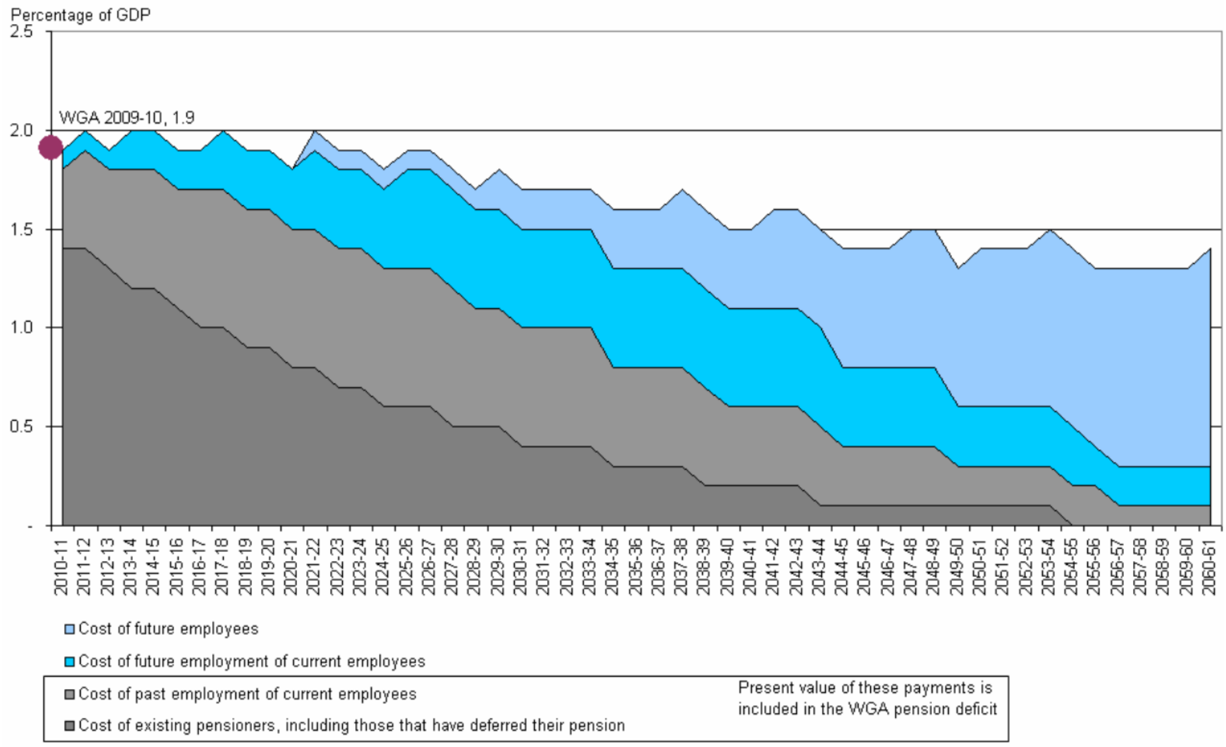
45 www.hm-treasury.gov.uk/press_78_11.htm

46 Office for Budget Responsibility, Fiscal Sustainability Report, July 2011. http://budgetresponsibility.independent.gov.uk/wordpress/docs/FSR2011.pdf

rate.[47] The June 2010 budget announced that the inflation assumption will be based on the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). This development is likely to reduce the pension liability and finance cost of the pension in future years' WGA, and it will change cash payments from 2011-12. Against this background, the Office for Budget Responsibility's long-term projection is for a fall in future pension payments over the next few decades to 1.4 per cent of gross domestic product by 2060-61, which shows that the increase in pensions liabilities reported in WGA 2009-10 must be put in a wider context (Figure 10).

Figure 10

Pension costs, for future service and future new entrants, are an important part of the long-term financial position of the public sector



NOTES

1. Figure shows the Office for Budget Responsibility's July 2011 long-term projections for future public service pension payments as a percentage of gross domestic product.
2. The WGA pension liability does not include future payments for future service by current or future employees, in accordance with International Financial Reporting Standards.
3. Note 27.2 to the 2009-10 WGA shows payments of £26.9 billion on the unfunded schemes (1.9 per cent of 2009-10 gross domestic product). This does not include any payment on the funded schemes, which are netted off the scheme assets.

Source: Office for Budget Responsibility, Fiscal Sustainability Report, July 2011.

[47] WGA note 1.21.5 shows that while general government, including central government and the NHS, used a discount rate of 1.8 per cent rate based on corporate bonds, local government used higher discount rates of between 5.5 and 5.8 per cent (nominal), set according to the judgement of each local authority. A higher discount results in a reduced liability. Pension liability figures from WGA note 27.2.

The time taken to prepare the WGA may limit how far it meets its objectives

7.46 To publish audited WGAs is a significant undertaking for the Treasury, requiring co-ordinating and consolidating some 1,500 accounts and removing transactions between them. The Treasury planned on publishing the first set of audited accounts for the 2005-06 financial year by 2006, and took a further five years to achieve this (Figure 11). The delay mostly reflected the Treasury widening the scope of the unpublished WGA from central to local government organisations from 2004-05, and central government adopting the International Financial Reporting Standards, adapted for the public sector, from 2009-10.

Figure 11

The development of public financial reporting since 1995

1995	In May 1995, the Committee of Public Accounts recommend that a WGA be produced for central government. July 1995 White Paper proposes Government produces its accounts on a resource, rather than cash, basis.
1998	March 1998 Code for fiscal stability requires Government to produce a WGA.[48] Treasury publishes a scoping study in July 1998 which proposes publishing an audited WGA covering 2005-06 by 2006.
2000	Central Government publish audited accounts for 1999-00 on a resource basis. Government Resources and Accounts Act 2000 establishes a requirement to publish an audited WGA, but does not set a specific date to start.
2003	First dry-run WGA produced but not published. It covers only central government and relates to the 2001-02 financial year. The intention is to publish this Central Government Account from 2003-04 and then to extend the scope to the entire public sector. December 2003 Pre-Budget Report proposes publishing the full WGA starting with 2006-07.
2004	Scope of the 2004-05 dry-run WGA is extended to cover the entire public sector.
2007	March 2007 Budget announces that central and local government will adopt International Financial Reporting Standards for the 2008-09 accounts, and proposes that WGA for 2008-09 will be the first published.
2008	March 2008 Budget delays adopting the International Financial Reporting Standards and publishing the WGA by one year so that 2009-10 will be the first account published.
2010	March 2010 Statutory Instrument (legislation) specifies that WGA must be published by 31 December 2011. Central Government publish audited accounts for 2009-10 under International Financial Reporting Standards.

Source: National Audit Office

[48] http://archive.treasury.gov.uk/pub/html/docs/fpp/1998/code/cfs.pdf

7.47 The 2009-10 accounts were published some nineteen months after the end of the financial period to which they relate. However, this was the first WGA that would be fully audited and the legislation foresaw that initial timetables would need to allow time to produce and audit an account of sufficient quality and depth.

7.48 The Treasury originally planned to publish the WGA 2009-10 in Spring 2011. This timetable proved to be unrealistic as the breadth and scale of the task were greater than the Treasury had initially anticipated. The Treasury is reliant on the data it receives from each of the bodies consolidated within the WGA and it needed to undertake more work than planned so that this data was of sufficient quality for WGA purposes. Additionally, although the Treasury had produced "dry run" accounts over the previous seven years, and had feedback from the National Audit Office following its review of each of these accounts, these accounts were incomplete and work was not drawn to a final conclusion. In bringing the WGA for 2009-10 to such a conclusion, there was additional work that had to be incorporated into the project plan covering the need to:

- produce good quality draft accounts;
- remove intra-group transactions and balances, within acceptable limits, and give sufficient and robust evidence to support the resulting adjustments;
- compile certain statements and figures within the account, such as those within the cash flow statement and where opening balances were included; and
- resolve a large number of issues and adjustments arising from the external audit process.

7.49 Publishing the WGA more quickly and efficiently would help decision-makers by providing more timely and comprehensive information. The Treasury has identified[49] actions to help address, or partly address, a number of the issues I have identified in my report, namely:

- including additional bodies into the WGA;
- addressing inconsistencies around PFI reporting, which will improve disclosing existing commitments;
- improving the consistency of the WGA by ensuring that all local government data is reported using the International Financial Reporting Standards from 2010-11; and
- adopting depreciated replacement cost for valuing highways infrastructure assets by local authorities by 2012-13.

7.50 The Treasury could take further steps to help to strengthen preparing the WGA by:

- reviewing its accounting policies for the accounting treatments that have led me to qualify my audit opinion, for example, on the WGA boundary;
- assessing differences in accounting frameworks and ensuring that the WGA can be produced consistently and within a common accounting framework;
- considering whether it should seek additional powers to ensure that bodies to be consolidated into the WGA comply with the instructions for preparing the WGA returns in order to strengthen the quality and depth of information they provide; and
- considering how the process for identifying and agreeing intra-group transactions and balances could be improved.

[49] WGA Annex 5

7.51 In taking forward some of the issues above, it is important that the Treasury engages with bodies being consolidated into the WGA so that potential issues can be identified and resolved earlier in the process.

7.52 One example of where the Treasury will need to take more action is in relation to the inclusion of Academies. Academies have a 31 August year-end, so they have compiled their returns from a five month pro-rata of the audited accounts for the period to 31 August 2009, together with unaudited data to reflect subsequent activity to March 2010. Not all Academies submitted returns, and a small number of them were excluded as the Department for Education considered the financial data to be of poor quality. The Department was not able to substantiate the omitted figures for Academies or the reasonableness of their pro-rata of 2008-09 figures, and I estimate that this resulted in omissions of some £0.2 billion expenditure and £0.3 billion assets. The value of unaudited data included within WGA from the individual Academy returns for the period to March 2010 is £1.2 billion of expenditure and £2.2 billion of assets.

7.53 The Academy sector is expected to grow. In 2009-10 there were 181 Academies included in the WGA, and, by 1 October 2011, there are 1,350[50] Academies. The Treasury must continue to work with the Department for Education to put effective mechanisms in place so that they have more robust data to include in the WGA, and the impact this will have on future WGAs will be determined by the extent to which the uncertainties experienced with the 2009-10 data are addressed in returns for subsequent years.

Part Two: Qualifying the Comptroller and Auditor General's audit opinion

Introduction

7.54 As highlighted in Part 1 of my report, the breadth and scale of the WGA have presented a number of challenges for the Treasury as it compiled this account. A number of these have been difficult to resolve for this first year and, as a result, have led me to qualify my audit opinion. This part of my report explains why I have qualified my audit opinion on the 2009-10 WGA.

My obligations as auditor

7.55 Under the Government Resources and Accounts Act 2000, I am required to examine and certify the WGA. International Standards on Auditing (UK and Ireland) require me to obtain sufficient evidence to allow me to give reasonable assurance that the WGA is free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

Qualified opinion owing to multiple disagreements and limitation of scope of my audit

7.56 I have qualified my opinion on the WGA 2009-10 because in a number of important areas, the WGA does not comply with International Financial Reporting Standards as adapted for the public sector context[51], and this has had a material effect on the figures presented. My qualifications relate to:

- the definition of public bodies that the Treasury has used to determine the boundary of the WGA;
- the inconsistent application of accounting standards;

[50] Department for Education. http://www.education.gov.uk/schools/leadership/typesofschools/academies/b0069811/open-academies-and-academy-projects-in-development
[51] The Government Financial Reporting Manual (FReM)

- how the Treasury has accounted for income from the sale of 3G licences; and
- the qualification of the audit opinion of an account that is included in the WGA.

7.57 I have also limited the scope of my opinion on the WGA 2009-10 because of the following issues, which meant I was unable to obtain sufficient and appropriate audit evidence to base my opinion in certain areas:

- there was a lack of evidence to support the completeness of the intra-government adjustments to remove transactions and balances between the bodies included in the WGA; and
- issues arose within the audit opinions of an account included in the WGA where auditors have limited the scope of their audit.

Qualified audit opinion relating to the WGA boundary

7.58 I have qualified my opinion because, in my view, the Treasury has not complied with applicable accounting standards in determining which bodies to include in the WGA. Significant assets and liabilities have therefore been left out of the financial statements.

7.59 I cannot quantify the impact of this on the WGA with certainty, as I do not have information needed to identify the transactions that would have to be removed to provide a consolidated view. However, for illustrative purposes, I have examined the impact of adding the gross assets, liabilities, income and spending published in the individual accounts of public sector bodies that the Treasury did not include in the WGA. Although these figures are only illustrative, they demonstrate that the exclusions represent a material omission from the WGA (Figure 12).

Accounting policies

7.60 The definition of the whole of government boundary, and applying this definition, determines the content of the WGA. The Government Resources and Accounts Act 2000[52] allows the Treasury to define the WGA boundary. The Treasury has adopted the classifications of public bodies used by the Office for National Statistics in preparing the *National Accounts*.[53]

7.61 The Act also requires that the Treasury prepares the WGA so that they "*present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context*". The Treasury has established a framework[54] to support this requirement which is based on International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board. The *National Accounts* are based on the statistical standards set out in the European System of National and Regional Accounts 1995 (ESA 95). Financial statements and the *National Accounts* are each prepared for different purposes and are not therefore alternative views on the same issue - they can legitimately lead to different conclusions.

[52] Section 9, Government Resources and Accounts Act 2000.
[53] WGA note 1.21.1.
[54] The Government Financial Reporting Manual (FReM).

Figure 12

Gross accounts figures from bodies that have been excluded from WGA as compared to the total figures in the WGA (for illustrative purposes)

	Revenue (£bn)	Expenditure (£bn)	Net deficit for the year (£bn)	Assets (£bn)	Liabilities (£bn)	Net liability (£bn)
Figures in the WGA	582.0	(746.5)	(164.5)	1,207.5	(2,419.3)	(1,211.8)
Total values of the entities which have been excluded from the WGA	108.4	(108.7)	(0.3)	3,167.1	(3,006.7)	160.4
						Made up of:
Network Rail Ltd	5.7	(5.4)	0.3	41.7	(35.7)	6.0
State-owned banks (temporary ownership): Lloyds Banking Group plc and Royal Bank of Scotland Group plc	97.5	(96.8)	0.7	2,723.7	(2,585.0)	138.7
State-owned banks (longer-term ownership): Northern Rock (Asset Management) plc, Bradford & Bingley plc and Dunfermline Building Society.	1.8	(2.2)	(0.4)	138.4	(135.9)	2.5
Financial Services sector: Bank of England, Financial Services Authority and the Financial Services Compensation Scheme	1.3	(1.1)	0.2	243.5	(239.4)	4.1
Education sector: Further Education Institutions	-	-	-	12.6	(5.5)	7.1
Transport sector: London & Continental Railways Ltd, Tube Lines Ltd, and Directly Operated Railways Ltd	1.8	(3.1)	(1.3)	6.4	(5.2)	1.2
Other: NHS non-independent charities, and London Councils	0.3	(0.1)	0.2	0.8	0.0	0.8

NOTES

1. The additional bodies have been treated as if they had always been entirely owned by the public sector. In particular, for Royal Bank of Scotland and Lloyds Banking Group, no account has been taken of the residual private sector shareholdings. This means that a portion of the net deficit for the year and the net liability that is attributable to the remaining private sector shareholders has not been distinguished between that attributable to the public sector. This will overstate the quoted figures for the net liability and net deficit for the year.
2. Not all bodies have a March year-end: some of the figures relate to December 2010 (the banks) or February 2010 (the Bank of England).
3. To avoid double counting with the results of the Treasury and the Bank of England, no adjustment is made for the Bank of England Asset Purchase Facility Fund, because as at 28 February 2010 its £200 billion assets consisted mainly of £192.8 billion of gilts issued by the Treasury, £1.8 billion receivable from the Treasury and £3.8 billion cash deposited with the Bank of England and its £200 billion liabilities is entirely funding provided by the Bank of England.
4. No amounts are included for Northern Rock plc as these are already included through other accounts.
5. No amounts have been included for income and spending of Further Education Institutions because the majority of their operations are funded through government grants, which are included in WGA note 9. Their assets and liabilities have been estimated from data provided by

the Higher Education Funding Council for England.
6. The adjustment for the NHS Charities has been estimated by the Department of Health from 2007-08 Charity Commission data.

Source: National Audit Office analysis of WGA note 37 and published accounts.

7.62 In my view, the most appropriate basis to apply when compiling a set of financial statements would be the criteria set in the accounting standards. The Government Resources and Accounts Act requires the Treasury to prepare accounts for a group of bodies, *each of which appears to the Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money*. In describing the boundary for *National Accounts*, adopted by the Treasury for WGA, the statistical standards require including bodies that the Office for National Statistics has classified as 'public sector'. Public sector bodies are those where government has control over determining their general corporate policy. Accounting standards, however, require including bodies that are subject to government control, and define control as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities".[55]

7.63 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes Network Rail Ltd, a company limited by guarantee with the Department for Transport acting as one of the guarantors. Under accounting standards, Network Rail would be classified as being part of the public sector as the government's interest in the company is akin to an equity shareholder's interest. The government effectively gives security to the providers of debt finance to Network Rail and is acting as the lender of last resort in the event of financial difficulties. The government is the party bearing the risk that would normally be borne by equity capital if Network Rail were an equity-based company.[56] The Treasury, by excluding Network Rail, which had net assets of £6.0 billion at 31 March 2010, did not comply with the accounting standards that in my view prevail.

7.64 The Treasury has also not applied its own criteria consistently. As paragraph 7.26 and 7.27 highlights, there are a number of bodies that fall within both statistical and accounting definitions of government 'control' but have not been included in the WGA. These are set out in Annex 2 to the WGA and include:

- bodies that are not controlled by government, such as Parliament;
- a number of small bodies that have not been consolidated on the basis of size (Annex 3 to the WGA); and
- other bodies that are partly or wholly owned by the government, such as the Bank of England and Royal Bank of Scotland (Figure 12).

7.65 I consider it appropriate to exclude those bodies that are not controlled by the government, as this treatment meets with accounting standards. I also consider that it is acceptable to exclude the small bodies as they do not represent a significant exclusion from the WGA. However, by adopting generally accepted accounting standards, I consider that the bodies listed in Figure 12, where the government has the ability to control their activities, should be included in the WGA.

Actions by the Treasury

7.66 The Treasury set out in Annex 5 actions it intends to take to include further bodies into future WGAs. For 2010-11, it intends to include the Bank of England and London & Continental Railways Ltd. It aims to include Directly Operated Railways Ltd from 2011-12. It also intends to complete plans for the consolidation of Bradford & Bingley plc and Northern Rock (Asset Management) plc by the end of 2012-13 and will consider the status of other public sector entities not currently included in the WGA. However, the qualification of my opinion on this matter is likely to remain until all significant government-controlled entities, including Network Rail Ltd, are included in line with the accounting standards.

[55] IAS 27 – Consolidated and Separate Financial Statements.
[56] See Network Rail NAO ONS Joint Statement, www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/na-classifications/network-rail/ons---national-audit-office--nao--joint-statement-on-network-rail.pdf.

Recommendation for further action

7.67 The Treasury should review its criteria for including bodies in the WGA.

Qualification arising from disagreement relating to the inconsistent application of accounting policies

7.68 I have qualified my opinion because of the impact of the inconsistent application of accounting policies. This arises as the statutory accounts of the bodies included in the WGA were prepared on different bases and the Treasury did not make adjustments for these differences when consolidating these bodies.

The WGA accounting framework

7.69 The accounting framework that WGA must follow is set out in the Government Financial Reporting Manual which applies International Financial Reporting Standards, as adapted for the public sector context. However, for 2009-10, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that did not fully comply with the requirements of the Government Financial Reporting Manual.[57]

7.70 Under accounting standards,[58] the Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the WGA is prepared on the same basis. The Treasury has not undertaken a full assessment of these differences and has made no adjustments for differences in accounting policies. Without this assessment, I do not have the information to fully quantify the effect of this limitation.

7.71 The Treasury has identified one area of material misstatement in the WGA due to differences between the accounting policies of central and local government. The accounting framework used by local government requires local authorities to value their infrastructure assets using historic cost, but central government values assets at their depreciated replacement cost in line with the requirements of the Government Financial Reporting Manual[59]. The Treasury estimates that this difference in accounting treatment has resulted in an understatement of asset value of at least £200 billion[60].

Recommendations for further action

7.72 The Treasury should fully assess the extent of differences in accounting frameworks adopted by all the sectors in the WGA and make all the adjustments that are required to bring the accounts into line.

7.73 From 2010-11, the local government sector will adopt a revised framework that will follow International Financial Reporting Standards. Although this will bring this sector's accounting framework more in line with that of central government, the Treasury will still need to consider any remaining differences in accounting treatments. The complexities involved in moving the accounting for infrastructure assets from historic cost to depreciated replacement cost mean that this information will not be available until 2012-13. Until accounting frameworks are applied consistently, the qualification of my audit opinion will remain.

Qualification arising from limitation in audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

7.74 I have limited the scope of my opinion concerning the lack of evidence about the completeness and accuracy of removing intra-government transactions and balances, when the WGA was prepared.

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[57] Annex 4 to WGA

[58] IAS 27 – Consolidated and Separate Financial Statements

[59] As required under paragraphs 6.2.10 to 6.2.18 of the Government Financial Reporting Manual

[60] WGA note 14.1: The best proxy available for depreciated replacement cost is the calculated asset value used by the Office for National Statistics from their perpetual inventory model reflected in the National Accounts. The 2010 National Accounts estimated the value of the road network at £248 billion as at 31 December 2009, implying a likely understatement of at least £200 billion.

Accounting requirements

7.75 The WGA is a consolidated account which is prepared by including the financial activities of around 1,500 government controlled bodies. Transactions and balances between these bodies are removed so that income, expenditure, assets and liabilities are not overstated between bodies within the group, as required by accounting standards.[61]

7.76 To present a true and fair picture of the financial position and financial results of government, it is important that the removal of these intra-government transactions and balances are complete and accurate.

7.77 The Treasury collects information from each of the bodies in the WGA through specifically designed WGA information packs. Each body completes and submits these packs, which will have been audited by their external auditor, either directly to the Treasury or via a sub-consolidating body.

7.78 Within these packs, bodies must identify and report all intra-government balances, transactions, income and expenses that are over £1 million and the relevant counterparty. Examples of such transactions are where a central government department gives grants to local government, such as the Revenue Support Grant. With this information, the Treasury matches these balances and transaction streams and removes them from the WGA. The scale of this task is challenging and, as part of the preparation of the WGA for 2009-10, the Treasury removed significant values of transactions and balances (Figure 13).

Figure 13

Value of transactions removed from the WGA

	Gross value (£ bn)	Transactions removed (£ bn)	Net Value (£ bn)	Balance removed (%)
Income	964	382	582	39.6
Expenditure	1,200	453	747	37.8
Net cost for the year	236	N/A	165	N/A
Assets	1,737	529	1,208	30.5
Liabilities	2,652	232	2,420	8.7
Net liabilities	915	N/A	1,212	N/A

Source: National Audit Office analysis of WGA note 2.

7.79 I have considered the approach that the Treasury has taken in removing these intra-government transactions and balances during 2009-10. There is a process for bodies included in the WGA to identify these intra-government balances and for some level of agreement process to take place. However, there is a material residual uncertainty over some of the figures in the financial statements because the removal of transactions and balances is potentially incomplete and inaccurate. This uncertainty arises where:

- either of the entities declare different intra-government transactions or balances (requiring an assumption to be made as to the correct amount to remove); or
- where only one entity declares an intra-government transaction or balance (a particular issue between central and local government bodies); or
- where neither body declares an intra-government transaction or balance.

[61] IAS 27 – Consolidated and Separate Financial Statements, paragraph 20.

7.80 Using available evidence, I have estimated the level of uncertainty as being up to £17.0 billion in gross income and expenditure and up to £6.8 billion in gross assets and liabilities (Figure 14). I have reviewed the impact of the uncertain transactions on the financial statements and have concluded that the uncertainty mainly resides within the gross figures in the primary statements (between income and spending and separately between assets and liabilities). There are, however, some transactions which are not confined solely to one statement, such as grant-in-aid expenditure and grant-in-aid financing within reserves. This means that the potential impact of the uneliminated intra-government transactions and balances on the annual deficit and net liabilities is not likely to be zero. I estimate that the potential maximum impact of the uncertain transactions in Figure 14 could be up to £3.2 billion, which represents a possible misclassification between the annual deficit and net liabilities.

7.81 It is the significance of the estimated level of gross uncertainty within the statements, and the potential gross overstatement of income, expenditure, assets and liabilities, which has led me to qualify my opinion rather than the potential impact on the annual deficit or net liabilities.

Figure 14

Sources of uncertainty about transactions removed and the impact on the financial statements

	Sources of uncertainty			
	Entities declaring different intra-government transactions or balances (£bn)	Only one entity declares an intra-government transaction or balance (£bn)	Neither entity within an expected relationship declares an intra-government transaction or balance[62] (£bn)	Impact on the financial statements (potential overstatement) (£bn)
Consolidated statement of revenue and expenditure	3.7	7.3	6.0	17.0
Consolidated statement of financial position	1.2	5.1	0.5	6.8

Source: National Audit Office analysis.

Recommendations for further action

7.82 The Treasury needs to undertake further work to reduce the uncertainties in removing intra-government transactions and balances in future years. It needs to enhance the process so that bodies in the WGA provide more robust information about their transactions and balances with other bodies, and to better identify relevant counterparties. From 2011-12, the process to widen the resource accounting boundaries for central government departments (under the Clear Line of Sight project) could also lead to more intra-government transactions and balances being removed from the accounts of individual bodies. Removing more intra-government transactions would allow the Treasury to reduce the uncertainties I have identified.

7.83 If the Treasury can strengthen its process and get better information to reduce the level of uncertainties within acceptable levels, I may be able to remove this qualification in future years.

[62] Calculated with reference to transaction streams and balances that are expected to be fully removed.

Qualification arising from disagreement in the accounting for 3G licences

7.84 I have qualified my opinion because I consider that the Treasury has not complied with accounting requirements regarding accounting for the income from the sale of 3G licences in April 2000. The impact of this on the 2009-10 WGA is that income is understated by £1.1 billion, liabilities are understated by £11.4 billion and the general fund is understated by £11.4 billion.

Accounting requirements

7.85 In April 2000, the government sold five licences for using the electromagnetic spectrum for third generation mobile phone services (3G). They sold the licences in auction and raised some £22.5 billion. All licences were paid for at this date and receipts were surrendered by the Radiocommunications Agency in full to the Consolidated Fund. The accounts of the Consolidated Fund are prepared on a cash basis and this particular receipt was properly accounted for in its 2000-01 financial statements.

7.86 In my view, income arising from this auction has been accounted for incorrectly in the WGA. Following accounting standards,[63] as licence holders have the right to access the spectrum for 20 years and there is an ongoing performance obligation to maintain the airwaves, a more correct accounting treatment would be to recognise this income over 20 years rather than in the first year.

7.87 The Treasury does not agree with this view and, as disclosed in Note 1.21.3 to the WGA, believes that there are no additional performance obligations. Therefore, the Treasury has not adjusted the WGA for this transaction and I have qualified my opinion based on my disagreement of this material issue.

Recommendations for further action

7.88 The Treasury should, in my view, adjust the WGA for this transaction and, where there are future transactions of this nature, account for them in line with the accounting standards.

Qualification arising from disagreement and limitation in audit scope from underlying statutory audits of bodies in the WGA

7.89 Where the external auditors of bodies in the WGA qualify their opinions on the statutory accounts, I am required to consider the impact of these qualifications on my opinion on the WGA. In 2009-10, external auditors qualified their opinions of some 29 accounts (Annex 1 to the WGA).

7.90 The most significant of these relates to the *Departmental Resource Accounts* of the Ministry of Defence where I qualified my audit opinion. Given they also have a material impact on WGA, I have also qualified my opinion on the WGA. More details of my qualification can be found in my audit opinion and within the Ministry's own annual accounts.[64]

7.91 I will assess the impact of any qualifications on the statutory accounts for the 2010-11 audit of WGA. However, due to aspects of the Ministry of Defence qualification remaining, it is likely that this qualification will remain in place.

Other issues on which I have not qualified my opinion

7.92 There are a number of other issues that I wish to draw attention to, although I have not qualified my opinion about these issues:

- I have included an emphasis of matter paragraph in my audit opinion for one account that is significant to the WGA, highlighting an area that is significantly uncertain in the values reported. This value has been calculated based on reasonable assumptions, but could change with future

[63] IAS 18 – Revenue

[64] www.mod.uk/NR/rdonlyres/F10E990E-C296-48B1-9838-B3006C1F8DCB/0/mod_ra0910.pdf

events. This relates to the uncertainties in estimating costs of the liabilities of the Nuclear Decommissioning Authority.

- the external auditor of some 16 bodies included in the WGA, qualified their audit opinions owing to the material existence of irregular spending; that is using resources not in accordance with Parliamentary intentions. Of these, two are of significance to the WGA. These cover error and fraud in benefit payments and tax credit payments. These irregularities lead me to qualify my regularity opinion on the resource accounts of the Department for Work and Pensions since 1988-89 and the trust statement of HMRC since 2003-04. Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, irregular transactions do not lead to a qualification of my audit opinion on the WGA.

Amyas C E Morse
Comptroller and Auditor General
31 October 2011

National Audit Office
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8 Whole of Government Accounts

Consolidated Statement of Revenue and Expenditure

For the year ended 31 March 2010

	Note	**£bn**
Taxation revenue from direct taxes	*3*	(285.2)
Taxation revenue from indirect taxes	*3*	(148.0)
Taxation revenue from local taxes	*3*	(52.1)
Revenue from sales of goods and services	*4*	(51.0)
Other revenue	*5*	(45.7)
Total revenue		**(582.0)**
Social security benefits	*6*	197.1
Staff costs	*7*	180.4
Purchase of goods and services	*8*	160.9
Cost of grants and subsidies	*9*	66.2
Depreciation and impairment charges	*10*	51.6
Provision expense	*25*	(17.0)
Other expenditure	*11*	26.5
Total expenditure		**665.7**
Net deficit before financing costs		**83.7**
Investment revenue	*12*	(4.3)
Finance costs	*13*	34.9
Interest on pension scheme liabilities	*27*	58.9
Expected return on funding pension schemes' assets	*27*	(9.0)
Net financing costs		**80.5**
Net loss on sale of assets		0.3
Net deficit for the year		**164.5**

Consolidated Statement of Financial Position

As at 31 March 2010

	Note	£bn
Non-current assets		
Property, plant and equipment	*14*	708.0
Investment property	*15*	14.6
Intangible assets	*16*	36.3
Trade and other receivables	*17*	40.0
Equity investment in the public sector banks	*18*	65.3
Other financial assets	*21*	89.6
Total non-current assets		**953.8**
Current assets		
Inventories	*19*	12.4
Trade and other receivables	*17*	125.7
Cash and cash equivalents	*20*	8.1
Gold holdings		7.3
Other financial assets	*21*	100.2
Total current assets		**253.7**
Total assets		**1,207.5**
Current liabilities		
Trade and other payables	*23*	(102.5)
Government borrowing and financing	*24*	(200.9)
Provisions for liabilities and charges	*25*	(15.4)
Other financial liabilities	*26*	(36.3)
Total current liabilities		**(355.1)**
Net current liabilities		**(101.4)**
Total assets less current liabilities		**852.4**

Non-current liabilities		
Trade and other payables	*23*	(73.7)
Government borrowing and financing	*24*	(764.7)
Provisions for liabilities and charges	*25*	(86.2)
Net public service pension liability	*27*	(1,132.3)
Other financial liabilities	*26*	(7.3)
Total non-current liabilities		**(2,064.2)**
Net liabilities		**(1,211.8)**
Financed by Taxpayers' Equity:		
Liabilities to be funded by future revenues		
General reserve	*SoCTP*	1,414.6
Revaluation reserve	*SoCTP*	(218.6)
Other reserves	*SoCTP*	15.8
Total liabilities to be funded by future revenues		**1,211.8**

The financial statements and supporting notes and annexes on pages 71 to 203 were approved by Andrew Hudson as the Accounting Officer for Whole of Government Accounts on 27 October 2011.

Andrew Hudson
Accounting Officer
27 October 2011

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2010

	Note	General reserve £bn	Revaluation reserve £bn	Other reserves £bn	Total £bn
Changes in taxpayers' equity for 2009-10					
At 1 April 2009		970.7	(205.0)	15.6	781.3
Net deficit for the year	*SoRE*	164.5	-	-	164.5
Net gain on revaluation of property, plant and equipment		-	(7.0)	-	(7.0)
Net gain on revaluation of available for sale financial assets		-	(11.3)	-	(11.3)
Actuarial loss on pension liabilities	*27.2*	286.8	-	-	286.8
Receipt of donated and government granted assets		(1.1)	-	(0.3)	(1.4)
Other movements on reserves		(1.8)	0.3	0.4	(1.1)
Transfers between reserves		(4.5)	4.4	0.1	-
Balance at 31 March 2010		**1,414.6**	**(218.6)**	**15.8**	**1,211.8**

General reserve includes the pension reserves and government grant reserves. Revaluation reserve includes assets available-for-sale. Other reserves include the donated assets reserve, the hedging reserve and reserves restricted for specific purposes.

Consolidated Cash Flow Statement

For the year ended 31 March 2010

	Note	£bn
Cash flows from operating activities		
Net deficit before financing costs	*SoRE*	83.7
Adjusted for non-cash transactions	*28*	(21.6)
Increase in trade and other receivables		5.0
Increase in inventories		0.8
Decrease in trades and other payables		2.1
Use of provisions	*25*	11.9
Net cash outflow from operating activities		**81.9**
Cash flows from capital expenditure and financial investment		
Purchase of non-financial assets		45.8
Proceeds from disposal of non-financial assets		(2.6)
Payments to acquire financial assets		331.2
Proceeds from disposal of financial assets		(244.4)
Net loans to students		4.3
Net cash outflow from capital expenditure and financial investment		**134.3**
Net cash outflow before financing activities		**216.2**
Cash flows from financing activities		
Investment revenue	*12*	(4.3)
Finance costs (excluding finance leases and PFI contracts)	*13*	32.7
Finance charges in respect of finance leases and PFI contracts	*13*	2.2
Increase in gilt edged stock		(218.1)
Increase in bank and other borrowings		(24.9)
Increase in other/non-trade receivables		1.7
Decrease in other/non-trade payables		5.8
Other financial liabilities - net cash inflows		(10.4)
Net cash inflow from financing activities		**(215.3)**
Net decrease in cash and cash equivalents	*20*	**0.9**
Cash and cash equivalents at the beginning of the period	*20*	**9.0**
Cash and cash equivalents at the end of the period	*20*	**8.1**

Notes to the Accounts

Note 1. Statement of accounting policies

1.1 Statement of compliance

These financial statements have been prepared by HM Treasury in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2009-10 Government Financial Reporting Manual *(*FReM*)*. The accounting policies contained in the FReM apply EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Adaptations and interpretations of IFRS are agreed by the Financial Reporting Advisory Body (FRAB), who are responsible for the setting of accounting standards in government. Chapter 14 of the 2009-10 FReM describes the specific adaptations and interpretations of the accounting standards for WGA. The main adaptations and interpretations of IFRS provided in the FReM are:

- IAS 1 '*Presentation of Financial Statements*' is interpreted for WGA such that for the first year of publication, WGA shall comprise a Statement of Revenue and Expenditure, Statement of Cash Flow and Statement of Changes in Taxpayers' Equity for the reporting year only, and should not provide comparatives in the first year of publication;
- IAS 10 '*Events after Reporting Period*' is interpreted for WGA such that the requirement that the financial statements be adjusted for significant transactions or events that occur between a WGA entity's reporting date and the WGA reporting date does not apply;
- IAS 27 '*Consolidated and Separate Financial Statements'* is adapted for WGA such that it shall comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money, in accordance with the GRAA. HM Treasury's decisions apply the GRAA and FReM, taking into account the *National Accounts* classification of entities to the public sector, as determined by the Office for National Statistics. This adaptation was agreed by the FRAB to reflect that WGA has no parent entity and to maximise the benefits of WGA in allowing comparisons to the *National Accounts*; and
- IFRS 8 '*Operating segments*' is interpreted for WGA such that no information needs to be disclosed about products or services, geographical areas or major customers.

Exceptions to the application of IFRS adapted and interpreted by the FReM are:

- local authorities, whose accounts are prepared under a Statement of Recommended Practice that follows UK Generally Accepted Accounting Policy (GAAP). The most material impact of this departure from the FReM is in relation to the valuation of highways infrastructure assets resulting in a potential difference of around £200 billion in 2009-10. In 2010-11, local authorities will fully adopt IFRS, and in 2012-13 they will calculate a valuation of highways infrastructure assets in line with the FReM for inclusion in WGA;
- certain non-departmental public bodies (NDPBs) and public corporations (PCs), whose accounts are prepared under UK GAAP; and
- entities that were set up as charities, whose accounts are prepared under the Charity Statement of Recommended Practice that follows UK GAAP.

Further information on departures from the FReM is set out in Annex 4.

1.2 Reporting entities

The consolidated financial statements, as defined in the GRAA, consolidate a group of entities that appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. This group includes central government departments, non-departmental public bodies, public corporations, local authorities, the National Health Service and the devolved administrations.

A list of all the entities within the WGA boundary and consolidated in this account, referred to collectively as "WGA entities", is shown in Annex 1. Some entities have not been included in WGA at this time largely for pragmatic and materiality reasons. The banks classified to the public sector have been included as investments in these statements and have not been fully consolidated. A few entities that are not controlled by an executive arm of government are also not consolidated. These entities excluded from consolidation are listed in Annex 2. In addition, minor entities have not been included in WGA if they meet certain criteria. These minor entities and key financial numbers are listed in Annex 3. The critical judgements involved in establishing the WGA boundary are outlined in Note 1.21.1.

The financial statements are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. As a consequence, and for the purposes of WGA, no parent company is disclosed in the statements and notes, only the position of the consolidated entities. Accordingly, this account comprises a set of consolidated financial statements rather than being a group account.

1.3 Basis of preparation

This account has been prepared under the historical cost convention, modified where appropriate to account for the revaluation of non-current assets and stocks by reference to current costs.

The reporting period for the financial statements of the UK Whole of Government is the financial year from 1 April to 31 March. Where necessary, the financial information for entities that have a financial year end other then 31 March has been adjusted for any transactions or events that have occurred since their most recent financial year end and that are significant for the Government's financial statements.

Activities are 'acquired' only if they come from outside the WGA boundary. Activities are 'discontinued' only if they cease entirely or move outside the WGA boundary, for example, if an entity is reclassified from the public sector to the private sector. Changes in the organisation of the Government's activities are accounted for as mergers and have no effect on the presentation of the financial statements.

1.4 Basis of consolidation

The assets, liabilities, revenues and expenditures of WGA entities are added together line by line. Shared ownership assets that are not recognised in the individual accounts of WGA entities are included in the consolidated accounts to the extent that they are controlled by government and are material. All material balances and transactions between entities included in the consolidation are eliminated. Balances and transactions that are less than £1million are not considered to be material and are not eliminated. Where material, adjustments are made to the financial statements of WGA entities to make the accounting policies consistent with accruals accounting.

1.5 Going concern

This account is prepared on a going concern basis to the extent that the accounts of WGA entities are prepared on a going concern basis.

1.6 Operational and presentational currency

The government's operational and presentational currency is pounds sterling. Amounts are presented in these statements to the nearest £0.1 billion.

1.7 Foreign currency

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currency at the financial year end are translated at the rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Statement of Revenue and Expenditure, except when deferred in equity as qualifying cash flow hedges.

1.8 Use of estimations

The preparation of the financial statements of WGA entities requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenditure. The estimates and associated assumptions are based on historical experience and specific relevant factors. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Where accounting estimates and judgements significantly affect the amounts recognised in these consolidated financial statements, they are described in Note 1.21.

1.9 Disclosures

In accordance with the 2009-10 FReM which adapts IAS 1 '*Presentation of Financial Statements*', there are no comparatives in the first account, and therefore figures for the year ended 31 March 2009 are not disclosed in this account. Comparatives will be provided in future years. Also, in line with the 2009-10 FReM, a segmental analysis is provided on the basis of sectors (such as central government and local government) and not on the basis of products or services, geographical areas or major customers.

On certain matters, the detailed level of disclosure required by financial reporting standards is not appropriate for WGA. In such cases, detailed disclosures are omitted but are available in the individual accounts of the consolidated entities. These are detailed in Annex 4.

1.10 Revenue

Revenue is recognised when it can be measured reliably and it is probable that the economic benefits will flow to government. Revenue is accounted for under the accruals convention. It is recognised in the period in which services are provided. Where revenue had been received for a specific activity to be delivered in future years, that income is deferred.

1.10.1 Taxation revenue

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to government. Revenues are deemed to accrue evenly over the period for which they are due.

The 'tax gap', defined as the difference between tax collected and that, which in HMRC's view, should be collected, is not recognised in these financial statements. The tax liability therefore includes all tax that is due under either the letter or the spirit of the law.

Taxable events for the material tax streams are as follows:

Revenue Type	Revenue Recognition Point
Income tax	Earning of assessable income during the taxation period by the taxpayer.
Social security and National Health Service contributions	Earning of income on which national insurance is payable.
Corporation tax	Earning of assessable profit during the taxation period by the taxpayer.
Value added tax	Undertaking of taxable activity during the taxation period by the taxpayer.
Hydrocarbon oils duty	Production of taxable goods.
Other excise duties	Movement of goods out of a duty bonded warehouse. For vehicle excise duties, when it is paid.
Stamp duty	When property or shares are purchased.
Council Tax	Residency in, or ownership or tenancy of, a chargeable dwelling for any period in the financial year.
National non-domestic rates	Occupation or ownership of a relevant non-domestic property for any period in the financial year.

Certain minor taxes (such as Stamp Duty on non-registered share transactions) are recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received. Repayments of direct taxes, such as Income Tax and Corporation Tax, are recognised in the year the repayment is made.

Income Tax, National Insurance Contributions and Value Added Tax, other than input Value Added Tax on goods and services, are shown after balances and transactions have been eliminated between consolidated entities and HM Revenue and Customs.

Income tax does not include tax credits. These are categorised as an expense and included within benefits as per Note 6.

1.10.2 Operating revenue

Operating revenue is measured at the fair value of the consideration received or receivable. It is recognised in the period in which the goods or services were provided. Rental revenue is recognised on a straight-line basis over the term of the lease. EU Income is recognised by WGA entities for funding they expect to receive from the EU in respect of expenditure incurred on EU supported projects.

1.10.3 Investment revenue

Revenue from interest is accrued using the effective interest method (EIM). The EIM uses an effective interest rate that discounts estimated future cash payments through the life of the asset to the net carrying amount of the financial liability. Revenue from dividends is recognised when the right to receive a dividend is established.

1.11 Expenditure

Expenditure is recognised in the period in which it is incurred.

1.11.1 Social security benefits

Included in social security benefits are statutory entitlements (most of which are included in the Social Security Contributions and Benefits Act), payable to private individuals and households. Social security benefits are accounted for as expenditure in the year in which they are made, net of overpayments.

Social security benefits include tax credits, which are recognised in the year in which they are assessed and authorised by HM Revenue and Customs. Authorisation is the point at which the obligation to pay the tax credit arises. Payments of tax credits are provisional until entitlement is finalised after the financial year end. Underpayments are accounted for on a cash basis in the year of payment. Over-payments are recovered from future tax credit awards or through repayments by claimants.

1.11.2 Staff costs

Staff costs include salaries and wages, the costs of pensions and other employee benefits. Staff costs that can be attributed directly to the construction of an asset have been capitalised. Note 7 will not include these amounts as staff costs, as they will be included in the cost base of the relevant asset and are therefore not included in the Statement of Revenue and Expenditure. Average staff numbers are expected to include staff engaged on capital projects.

Public service pension costs, other than certain minor pension arrangements, are met through a range of funded and unfunded public service pension schemes. Central government schemes are accounted for under IAS 19 '*Employee Benefits*' and IAS 26 '*Accounting and Reporting by Retirement Benefit Plans*'. Local government schemes continue to be accounted for under FRS 17 '*Retirement Benefits*'. More details of these schemes are shown in Note 27. The state pension is included within grants, subsidies and benefit expenditure.

Current service cost is the increase in the present value of the scheme liabilities included in WGA arising from current members' service in the current period, and is recognised in the Statement of Revenue and Expenditure. Past service costs are increases/decreases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change or improvement to retirement benefits. Together, these amounts are described as "pension scheme costs" within staff costs.

1.11.3 Grants and subsidies

Grants and subsidies are recorded as expenditure during the period that the underlying event or activity giving entitlement to the grant occurs. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Statement of Revenue and Expenditure on the basis of estimates of claims not received and are included in accruals in the Statement of Financial Position.

1.11.4 Research and development

Expenditure on research and development is charged to the Statement of Revenue and Expenditure in the year in which it is incurred.

Non-current assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work. Expenditure on development is capitalised as an intangible non-current asset if it meets the following criteria:

- there is a clearly defined project;
- the related expenditure is separately identifiable;

- the outcome of the project has been assessed with reasonable certainty as to its technical feasibility and its resulting in a product or service which will eventually be brought into use; and
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Statement of Revenue and Expenditure on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost.

1.11.5 Value Added Tax

Many of the activities of government are outside the scope of Value Added Tax (VAT) and, in general, output tax does not apply and input tax is not recoverable. Irrecoverable VAT is charged to the Statement of Revenue and Expenditure and included as part of the cost of the transaction under the heading relevant to the type of expenditure, or is included in the capitalised purchase cost of the asset in the Statement of Financial Position, if it is irrecoverable VAT on the purchase of an asset.

Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within receivables and payables within the Statement of Financial Position.

1.11.6 Finance costs

Interest costs are recognised on an accruals basis using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the asset or liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, such as premiums or discounts on acquisition or issue.

Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

1.12 Non-current assets

1.12.1 Property, plant and equipment

Property, plant and equipment, unless otherwise stated, are carried at cost on initial recognition and then at current cost or on a depreciated historical cost basis as a proxy for current cost. Council dwellings are valued at the existing use value for social housing. The threshold for capitalising non-current assets is set by each entity.

Strategic goods held for use in national emergencies are held as non-current assets within property, plant and equipment. These inventories are maintained at minimum capability levels by replenishment to offset write-offs and so are not depreciated. Revaluations of stockpiled goods included in property, plant and equipment are taken to the Statement of Revenue and Expenditure rather than the revaluation reserve.

Land and buildings are professionally valued at regular intervals or when material changes are known to have arisen, and are subject to an annual internal review. Any upward revaluation is posted to the revaluation reserve unless deemed to reverse a previous impairment, and then it is charged to the Statement of Revenue and Expenditure. Any subsequent decrease in carrying value is charged to the Statement of Revenue and Expenditure unless deemed to be temporary (reversing within three years) where it is charged to the revaluation reserve. On sale of the asset any remaining balance in the revaluation reserve is released to the Statement of Revenue and Expenditure.

Assets 'held for sale' are valued at the lower of carrying value and fair value, less cost to sell. They are not subject to depreciation.

1.12.2 Infrastructure assets

Infrastructure assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints on disposal.

Infrastructure assets will include road networks, sewer systems, water and power supply systems and communications networks.

Strategic Road Network
The strategic road network, which is intended to be maintained at a specific level of service potential by continual replacement and refurbishment, is valued at depreciated replacement cost.

The asset valuation is based on a standard costs model. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using internal costing and physical assets records provided by the transport authorities. In the years between full valuations, the value of the network is adjusted to reflect movements in prices using appropriate published indices, and expenditure on new schemes or enhancements which increase the capacity of the network. The valuation is based upon a non-recoverable VAT rate of 17.5% which reflects a consistent long term approach to valuing the network. Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost. Between full valuations, the values are adjusted using the appropriate published construction and engineering, and land indices.

The road surface is subject to an annual impairment in accordance with IAS 36.

Local Authority Infrastructure
Local authority infrastructure assets are included in the Statement of Financial Position at historical cost less depreciation.

Transport for London (TfL) Infrastructure
Infrastructure consists of roads, tunnels, viaducts, bridges, stations, track, signalling and bus stations and stands. The assets are carried at their fair value when transferred to TfL, together with the cost of subsequent additions. The fair values have been calculated on the basis of depreciated replacement cost.

London Underground assets are carried at the estimated cost of modern equivalent assets as at 31 March 1998, together with the cost of subsequent additions, written down to reflect their remaining estimated useful lives. Bored tunnels, excavations for stations, and embankments entering service in London Underground prior to 1 April 1992 are carried at nil value as there are no records of their historical cost and it is impractical to provide a reliable valuation.

Scottish Water Infrastructure

Scottish Water infrastructure assets comprise a network of water and waste water systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets, with the exception of land, are subject to depreciation. Assets are valued at depreciated replacement cost.

1.12.3 Assets under construction

Assets under construction are shown at accumulated cost with depreciation commencing when the asset is completed and brought into service.

1.12.4 Military equipment

Military equipment comprises non-current assets used by the military for which there is no civilian use. It includes items such as tanks, fighter aircraft and warships. It is initially recognised as a tangible non-current asset at its direct purchase or production cost and depreciated over its useful economic life. In all other respects it is treated in the same way as other non-current asset categories. Development expenditure on military equipment, which meets the capitalisation criteria set out in accounting policy note 1.12.1 is capitalised as an intangible asset.

1.12.5 Heritage assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historic buildings, archaeological sites, monuments, statues, the national archives, military and scientific equipment of historical importance, museum and gallery collections and works of art. They are included in 'Furniture, Fittings and Other' in the property, plant and equipment note (Note 14).

Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings). They are valued and depreciated in the same way as other assets of that general type, for example buildings.

Non-operational heritage assets are those that are held primarily in pursuit of an entity's overall objective to maintain them, such as works of art. A current valuation of non-operational heritage assets is sometimes not practicable or appropriate where the cost of valuation is not warranted, or if a reliable valuation is not possible, and assets acquired before 1 April 2000 (2001 for NDPBs) are generally not capitalised. Since 1 April 2001, all non-operational heritage asset additions have been capitalised and recognised in the Statement of Financial Position, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated as they are considered to have no determinable useful life, nor are they revalued as a matter of routine.

1.12.6 Community assets

Community assets are non-current assets held by an authority in perpetuity that have no determinable useful life and may have restriction on their disposal, such as parks and open spaces, historical buildings, works of art etc. They are primarily held for their historic and cultural value. Local community assets are generally included at cost or nominal value in the Statement of Financial Position under Other Assets. Local authorities value community assets at depreciated historical cost. They are included in 'Furniture, fittings and other' in the property, plant and equipment note (Note 14).

1.12.7 Donated assets

Donated assets are assets that have been donated or assets for which the WGA entities have continuing and exclusive use but do not own legal title, and for which they have not given consideration in return. They are capitalised at their current valuation on receipt and are revalued/depreciated on the same basis as purchased assets. They are included in 'Furniture, Fittings and Other' in the property, plant and equipment note (Note 14).

The donated assets reserve is included in 'other reserves' in the Statement of Changes in Taxpayers' Equity and represents the value of the original donation, additions and any subsequent professional revaluation and indexation. Amounts equal to the donated asset depreciation charge, impairment costs and any in-year surplus/deficit on disposal are released from this reserve to the Statement of Revenue and Expenditure.

1.12.8 Government granted assets

Government grants of assets are assets granted from Government entities, other than from funds awarded by Parliamentary Vote or funds from NHS entities, where these have not been eliminated (see note 1.21.2). Such government grants in respect of capital expenditure are credited to reserves and are released to the Statement of Revenue and Expenditure over the expected useful lives of the relevant assets by equal annual instalments.

1.12.9 Investment properties

An asset is recognised as an investment property when the property (land or buildings) is held to earn rent revenue or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. After initial recognition, investment properties are measured at fair value. A gain or loss arising from a change in fair value or arising from disposal of the investment property is recognised in the Statement of Revenue and Expenditure.

1.12.10 Intangible assets

Computer software licences with a useful life in excess of one year are capitalised as intangible non-current assets. These are impaired when events or changes in circumstances indicate the carrying value may not be recoverable. Software licences are amortised over the shorter of the term of the licence and the useful economic life, which is usually between five and twelve years.

Purchased goodwill (representing the excess of the fair value of the purchase consideration plus any related costs of acquisition over the fair value attributable to the separable net assets acquired) arising on acquisition of a subsidiary or business, is capitalised and amortised on a straight-line basis over its useful economic life (usually 20 years), subject to reviews for impairment. On the subsequent disposal or termination of a business, the surplus or deficit is calculated after charging the unamortised amount of any related goodwill. Goodwill arising in periods up to 1 April 1998 remains offset against the operating reserve. On disposal, goodwill previously written off against reserves is transferred to the Statement of Revenue and Expenditure for the year.

1.12.11 Depreciation and amortisation charged

Charges are made to the Statement of Revenue and Expenditure for the consumption of tangible non-current assets (as depreciation) and intangible non-current assets (as amortisation). The depreciation or amortisation charged is calculated to write down the cost or valuation of the asset to its residual value over its estimated useful economic life.

Freehold land, assets under construction or development, investment properties, stockpiled goods, non-operational heritage assets and assets held for sale are not depreciated or amortised.

Otherwise, depreciation and amortisation are charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, on a straight-line basis over their estimated remaining useful lives. The estimated useful life of an asset is the period over which an entity expects to obtain economic benefits or service potential from the asset. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life. Assets are typically depreciated across the following estimated useful life or depreciation period:

Asset group	Depreciation period
Freehold buildings	shorter of 40-50 years or estimated useful economic life
Leasehold improvements	shorter of term of lease or estimated useful economic life
Military equipment	varies according to estimated useful economic life
Office machinery and equipment	up to 5 years
Computer equipment	3-5 years
Telecommunication equipment	3-10 years
Furniture, fixtures and fittings	5-10 years
Plant and machinery	7-15 years
Council dwellings	in line with local authorities' Major Repairs allowance value

Infrastructure assets

Strategic Road Network
Network assets and definable components with determinable finite lives are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis over 20 to 120 years, except for road communication assets, which are depreciated over 15 to 50 years. Freehold land, the sub-pavement layer of long-life pavements, and earthworks are considered to have an indefinite life and are not depreciated.

Local Authority Infrastructure
Assets are depreciated on a straight line basis over their estimated useful lives, these being periods typically between 20 and 40 years.

Transport for London (TfL) Infrastructure
Assets are depreciated on a straight-line basis over their estimated useful lives, which are reviewed regularly, and which for the major categories fall in the following ranges:

Asset Group	Depreciation period
Tunnels and embankments	up to 100 years
Bridges and viaducts	up to 100 years
Track	up to 50 years
Road pavement	up to 15 years
Road foundations	up to 50 years
Signalling	15-40 years
Stations	up to 50 years

Scottish Water Infrastructure
Assets are depreciated on a straight-line basis over their estimated useful lives, these being periods typically between 80 and 150 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1.13 Current assets

1.13.1 Inventories

Inventories are valued at cost or, where materially different, current replacement cost. A net realisable valuation is used only when inventory either cannot or will not be used. Work in progress is valued at the lower of cost and net realisable value.

1.13.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which 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 included within trade and other payables in the Statement of Financial Position.

In line with their accounting requirements, local government cash equivalents are disclosed as investments in these accounts. This accounting treatment will change in 2010-11 when they adopt IFRS.

1.13.3 Gold holdings

Gold holdings comprise gold holdings and gold assets on deposit. They are recognised in the Statement of Financial Position and measured at fair value. Gold holdings and gold assets on deposit are valued at the sterling equivalent of the London Bullion Market Association dollar denominated spot price as at 31 March 2010. Revaluation gains and losses on gold assets are recognised within fair value changes of gold in the Statement of Revenue and Expenditure as other revenue.

1.14 Trade and other receivables

Receivables are included within current assets where the remaining life of the asset is one year or less, or the terms of the debt permit the Government to require settlement within one year. Loans are reported at the nominal value outstanding at the end of the financial year. Benefit debtors are valued at the difference between the amount paid and the actual benefit entitlement less any provision for irrecoverable debts. Other receivables are shown at the nominal value of the debt outstanding.

A provision has been made in these statements for those debts which may become irrecoverable and written-off or remitted in the future. This provision has been estimated using analysis of historic trends in debt recovery, remission and write-offs. The figure in these statements for receivables is shown net of the relevant provision for irrecoverable debts.

1.14.1 Student loans

Recognition of student loans issued and repayments

Student loans are recognised when the loan is issued to the student. For maintenance loans, no obligations fall due at the Statement of Financial Position date, but for tuition fee loans, a receivable is recognised when there is an obligation to pay the tuition fee on behalf of the student. The receivable is impaired in the same way as if it was an addition to the student loan book, with a charge to expenditure to reflect the cost to the Government of issuing the loans.

Student loan repayments are collected by the Student Loans Company (SLC) and Her Majesty's Revenue and Customs (HMRC). Repayments made via the SLC are recognised when the SLC has received the cash and updated the borrower record. Repayments collected via the tax system are recognised based on amounts which HMRC estimate as being due to the Department for the financial year.

Measurement and carrying values

Student loans are held at amortised cost. This involves the gross value of the loans issued being reduced by an amount based on:

- an estimate of the present cost of subsidising interest on loans over the life of the loan (interest subsidy impairment); and
- an estimate of the future cost of policy write offs (policy write off impairment), which reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student.

The carrying value as described above is considered to be a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions. A valuation technique is used to estimate the present value of future cash flows, and the outputs of this modelling provide the basis for the interest subsidy and the write off impairments. Each year the carrying value is compared with the latest outputs from the forecasting model to assess whether the valuation method remains robust. The underlying assumptions are subject to formal review each year.

Further details regarding student loans, the interest subsidy impairment, policy write off impairment, and the Student Loan Repayment forecasting model on which the estimates underpinning these impairments are based, are available in the 2009-10 accounts of the Department for Business, Innovation and Skills.

Accounting for the potential sale of student loans

The Emergency Budget 2010 confirmed that the Government is currently examining the possibility of selling part of the student loans book. Any sale is subject to confirmation that this would provide value for money. These accounts present the student loans portfolio valued on the basis that they will continue to be held by the Government until such time as a decision to sell the assets has been made. The valuation basis is consistent with prior years, and reflects the requirements of the FReM to record the loans held at amortised cost. Should sales take place in 2011-12 or subsequently, it will be necessary to re-assess the basis for the carrying value, in accordance with the relevant Accounting Standards.

1.15 Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases and are recognised in a systematic manner over the term of the lease. Where a WGA entity is the lessor of an operating lease, amounts due under the operating lease at year end are treated as amounts receivable. Leasehold improvements are capitalised and the cost amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter.

Where the risks and rewards of ownership of a leased asset are substantially borne by a WGA entity, the asset is treated as a finance lease and the asset capitalised at the discounted present value of the total rentals payable during the primary period of the lease. The corresponding leasing commitments are shown as obligations to the lessor. The capitalised values are amortised over the period in which the WGA entity expects to receive benefits from their use.

1.16 Private Finance Initiative (PFI) transactions

Under a private finance initiative (PFI) transaction or service concession, a WGA entity contracts with a private sector entity to develop, finance, operate and maintain infrastructure, to deliver services directly or indirectly to the public. Under such arrangements, where the WGA entity controls or regulates those services and controls any significant residual interest in the infrastructure they are included in the

Statement of Financial Position. Services indirectly provided to the public include those related to assets held for administrative purposes, and which are used in the delivery of services to the public.

PFI transactions that meet the definition of a service concession arrangement are accounted for in accordance with the FReM. The service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (IFRIC 12.3). Where the balance of risks and rewards of ownership of the PFI property is borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the balance is borne by the Government, PFI transactions are recognised as an asset, with related liabilities. The asset is accounted for in a manner consistent with other assets of that type. Interest on the liability and expenditure on services provided under PFI transactions are recognised in the Statement of Revenue and Expenditure as they accrue. Unitary Charges are apportioned between three elements: an element to pay for services; an element to pay interest on the liability and an element to repay the initial liability.

Where, at the end of the PFI transaction, all or part of the property reverts to a government entity for a specified value, the difference between the expected fair value of the residual asset on reversion at the start of the contract and any agreed payment on reversion is built up over the life of the contract, and included in the Statement of Financial Position as a non-current asset. This is to ensure proper allocation of payments between the cost of services under the contract and acquisition of the residual interest. Capitalisation of residual interest is included within Assets under Construction.

1.17 Provisions

A provision is recognised when the following three criteria are met: there is a present obligation (either legal or constructive) as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date, discounted, where material, at 2.2% in line with HM Treasury guidance. The year on year changes to the discount rate are charged through the Statement of Revenue and Expenditure.

1.18 Pension costs and public service pension liability

The pension liability only relates to public service pension liabilities for employees and former employees of the public sector, with a small component for other approved organisations that qualify for membership of these government schemes.

State retirement pensions are outside the scope of the IAS 19 '*Employee Benefits pension liability*', as they are paid to the general public, and are not employee benefits for public sector staff. State pensions are contributory benefits paid in accordance with government policy and are expensed as incurred (Note 6). Contributory benefits are funded from National Insurance Contributions, and are administered by the Department of Work and Pensions on behalf of the National Insurance Fund. Future state pension benefits are not recognised as a liability as they are only entitled to be paid as they fall due.

Past and present employees are covered by the provisions of a range of pension schemes. The public sector has defined benefit pension schemes that are either unfunded and non-contributory (except in respect of dependants' benefits), or funded and majority of which are contributory. In respect of defined contribution schemes, the Government recognises the contributions payable for the year.

Funded schemes are shown on a net basis taking account of scheme assets and scheme liabilities. Scheme assets are carried at fair value as at the balance sheet date. Where the scheme requires the employer to fund any deficit of assets compared to liabilities these are shown as contributions over and above the current service charge.

Liability for payment of future benefits is a charge on the schemes. Scheme liabilities are measured on an actuarial basis using the projected unit method - i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees. Liabilities are discounted to their value at current prices. Central government schemes use a real discount rate while local authorities use the rates determined by independent actuaries. The Government recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis.

All movements in the liability, except actuarial gains and losses, are recognised in the Statement of Revenue and Expenditure in the period in which they occur. Actuarial gains and losses are accounted for through reserves as required by the FReM. Obligations for contributions to defined contribution pension schemes are recognised in the Statement of Revenue and Expenditure as they fall due. The accruing cost of pension rights in respect of current employees is recognised as an increase in the level of provision for pension liabilities. Pension expenditure in respect of former employees is recognised as a decrease in provision.

Certain minor schemes, such as pensions for some locally engaged staff overseas, are administered and accounted for on a pay as you go basis as the cost of actuarial valuation would outweigh the benefits.

Further details regarding the principal schemes are disclosed in Note 27 to this Account.

1.19 Financial instruments

1.19.1 Financial assets

Financial assets are classified into the following four categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale assets.

The classification depends on the purpose for which the financial asset is held or acquired. The financial assets held are in the following categories:

1.19.1.1 Financial assets at fair value through profit or loss (or Statement of Revenue and Expenditure)

Financial assets classified as 'fair value through profit or loss' are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Revenue and Expenditure. A financial asset is classified as 'fair value through profit and loss' if acquired principally for the purpose of trading in the short term. It may also be classified into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the Statement of Revenue and Expenditure. Transaction costs are expensed as they are incurred.

1.19.1.2 Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, where there is a positive intention and ability to hold to maturity. After initial recognition, held-to-maturity financial assets are held at amortised cost using the effective interest method, less any impairment.

1.19.1.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables comprise cash and cash equivalents, receivables and loans, including student loans. After initial recognition, they are carried at amortised cost in accordance with IAS 39.

When an asset is deemed to be impaired or derecognised, the associated gains and losses are recognised in the Statement of Revenue and Expenditure.

1.19.1.4 Available-for-sale assets

These are non-derivative financial assets classified as 'available-for-sale' or not classified in any of the other three categories of financial assets. After initial recognition, these financial assets are carried at fair value. Gains and losses, in fair value, are recognised directly to equity except for impairment losses. Impairment losses are recognised in the Statement of Revenue and Expenditure. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Revenue and Expenditure. Ordinary shares held by central government entities in other public sector entities are carried as at historical cost less any impairment recognised in accordance with the FReM. For these purposes, this includes public dividend stock held in the Royal Mint and Buying Solutions, Northern Rock Plc, Northern Rock Asset Management Plc, Bradford & Bingley Plc and ordinary shares in UK Financial Investments Limited and Deposits Management (Heritable) Limited. The investment in Bank of England, however, is re-measured to HM Treasury's share of net assets per the IFRS published accounts, as a proxy to fair value, as agreed with the Treasury. Gains and losses arising on re-measurement are recognised directly to equity.

Accounting treatment

The table below summarises the accounting treatment for different financial asset types.

Financial asset type	Accounting treatment
Trade and other receivables	Accounted for as loans and receivables at book value.
Student loans	Accounted for as loans and receivables at amortised cost, reflecting impairments.
Loans and deposits with banks	Accounted for as loans and receivables at amortised cost or as held to maturity investments at amortised cost.
Equity securities	Typically accounted for at fair value through profit and loss.
Equity investments in the public sector banks	Accounted for at fair value through profit and loss.
Equity investment in non-public entities, and public entities such as the Bank of England and Partnerships UK, where there is no observable market	Estimated as the net asset value per the published accounts of the investee entities.
Debt securities	Accounted for at fair value as held for trading.
Holding of IMF Special Drawing Rights	Accounted for at fair value as held for trading.
IMF Quota Subscription	Accounted for as loans and receivables at amortised cost.

1.19.2 Financial liabilities

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss; and
- Other financial liabilities.

The classification depends on the purpose for which the financial liability is held or acquired. Management determines the classification of financial liabilities at initial recognition.

Financial liability type	Accounting treatment
Government financing and borrowing, comprising gilts, treasury bills and National Savings & Investment products	Accounted for as loans and receivables at amortised cost.
Trade and other payables	Accounted for as loans and receivables at amortised cost.
Deposits by banks, comprising sale and repurchase agreements	Accounted for as loans and receivables at amortised cost.
IMF Special Drawing Rights allocation	Accounted for as held for trading at fair value.
Financial guarantees	Accounted for as loans and receivables at amortised cost.

1.19.3 Impairments

At the reporting date, financial assets, other than those held at fair value through the Statement of Revenue and Expenditure are assessed for impairments. Financial assets are impaired and impairment losses are recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Revenue and Expenditure and the carrying amount of the asset is reduced directly, or through a provision for impairment of receivables. 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, the previously recognised impairment loss is reversed through the Statement of Revenue and Expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed and does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets 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 the assets are impaired. If any such evidence exists for Available For-Sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Revenue and Expenditure – is removed from equity and recognised in the Statement of Revenue and Expenditure. Impairment losses recognised in the Statement of Revenue and Expenditure on equity instruments are not reversed until the asset is derecognised.

1.19.4 IMF Special Drawing Rights

The UK's Quota Subscription to the International Monetary Fund (IMF) is recognised as a financial asset carried at amortised cost. Part of the Subscription is deposited by the IMF in the National Loans Fund in return for sterling non-interest bearing securities which are recognised as financial liabilities, as loans and receivables. In accordance with IAS 39, these financial assets and liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The IMF Quota Subscription is denominated in Special Drawing Rights (SDRs), the IMF's unit of account, and is recognised in the Statement of Financial Position in sterling, converted at the SDR exchange rate published by the IMF at the year end.

The UK's allocation of SDRs by the IMF in proportion to the UK's Quota Subscription is recognised as a financial liability to the IMF, and the resultant holding of SDRs is recognised as a financial asset. In accordance with IAS 39, the SDR allocation and SDR holdings are classified as "held for trading" financial assets and liabilities, and are measured at fair value with gains and losses being taken through the Statement of Revenue and Expenditure. They are recognised in the Statement of Financial Position in sterling, converted at the SDR exchange rate published by the IMF at the year end.

Any interest receivable in SDR is recognised in interest revenue in the Statement of Revenue and Expenditure at the exchange rate prevailing on the date of receipt.

1.19.5 Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified repayments to reimburse the holder for a loss as it incurs, because a specified receivable fails to make payments when due, in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are recognised initially at fair value. After initial recognition, they are recognised at the higher of amortised cost or the amount required to be recognised under IAS 37. Any increase in the liability relating to guarantees is taken to the Statement of Revenue and Expenditure.

Market participants typically value such contracts based on the reduction in risk to the lender provided by the guarantee, as reflected by the improvement in credit terms to the borrower, typically the reduction in interest payable by the borrower. Where the contract specifies the fee payable to an entity, and there is reasonable evidence that the fee was calculated on this basis, the guarantee is valued at the net present value of the fee. This approach has been applied to the guarantee provided by the Department for Transport to Network Rail. The fee is payable in instalments over the life of the guarantee. The guarantee is, therefore, recognised at the net present value of the fee, with a matching receivable being recognised, valued using the effective interest method.

1.19.6 Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively. Derivatives that are not designated for hedge accounting are classified as held-for-trading financial instruments with fair value gains or losses recognised in the Statement of Revenue and Expenditure.

1.19.7 Hedging

Entities apply hedge accounting after considering the costs and benefits of adopting hedge accounting, including:

- whether an economic hedge exists and the effectiveness of that hedge;
- whether the hedge accounting qualifications could be met; and
- the extent to which it would improve the relevance of reported results.

At the time a financial instrument is designated as a hedge, these entities formally document the relationship between the hedging instruments and the hedged items, including its risk management objectives and its strategy in undertaking the hedge transaction together with the methods that will be used to assess the effectiveness of the hedging relationship. Both are formally assessed at the inception of the hedge and on an ongoing basis, to determine whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. Hedges can be designated as a fair value hedge or cash flow hedge. For fair value hedges, changes in fair value of the hedged item are recognised in the current period to offset the recognition of changes in fair value of the hedging instrument. For cash flow hedges and net investment hedges, the effective portion of changes in the fair value is recognised in equity and any gain or loss relating to the ineffective portion is recognised immediately in the Statement of Revenue and Expenditure. Amounts accumulated in equity are recycled in the Statement of Revenue and Expenditure in the periods when the hedged item is effective. The gain or loss relating to the effective portion of forward currency contracts is recorded in the Statement of Revenue and Expenditure.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Revenue and Expenditure. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Revenue and Expenditure.

1.20 Contingent liabilities and contingent assets

Generally, 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 in accordance with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'.

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by uncertain future events or present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably measured. A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Where the time value of money is material, the contingent liabilities and assets are stated at discounted amounts.

In addition, central government departments are required to report to Parliament contingent liabilities for which the risk of crystallisation is remote. These are disclosed in Note 34. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. As they do not fall within the scope of IAS 37, they are measured following the requirements of IAS 39 for financial instruments. Under IAS 39, financial liabilities are measured initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability. This is different from the measurement requirements of IAS 37 as it does not take account of the best estimate of the expenditure required to settle the obligation as set out in IAS 37. The technique used to determine the best estimate will vary depending on the nature of the contingent liability, and the level of uncertainty surrounding the amount to be recognised. Consequently, the best estimate under IAS 37 might represent a percentage of the fair value of a contingent liability, or some measure other than fair value which represents the expenditure required to settle the obligation.

1.21 Critical accounting estimates and judgements

1.21.1 WGA boundary

The Government Resources and Accounts Act (GRAA) requires HM Treasury to prepare WGA for "a group of bodies each of which appears to HM Treasury— (a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money". HM Treasury's decisions apply the GRAA and the FReM, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics (ONS). This is because the ONS consider the factors listed in the GRAA when making their classification decision as well as the degree of control that government has over each entity. ONS independently assesses the classification of entities using ESA 95, which is the European standard of classification, derived from the worldwide definitions held in the System of National Accounts. ESA 95 considers the nature of the activity performed by the entity, its funding and its relationship to government. Aligning the boundary of WGA with that of the public sector as defined for the National Accounts is an important principle in driving the usefulness of WGA. The scope of WGA is similar to those included to produce other fiscal measures. This enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances. It also provides a stable and consistent base for the WGA boundary, as ONS classification does not frequently change.

There are a small number of entities that could satisfy the GRAA definition but are not included in WGA because, while they are accountable to their respective parliaments or assemblies, they are not responsible to an executive arm of the government, and therefore do not form part of "government". These are listed in Annex 2.

There are a number of financial institutions that could satisfy the GRAA definition but are not included in WGA at this time:

- the Bank of England will be fully consolidated for 2010-11.
- it is proposed over time to consolidate Northern Rock (Asset Management) plc and Bradford and Bingley into WGA, as they are expected to be a permanent part of government until their mortgage books have expired.
- the remaining banks will continue to be held as available-for-sale financial assets and liabilities. These entities are not consolidated in WGA because their scale would dwarf other aspects of WGA, distorting the accounts and therefore making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of the remaining banks in the long term and, in due course, they will return to the private sector. It would also be extremely costly to carry out the consolidation (mostly because of differing year-ends), which we do not believe represents good value for the taxpayer, given the expected temporary nature of their ownership.

Minor entities that would satisfy the GRAA definition are not included in WGA because they are considered too small to be consolidated within WGA. In order to be minor, they must satisfy certain criteria, for example gross expenditure of less than £10 million, which are reviewed annually to determine whether they should be consolidated or not. These are listed in Annex 3.

1.21.2 Consolidation judgements: elimination threshold of £1 million

When the consolidated accounts are prepared, only transaction streams and balances between WGA entities above £1 million are eliminated. WGA entities are required to report transaction streams and balances that are above £1 million with any counterparty within the WGA boundary. The £1 million threshold applies to the aggregate for each type of balance or transaction stream with a counterparty. For example, if an entity has a number of debtor balances with a counterparty which are each below £1 million but when aggregated exceed £1 million, then the aggregate balance is required to be reported. HM Treasury reviews the appropriateness of the £1 million threshold annually.

1.21.3 Consolidation judgements: revenue from sale of 3G licences

In 2000, the Government sold five licences via auction for the use of the electromagnetic spectrum for 3G mobile phone services. The auction raised £22.5 billion and all successful bidders paid for their licences up front in return for access to the spectrum for a period of 20 years. In accordance with the requirements of IAS 18 '*Revenue*', these accounts have recognised the revenue in full at the time of cash receipt. This is because there are no additional ongoing performance obligations on the government under the terms of the contracts. As IAS 18 requires the recognition of revenue so as to match the pattern in which obligations are satisfied, it would be inappropriate to defer the revenue.

1.21.4 Estimating taxation revenue

Estimates of taxation revenues are based on different methods, depending on the type of tax. The estimate for accrued Corporation Tax receivable for large onshore and North Sea companies uses a model based on instalment payments. No estimate is made for smaller companies who are not required to pay in instalments. The estimate of the self-assessment accrued revenue receivable for Income Tax and National Insurance Contributions is based on historical receipts and liabilities and adjusted using economic assumptions underlying forecasts. Estimation of accrued VAT payables and receivables are primarily based on VAT receipts and returns received after the year end from taxpayers. When the period covered by a return straddles 31 March, the tax or duty is deemed to accrue evenly over the period covered by the return and apportioned between years accordingly. Minor tax streams are accrued for on the basis of transactions completed by 31 March but for which the tax has not been received.

The estimates of taxation revenue are calculated using statistical models based on a combination of projections derived from the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what is believed to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not indicative of deficiencies in the models. The maximum likely overall uncertainty is expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue and Expenditure. This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgment of professional economists and statisticians with substantial experience of tax forecasting. This uncertainty has, however, led to the Comptroller and Auditor General to make an Emphasis of Matter statement in his Audit Opinion on HMRC's 2009-10 Trust Statement.

1.21.5 Key assumptions in determining the pension liability

The pension liability of £1,132 billion is measured on an actuarial basis using the projected unit method - i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a typical real discount rate of 1.8% for central government schemes, based on yields of high quality corporate bonds, and a nominal discount rate varying between 5.5-5.8% for local government schemes. The discount rate used by central government schemes is determined by those responsible for the management of the individual pension fund considering advice from the Government Actuary. Different discount rates used by other schemes, such as the nominal rate used by local government schemes, are determined by independent actuaries.

Unlike the central government pension schemes, the assumptions used for the local government, police, and firefighters pension schemes vary for each fund. The discount rate used is based on the administering authority's judgement as to the rate required under accounting standards. Other assumptions are set on the advice of each administering actuary and represent the actuary's best estimates of the specific future conditions each scheme will face.

Key assumptions in determining the pension liability include: rate of increase in salaries, rate of increase in pensions in payment, discount rate and inflation assumption.

	Central Government[1] %	Local Government[2] *%*
Rate of increase in salaries	4.3	*1.75-5.8*
Rate of increase of pensions in payment[3]	-	*1.75-7.3*
Discount rate – real	1.8	-
Discount rate - nominal	-	*5.5-5.8*
Inflation assumption	2.75	*1.75-4.0*

1. Central government includes PCSPS, NHS pension schemes, armed forces pension schemes and teachers pension schemes.
2. Local government includes the local government pension schemes, police pension schemes and firefighters pension scheme, with the exception of the police and fire schemes in Northern Ireland as they are administered by central government and apply the central government assumption rates.
3. Rate of pensions in payment is not shown for central government as this was not collected for WGA and is not consistently disclosed in the assumptions table within the underlying accounts of the key schemes.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The assumption that has the biggest impact on the amount of the reported liabilities is the discount rate, net of price inflation. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. The general government inflation assumption reflects the long-term assumption for the Retail Prices Index (RPI) used in Treasury forecasting at that time. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability. As announced in the June 2010 Budget, from 2010-11 the inflation assumption for public service pensions will be based on the Consumer Prices Index (CPI) rather than the RPI. CPI is generally lower than RPI over the long term, which is likely to reduce the value of the pension liability in the individual accounts of WGA entities with effect from 2010-11.

These key assumptions apply to the significant majority of the schemes that make up the WGA pension liability. A small proportion of entities that have a pension liability that feeds into WGA may use different assumptions to those above. The assumptions for those smaller schemes are not disclosed given their relative immateriality to the pension numbers as a whole.

1.21.6 Provision for nuclear decommissioning

The financial statements include a provision for the Government's obligations in respect of nuclear liabilities of £56.7 billion, to cover the costs associated with the nuclear decommissioning of sites of radioactive plant and facilities.

The majority of this provision is recognised by the Nuclear Decommissioning Authority. Its provision is based on the Lifetime Plan for designated sites, being the latest available technical assessments of the processes and methods likely to be used in the future, and represent best estimates of future required work. The Government's obligations are reviewed on a continual basis and provisions are updated accordingly. The provision and recoverable balances are expressed at current price levels and discounted at 2.2%, to take account of the time value of money for the very long timescales over which work will be carried out, currently expected to be over 100 years. The nuclear liabilities recorded are the best estimate from the information available. However, there remains a significant degree of inherent uncertainty in the future cost estimates. This uncertainty has led the Comptroller and Auditor General to include an Emphasis of Matter statement in his Audit Opinion on the Nuclear Decommissioning Authority's 2009-10 accounts.

1.21.7 Loans to financial institutions

The Government has made loans and advances of £58 billion to financial institutions, which may result in impairment losses. The accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.19.1. The allowance for impairment losses on loans and receivables from public sector banks is based on an estimate of losses incurred at the reporting date. All loans are individually assessed for impairment. In determining whether impairment has occurred at the reporting date consideration is given to whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Impairments are also recognised to reflect interest free loans. The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions will be revisited at each reporting date.

1.21.8 Asset Protection Scheme (APS) valuation

To provide certainty and confidence to banks in their lending, the Government set up the Asset Protection Scheme (APS) in January 2009 under which it offered capital and asset protection on those assets most affected by the prevailing economic conditions. The APS is accounted for as a derivative under IAS 39 '*Financial Instruments: Recognition and Measurement*'. The value of the APS is driven by the underlying credit risk of the assets in the Scheme. The APS requires no initial net investment, and settlement may occur at a future date if payouts are required should the first loss be exceeded, subject to a contractual maturity of 2099. Alternative options for accounting for the scheme were considered under IFRS; in particular whether the APS could be accounted for as an insurance contract or a financial guarantee. The APS is not considered an insurance contract primarily because it relates to a financial risk. Furthermore, because certain "limited recourse assets" in the pool are only obliged to pay if funds are available, they cannot technically default, and so the APS is not considered to be a financial guarantee.

The APS was fair valued as a liability of £1.2 billion as at 31 March 2010. The estimate of the fair value of APS required management judgement, and it is sensitive to assumptions in relation to inputs that are not observable in the market. A source of uncertainty is the quality of the portfolio data underlying the valuation, e.g. assets that are the subject of rule interpretation discussions, rating information that may be out of date, cover termination dates which may be subject to change, and proxies being used to estimate some asset classes. The potential impact of known or suspected data issues is in the order of +/- £0.25 billion, though the current best estimate is that there will be no net effect.

The impact of alternative assumptions has been tested for asset correlation, expected loss on triggered assets, recovery uncertainty factor for non-Triggered Assets, mapped credit spreads, and expected loss given default. Using these reasonably possible alternative assumptions, the fair value of the APS at 31 March 2010 could be higher by £2.1 billion or lower by £2.3 billion. However, this would have only a limited effect on revenue in the Statement of Revenue and Expenditure, as circumstances affecting these assumptions are not believed to have changed since inception, and it would therefore be appropriate to apply them to the initial valuation as well.

The expectation is that the current assumptions will remain unchanged. However, they will be reviewed periodically and changed if there is sufficient evidence that such action is appropriate. The uncertainty due to these assumptions is likely to exist throughout the life of the APS. The magnitude will tend to reduce over time as APS cover expires and the asset pool runs down.

1.21.9 RBS contingent capital

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

1.21.10 RBS dividend access share

The Government holds a dividend access share in RBS carrying a right to a preferential coupon that is discretionary but is payable if a dividend on RBS's ordinary shares is paid. This effectively means that if RBS should pay a dividend before its share prices reaches 65p for a set period, the Government will receive a preferential dividend, which is the greater of 250% of the ordinary dividend and 7% of the technical issue price of the B shares in RBS. The share was fair valued on the date of acquisition (22 December 2009) as £4.2 billion, although there is no market price. Its value has been estimated using an option based valuation model using market observable and non-observable data and assumptions. The share is valued by assessing the cash flows received on the Share by way of dividends, and then adjusting these cash flows based on (a) the likelihood and size of ordinary share dividends, (b) the probability that the dividends are lost because the cancellation trigger is reached and (c) the credit risk inherent in the cash flows as a result of their future payment. The assumptions underlying the valuation will be revisited at each reporting date.

1.22 Accounting standards passed but not yet effective

Local authorities will fully implement international financial reporting standards from 1 April 2010. They have elected to adopt early IFRIC12 '*Service concession arrangements*' and applied this in 2009-10. The main standards that will be adopted in 2010-11 are:

- IAS 11 '*Construction contracts*'
- IAS 17 '*Leases*'
- IAS 19 '*Employee benefits*'
- IAS 20 '*Accounting for government grants and disclosure of government assistance*'
- IAS 38 '*Intangibles*'
- IAS 40 '*Investment properties*'
- IFRS 5 '*Non-current assets held for sale*'

A number of new standards, amendments to standards and interpretations are not yet effective for most of the public sector for the year ended 31 March 2010, and have not been applied in preparing these financial statements. The following are the significant standards and amendments that may need to be adopted in subsequent periods:

- IFRS 9 '*Financial Instruments*', which will replace IAS 39, is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. It is planned that IFRS 9 will be applied initially in 2013-14.
- IAS 24 '*Related Party Disclosures*' has been revised. The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government. Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted. It is planned that IAS 24 will be applied initially in 2011-12. The application of this standard is expected to have limited impact on this account.
- IAS 17 '*Leases*' has been amended. The revision clarifies that where a lease includes both land and buildings elements, they are separately assessed in accordance with the general guidance on the classification of leases in IAS 17, taking into account that land normally has an indefinite economic life. Thus the land element may be classified as a finance lease, even if title is not expected to pass to the lessee. Application of the amended IAS 17 is required for reporting periods beginning on or after 1 January 2010. Earlier application is permitted. It is planned that IAS 7 will be applied initially in 2010-11. Initial application of the revised IAS 7 is expected to have limited impact.

Note 2. Segmental reporting

The segmental analysis used is central government, local government and public corporations, consistent with the sub-sector classification by the ONS. There are two exceptions: the BBC has been included as a public corporation although ONS classifies the licence fee to central government; and the Welsh Fourth Channel Authority is included in the public corporations although the ONS has now reclassified it to central government.

Central government

The central government sector comprises:

- central government departments;
- the devolved administrations of Scotland, Wales and Northern Ireland;
- non-departmental public bodies;
- entities in the National Health Service; and
- certain local government functions in Northern Ireland, such as police, education and social services, which are carried out by Northern Ireland departments, non-departmental public bodies and health and social care trusts.

The net pension liability for Central Government also includes the liability for teachers who are employed by local authorities.

Local government

The local government sector comprises:

- all local authorities, police authorities, fire and rescue authorities, national park authorities and waste disposal authorities in England, Scotland and Wales; and
- local authorities in Northern Ireland, with the exception of police, fire, education and social services, which are provided by central government and their costs are shown within central government.

Public corporations

Entities are included in this sector where:

- they are classified as a market entity – an entity that derives more than 50% of its production cost from the sale of goods or services at economically significant prices. Some charge for regulatory activities where these provide a significant benefit to the person paying the fee;
- they are controlled by central government or local government entities or other public corporations; and
- they have substantial day to day operating independence so that they should be seen as an institutional unit separate from their parent entity.

Un-eliminated transactions

In performing the consolidation, transactions and balances between WGA entities have been removed. This means, for example, that income tax shows only the tax due from households and the private and not for profit sectors. As a consequence, it will not include national insurance contributions made by public sector employers. However, there are a number of transactions and balances between WGA entities which have not been eliminated because only one party to the transaction has disclosed the transaction. This predominately affects grants expenditure and other income. The potential maximum impact on net deficit and net liabilities because of these items is £3.2 billion.

Segmental Report

	Central Government entities £bn	Entities within the NHS £bn	Central Government Total £bn	Local Government £bn	Public Corporations £bn	Consolidation Adjustments £bn	Whole of Government £bn
Taxation revenue	(540.8)	-	(540.8)	(51.6)	(0.1)	107.2	(485.3)
Other revenue	(145.0)	(56.9)	(201.9)	(144.5)	(25.5)	275.2	(96.7)
Total operating revenues	**(685.8)**	**(56.9)**	**(742.7)**	**(196.1)**	**(25.6)**	**382.4**	**(582.0)**
Staff costs	76.8	38.1	114.9	79.1	10.0	(23.6)	180.4
Other expenses	747.8	22.6	770.4	128.2	16.2	(429.5)	485.3
Net deficit before financing costs	**138.8**	**3.8**	**142.6**	**11.2**	**0.6**	**(70.7)**	**83.7**
Net financing cost	64.1	1.5	65.6	13.9	0.9	0.1	80.5
Other comprehensive income	(0.8)	-	(0.8)	1.4	(0.4)	0.1	0.3
Net deficit for the year	**202.1**	**5.3**	**207.4**	**26.5**	**1.1**	**(70.5)**	**164.5**
Non-current assets	934.4	39.9	974.3	339.5	56.3	(416.3)	953.8
Current assets	311.6	7.5	319.1	37.4	10.0	(112.8)	253.7
Current liabilities	(431.9)	(6.7)	(438.6)	(29.5)	(7.2)	120.2	(355.1)
Total assets less current liabilities	**814.1**	**40.7**	**854.8**	**347.4**	**59.1**	**(408.9)**	**852.4**
Non-current liabilities	(936.1)	(8.5)	(944.6)	(89.0)	(9.7)	111.4	(931.9)
Net pension liability	(899.4)	-	(899.4)	(222.1)	(10.8)	-	(1,132.3)
Net Assets / (Liabilities)	**(1,021.4)**	**32.2**	**(989.2)**	**36.3**	**38.6**	**(297.5)**	**(1,211.8)**

The table above shows the gross amounts reported for each sector and the consolidation adjustments to eliminate transactions and balances between WGA entities. The Central Government total includes central government departments, non-departmental public bodies, devolved administrations, and entities within the NHS including NHS Trusts and Foundation Trusts in England, Welsh NHS Trusts and Health and Social Care Trusts in Northern Ireland.

Note 3. Taxation revenue

	£bn
Income tax	152.6
Social security and National Health Service contributions	90.4
Corporation tax	37.8
Capital gains tax	1.9
Inheritance tax	2.5
Taxation revenue from direct taxes	**285.2**
Value added tax	76.1
Hydrocarbon oils duty	26.3
Excise duties	25.1
Stamp duties	8.1
TV licence fee income	3.0
Lottery income	1.6
Other indirect taxes	7.8
Taxation revenue from indirect taxes	**148.0**
Council tax	29.4
National non-domestic rates	22.7
Taxation revenue from local taxes	**52.1**
Total taxation revenue	**485.3**

Income tax includes an amount of £2.5 billion for the bank payroll tax, which was introduced in the Finance Act 2010. It does not include tax credits, which are categorised as an expense and included within benefits in Note 6.

Other indirect taxes include: petroleum revenue tax, betting and gaming duties, air passenger duty, insurance premium tax, landfill tax, climate change levy, aggregates levy, and regulatory fees. Further information is available on the HM Revenue and Customs website (www.hmrc.gov.uk).

Tax revenues are estimated using a statistical based model as outlined in the accounting policy notes 1.10.1 and 1.21.4. The Comptroller and Auditor General has included in his audit certificate on the 2009-10 Trust Statement of Tax Revenues and Expenditure an Emphasis of Matter paragraph noting that there is significant uncertainty in the estimates of accrued tax revenue receivable and accrued tax revenue payable. Further information is set out in the 2009-10 accounts of HM Revenue and Customs, which is available on its website (www.hmrc.gov.uk).

National non-domestic rates (NNDR) (also known as Business Rates) are collected by each local authority and paid into a national pool, which is shared out between local authorities as part of a formula grant. NNDR, together with Council Tax, are used by local authorities to pay for local services.

Lottery income includes monies generated by the National Lottery for good causes, such as arts, sports, community projects and National Heritage good causes, and the 2012 Olympics.

The above figures are shown net of transactions between WGA entities. Amounts have been eliminated from the above figures for other indirect taxes (£74.5 billion), national non-domestic rates redistributed to local authorities by central government departments and the national non-domestic rates paid by entities within the WGA boundary (£22.1 billion), social security and National Health Service contributions (£10.5 billion) and corporation tax (£0.1 billion).

Note 4. Revenue from sales of goods and services

	£bn
Local government	28.3
Public corporations	16.1
Central government	6.6
Revenue from sales of goods and services	**51.0**

The £28.3 billion of revenue received by local authorities arise from services delivered to the public such as social care, planning and development, cultural and leisure provision and environmental services. The most significant single item of revenue was fare revenue from the Transport for London bus and underground transport service (£3.4 billion).

Significant revenue streams earned by public corporations from the sale of goods and services included revenue from postal services received by Royal Mail (£8.4 billion), revenue from staked amounts received by the Horserace Totalisator Board (£2.8 billion), and revenues earned by the broadcasting public corporations, primarily from advertising and sales of goods and commercial rights (£1.5 billion).

Significant revenue streams earned by central government entities from the sale of goods and services included £1.3 billion received by the Nuclear Decommissioning Authority in relation to waste management and electricity generation contracts and £1.1 billion received by Scottish Water for the supply of waste and water services. Central government revenue also includes revenue earned by entities within the National Health Service.

These amounts do not include revenue received from other WGA entities.

Note 5. Other revenue

	£bn
Fees, levies and charges	10.2
Rental revenue from local government housing	6.8
EU income	5.5
Pension scheme employee contribution income	5.3
Pension scheme employer contribution income	2.2
Private sector payments for local services	4.6
Income received by health entities	1.3
Licence income	0.3
Share of profit of associates and joint ventures	0.1
Miscellaneous operating revenue	9.4
Other revenue	**45.7**

Fees and charges usually reflect the full cost of the service being provided. Levies are licences to operate and use public goods, and are charged by statutory regulators, or to support industry specific research foundations. Levies are usually set to recover associated costs, such as costs of supervision by a regulator.

EU income is funding received by WGA entities from the EU for projects supported wholly or partially by the EU. Much of this funding is passed onto third parties.

Pension scheme employer and employee contribution income is the contribution income recognised in the underlying accounts of the central government pension schemes, predominantly the NHS Pension Scheme, Teachers Pension Scheme, and the Civil Service Pension Scheme. The majority of employer contribution income is eliminated against the employer contribution expense, as most employer entities in these schemes are entities within WGA. The pre-eliminated balance was £15.2 billion. The remaining balance relates to employers that participate in these schemes, but are outside the WGA boundary. Examples include GPs and charity hospices that contribute to the NHS pension scheme; higher and further education institutions, and independent teaching establishments that contribute to the Teachers Pension Scheme; and non-WGA entities such as the NAO, Welsh Audit Office, Electoral Commission, Pension Protection Fund, and some minor entities that contribute to the Civil Service Pension Scheme.

Income received by entities within the National Health Service includes income received for education, training, research and development, charitable donations, and other miscellaneous income. Further details can be found in the 2009-10 Summarised Account of NHS Trusts and the 2009-10 NHS Foundation Trusts Consolidated Accounts.

Miscellaneous operating income includes various types of income across a wide range of public sector entities. The largest components included £0.6 billion recognised by the Department for Transport from train operating companies in relation to franchise agreements, and £0.4 billion income for issuing coinage and the surplus revenue from the Crown Estate.

Note 6. Social security benefits

	£bn
State retirement pension	69.5
Local government housing and other benefits	27.9
Tax credits	26.8
Disability living allowance	17.7
Child benefit	11.9
Income support	8.7
State pension credit	8.2
Incapacity benefit	6.1
Jobseeker's allowance	6.1
Carer's allowance	1.5
Other benefits	12.7
Total cost of benefits	**197.1**

Social security benefits are statutory entitlements (most of which are included in the Social Security Social Security Contributions and Benefits Act), payable to private individuals and households.

The State Retirement Pension is the pension paid to the public. Pension payments to former public sector employees are shown in Note 27.

The majority of social security payments are paid by the Department for Work and Pensions. The Comptroller and Auditor General qualified his regularity opinion of the Department's 2009-10 accounts in respect of error and fraud in benefit payments. Further information is available in the Department's 2009-10 accounts, which are available on the website: www.dwp.gov.uk.

Tax credits and child benefits are administered by HM Revenue and Customs. Tax credits include adjustments to income tax as well as direct benefit payments. The Comptroller and Auditor General qualified his regularity opinion on the 2009-10 Trust Statement of Tax Revenues and Expenditure in respect of error and fraud in tax credits, as the department had no estimate of the total levels of potential fraud in 2009-10. It estimated in 2008-09 that error and fraud resulted in overpayments to which the claimants were not entitled, of between £2.0 billion and £2.3 billion and underpayments of between £0.2 billion and £0.3 billion. Further information is set out in the 2009-10 accounts of HM Revenue and Customs, which are available on the website: www.hmrc.gov.uk.

Note 7. Staff costs and numbers

Note 7.1 Staff Costs

Staff costs comprise:

	£bn
Salaries and wages	151.2
Social security costs	10.5
Staff pension costs	13.9
Pension scheme costs	28.4
Total staff costs (pre-eliminations)	**204.0**
Less intra-government balances	(23.6)
TOTAL consolidated staff costs	**180.4**

Salaries and wages include the cost of ministers, permanent members of staff, temporary and contract staff.

This note has been prepared to show the full cost of the public sector workforce before items internal to the public sector are removed (disclosed as intra-government balances). Intra-government balances include national insurance contributions which would otherwise form part of tax revenue of £10.5 billion (see Note 3) and employers' pension contributions of £13.1 billion (see Note 5).

'Staff pension costs' consist mainly of employer contributions to internal and external schemes. The bulk of these costs are eliminated as part of the consolidation and form part of the intra-government balances. 'Pension scheme costs' include the public sector pension scheme expenses such as current service cost, past service cost, enhancements, gains/losses on settlements and curtailments and expenses for the transfer in of new members.

Note 7.2 Average Number of Persons Employed

The average number of full-time equivalent (FTE) persons employed during the year was as follows:

	Total
Central government	2,345,408
Local government	2,266,834
Public corporations	297,230
TOTAL	**4,909,472**

Average staff numbers include staff engaged on capital projects. The central government aggregate includes 1,424,231 FTE staff working in the health sector.

Note 8. Expenditure on purchases of goods and services

	£bn
Central government	83.7
Local government	68.9
Public corporations	8.3
Expenditure on purchases of goods and services	**160.9**

Central government includes entities in the National Health Service, which spent £45.2 billion primarily for the purchase of clinical supplies, general medical services, personal medical services, alternative provider medical services and costs of prescriptions. Other entities across government purchased a wide range of goods and services. These amounts do not include expenditure paid to other WGA entities.

Note 9. Grants and subsidies

	£bn
Grants in relation to education paid by the Learning & Skills Council and higher education funding councils	20.4
UK contribution to the Budget of the European Communities	6.4
EU grants and subsidies to the private sector to spend on EU approved projects, mainly to support agriculture and reduce regional economic disparities	4.4
Department for International Development grants to developing countries for eliminating poverty	4.3
Department for Transport grants to the private sector, mainly for capital investment in railways	4.0
Homes & Communities Agency funding to the private sector, mainly for capital investment in social housing	4.0
Financial support for higher education students provided by Student Finance England	1.4
Other revenue grants and subsidies	15.4
Other grants for capital expenditure	5.9
Total cost of grants and subsidies	**66.2**

Grants were made to the voluntary sector, private sector companies, households, overseas governments and other entities to fund the acquisition, construction or development of assets, or to fund public services and public service commitments. Subsidies were paid to companies that fulfilled specific criteria. The vast majority of grants and subsidies were made by central government bodies.

The UK contribution to the Budget of the European Committee is the amount the UK pays directly to the EU less any subsidies. EU grants and subsidies are amounts paid to third parties to spend on EU approved projects. The income received from the EU to fund the payments is disclosed in Note 5.

Note 10. Depreciation and impairment charges

Depreciation and impairment charges are made up as follows:

	£bn
Depreciation of property, plant and equipment	22.0
Impairments of non-financial assets	18.1
Impairments of receivables	7.8
Amortisation of intangible assets	3.1
Revaluations	0.6
Total depreciation and impairment charges	**51.6**

The depreciation figure above is lower than depreciation in Note 14 'Property, plant and equipment'. The difference is reflected in reserves. This is partly due to depreciation on donated assets where the depreciation charge is offset by releases from reserves, and partly due to the revaluation of assets giving rise to backlog depreciation where previously depreciation was based on the historic cost of an asset.

Impairments of non-financial assets are net of impairment reversals. This figure includes £11.1 billion in relation to local government housing where local authorities provide a comprehensive social landlord service through the ownership and management of dwellings. It also includes impairments of £2.5 billion in relation to water and waste water systems. Other significant impairments were recognised by the NHS Trusts (£1.5 billion), NHS Foundation Trusts (£1.1 billion) and the Department of Health (£0.8 billion). NHS bodies are required to carry their assets at fair value, which must be kept up to date, and were required to adopt a new valuation approach for their non-current assets in either 2008-09 or 2009-10. This change of approach, and price falls in the wider economy were the major causes of the 2009-10 impairments.

Impairments of receivables included £5.7 billion in relation to tax revenue losses, of which £3.1 billion related to VAT, representing debts that HM Revenue & Customs (HMRC) considered to be irrecoverable because there was no practical means for pursuing the liability, for example because of insolvencies which limited the ability to recover tax due. In addition, part of this year's impairment resulted from special exercises conducted by HMRC to write-off time-barred and aged irrecoverable debt.

Note 11. Other expenditure

Other expenditure totals £26.5 billion and includes the following:

	£bn
Research and development expenditure	3.1
Rentals under operating leases	2.6
Auditors' remuneration and expenses	0.1

Other expenditure is spread across government with no individually significant items. It comprises £16.1 billion paid by central government (including £1.4 billion paid by entities within the National Health Service), £6.5 billion paid by local government, and £3.9 billion paid by public corporations.

Auditor's remuneration and expenses include fees paid to private sector organisations and public sector entities not consolidated, for example the National Audit Office, Audit Scotland, Welsh Audit Office and Northern Ireland Audit Office. Audit fees payable to the Audit Commission have been eliminated on consolidation.

Note 12. Investment revenue

	£bn
Interest revenue from student loans	0.2
Interest revenue from other sources	3.1
Dividend revenue	1.0
TOTAL	**4.3**

Interest revenue from other sources include interest earned on the loans provided to financial institutions, debt securities, loans advanced under reverse repurchase agreements, and currency swaps.

Dividend revenue includes dividends received from the Bank of England (£0.7 billion) and dividend interest accrued in respect of preference shares in Lloyds Banking Group (£0.1 billion) and Royal Bank of Scotland (less than £0.1 billion).

Note 13. Finance costs

	£bn
Interest costs in respect of government borrowing and financing	30.7
Finance charges in respect of finance leases & PFI contracts	2.2
Other finance costs	2.0
TOTAL	**34.9**

Interest costs on government borrowing and financing comprises interest on gilts (£28.4 billion), interest on National Savings and Investment products (£1.9 billion), and interest on Treasury bills (£0.4 billion)

Details of the obligations under finance leases are disclosed in Note 30.2 to the Accounts. Details of the obligations under PFI contracts are disclosed in Note 31 to the Accounts.

Other finance costs include interest costs on major capital projects that are not PFI contracts and on other financial liabilities such as deposits by banks and currency swaps.

Note 14. Property, plant and equipment

Note 14.1 Net Book Value of Property, plant and equipment at 31 March 2010 comprise the following elements:

	Dwellings	Land	Buildings	Infrastructure assets	Assets Under construction	Military equipment	Other	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:								
At 1 April 2009	115.9	26.7	248.9	272.4	36.2	71.1	85.8	857.0
Additions	3.7	0.2	10.2	5.5	20.3	0.5	6.3	46.7
Revaluations	2.9	0.5	2.8	(0.8)	0.5	2.4	2.0	10.3
Impairments	(3.2)	(3.8)	(13.1)	(2.6)	(0.3)	(0.2)	(1.1)	(24.3)
Reclassifications	1.2	0.6	5.4	1.1	(16.1)	0.4	4.2	(3.2)
Disposals	(1.3)	(0.7)	(2.2)	(0.3)	-	(1.6)	(3.4)	(9.5)
At 31 March 2010	**119.2**	**23.5**	**252.0**	**275.3**	**40.6**	**72.6**	**93.8**	**877.0**
Depreciation:								
At 1 April 2009	(4.3)	-	(29.4)	(40.6)	-	(35.6)	(44.9)	(154.8)
Charged in year	(2.3)	-	(7.7)	(3.2)	-	(3.6)	(6.2)	(23.0)
Revaluations	0.9	-	2.0	0.4	-	(1.3)	(0.4)	1.6
Impairments	-	-	(1.4)	0.1	-	0.2	(0.1)	(1.2)
Reclassifications	0.2	-	0.8	0.8	-	2.4	(0.2)	4.0
Disposals	0.1	-	0.5	0.2	-	1.3	2.3	4.4
Depreciation at 31 March 2010	**(5.4)**	**-**	**(35.2)**	**(42.3)**	**-**	**(36.6)**	**(49.5)**	**(169.0)**
Net Book Value at 31 March 2010	**113.8**	**23.5**	**216.8**	**233.0**	**40.6**	**36.0**	**44.3**	**708.0**

‘Reclassifications’ include assets reclassified to and from intangible assets and transfers to and from operating expenditure or reserves.

‘Buildings’ includes land and buildings held by local authorities with a net book value of £141.9 billion. Local authorities do not split their assets between land and buildings but will do so from 2010-11.

‘Infrastructure assets’ includes assets held by entities within the National Health Service and by Scottish Water stated at net book value as reported in their individual accounts. Accordingly, the gross book values in these accounts include the net book value of these assets and depreciation is not separately disclosed.

‘Infrastructure assets’ include highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historic cost basis compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation on a depreciated replacement cost basis for inclusion in the 2012-13 Whole of Government Accounts. The best proxy available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2010 National Accounts estimated the value of the road network at £248 billion as at 31 December 2009. On this basis, infrastructure assets are likely to be understated because of this treatment by at least £200 billion.

‘Other’ includes property, plant and equipment broken down in the table below.

The table includes £0.3 billion of assets held for resale. See Note 22.

'Other' property, plant and equipment consist of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	Total £bn
Cost or valuation:					
At 1 April 2009	45.2	16.4	10.7	13.5	85.8
Additions	3.4	0.6	1.2	1.1	6.3
Revaluations	0.2	1.1	0.2	0.5	2.0
Impairments	(0.2)	(0.1)	0.1	(0.9)	(1.1)
Reclassifications	0.2	3.4	0.2	0.4	4.2
Disposals	(1.7)	(0.4)	(0.5)	(0.8)	(3.4)
At 31 March 2010	**47.1**	**21.0**	**11.9**	**13.8**	**93.8**
Depreciation:					
At 1 April 2009	(28.2)	(8.8)	(5.2)	(2.7)	(44.9)
Charged in year	(3.3)	(1.0)	(1.5)	(0.4)	(6.2)
Revaluations	-	(0.4)	-	-	(0.4)
Impairments	-	-	(0.1)	-	(0.1)
Reclassifications	0.2	(0.6)	0.2	-	(0.2)
Disposals	1.4	0.3	0.4	0.2	2.3
Depreciation at 31 March 2010	**(29.9)**	**(10.5)**	**(6.2)**	**(2.9)**	**(49.5)**
Net Book Value at 31 March 2010	**17.2**	**10.5**	**5.7**	**10.9**	**44.3**

'Reclassifications' include assets reclassified to and from intangible assets and transfers to and from operating expenditure or reserves.

'Plant and machinery' include vehicles held by local authorities, who are not required to separately disclose them.

'Furniture and Fittings and Other Assets' include heritage assets, community assets, cultivated assets, biological assets, and donated assets.

Note 14.2 Asset Financing

	Dwellings £bn	Land £bn	Buildings £bn	Infrastructure assets £bn	Assets under construction £bn	Military equipment £bn	Other £bn	Total £bn
Owned	110.2	21.6	189.9	228.9	40.5	36.0	39.8	666.9
Finance Leased	2.1	0.1	6.3	0.3	-	-	1.4	10.2
On balance sheet PFI	1.5	1.8	20.4	3.8	-	-	3.1	30.6
PFI reversionary interest	-	-	0.2	-	0.1	-	-	0.3
Net book value	**113.8**	**23.5**	**216.8**	**233.0**	**40.6**	**36.0**	**44.3**	**708.0**

'Other' consists of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other assets £bn	Total £bn
Owned	15.4	9.9	3.6	10.9	39.8
Finance Leased	0.7	0.5	0.2	-	1.4
On balance sheet PFI	1.1	0.1	1.9	-	3.1
Net book value	**17.2**	**10.5**	**5.7**	**10.9**	**44.3**

Note 15. Investment properties

	£bn
Valuation at 1 April 2009	**14.7**
Additions	0.9
Revaluations	0.8
Impairments	(1.1)
Disposals	(0.7)
Valuation at 31 March 2010	**14.6**

Investment properties comprise mainly of land and buildings held by local authorities. They provide rental income for the funding of services, as part of a financial strategy to minimise the use of general reserves to meet ongoing expenditure. All investment properties are owned rather than finance leased.

'Reclassifications' include assets reclassified to and from other types of assets and transfers to and from operating expenditure or reserves.

Note 16. Intangible assets

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	Total £bn
Gross Cost:							
At 1 April 2009	32.5	5.6	5.9	3.0	1.0	0.8	48.8
Additions	0.9	0.7	1.1	0.3	0.1	0.1	3.2
Revaluations	1.1	0.7	0.1	-	-	-	1.9
Reclassifications	(4.4)	4.0	0.1	0.3	(0.1)	-	(0.1)
Disposals	(0.1)	-	(0.1)	(0.1)	-	-	(0.3)
Gross Cost at 31 March 2010	**30.0**	**11.0**	**7.1**	**3.5**	**1.0**	**0.9**	**53.5**
Amortisation:					-		
At 1 April 2009	(7.8)	(1.5)	(2.8)	(1.2)	(0.3)	(0.5)	(14.1)
Charged in year	(1.1)	(0.5)	(1.0)	(0.4)	(0.1)	-	(3.1)
Revaluations	(0.3)	(0.2)	-	-	-	-	(0.5)
Reclassifications	1.6	(1.3)	-	-	-	-	0.3
Disposals	-	-	0.1	0.1	-	-	0.2
Amortisation at 31 March 2010	**(7.6)**	**(3.5)**	**(3.7)**	**(1.5)**	**(0.4)**	**(0.5)**	**(17.2)**
Net book value at 31 March 2010	**22.4**	**7.5**	**3.4**	**2.0**	**0.6**	**0.4**	**36.3**

Military equipment primarily covers the development of new equipment and the improvement of the effectiveness and capability of existing military equipment by the Ministry of Defence. It includes the Typhoon Airframe (net book value: £6.3 billion), the Type 45 Destroyer (£1.2 billion) and the Harrier (£0.7 billion).

Development expenditure is capitalised as an intangible asset in accordance with the accounting policy on research and development as described in Note 1.11.4. The Ministry of Defence makes up a large majority of development expenditure (net book value: £6.6 billion). This consists of development expenditure on equipment which is not restricted to military use, such as expenditure on I.T. and communications within the Nimrod aircraft (£1.9 billion), expenditure on the Merlin helicopter (£1.8 billion) and projects where the development costs are below half a billion pounds.

Note 17. Trade and other receivables

	£bn
Amounts falling due within one year:	
Accrued tax revenue	80.9
Taxation and duties due	23.8
Student loans	1.5
Trade receivables	11.9
Other receivables	18.1
Prepayments and other accrued revenue	7.6
PFI prepayments	0.1
	143.9
Provision for irrecoverable debts	(18.2)
Current trade and other receivables	**125.7**
Amounts falling due after more than one year:	
Taxation and duties due	1.7
Student loans	26.4
Trade receivables	0.6
Other receivables	12.4
Prepayments and accrued revenue	0.8
PFI prepayments	0.2
	42.1
Provision for irrecoverable debts	(2.1)
Non-current trade and other receivables	**40.0**
Total trade and other receivables at 31 March 2010	**165.7**

Provision for irrecoverable debts

	Current £bn	Non-current £bn	Total £bn
Balance at 1 April 2009	(18.3)	(2.4)	**(20.7)**
Net decrease in provision	0.1	0.3	**0.4**
Balance at 31 March 2010	**(18.2)**	**(2.1)**	**(20.3)**

Accrued tax revenue includes accrued Income Tax (£26.1 billion), VAT (£22.1 billon), Corporation Tax (£13.0 billion) and National Insurance Contributions (£11.5 billion). These have been estimated by HMRC using statistical modelling, as described in note 1.10.1. Due to cycle of tax calculations, these amounts were not due to be notified to the taxpayer until 2010-11 or later. Taxation and duties due comprise amounts due from taxpayers where the liability has been established but payment has not yet been received.

Prepayments and other accrued revenue largely comprises balances held by central government departments, including welfare benefit overpayments that have not yet been recovered and unpaid fines.

Student loans are valued at the gross value of the loans issued reduced by an estimate of the present cost of subsidising interest on loans over the life of the loan and an estimate of the future cost of policy write offs. The Department for Business, Innovation and Skills (BIS) recognised £3.5 billion interest subsidy impairment value and £2.3 billion policy write off impairment value as at 31 March 2010, with the devolved administrations recognising another £0.6 billion. Further detail on the valuation of student loans is available in the 2009-10 accounts of BIS.

The largest components within provisions for irrecoverable debt are estimates of £10.9 billion made to reflect the risk of non-payment of tax and £1.4 billion in relation to welfare benefit balances, with most of the remaining provisions reflected in local government accounts. Provisions for doubtful debts were made in respect of: legal costs awarded to HMRC following legal proceedings against taxpayers for the recovery of outstanding tax liabilities; penalty receivables to allow for the remission of uncollectable penalties; and child benefit receivables to allow for potentially irrecoverable amounts. All these provisions were estimated, having regard to the level of debts not recovered during 2009-10 and earlier years. Further detail is available in the 2009-10 accounts of HM Revenue and Customs and the Department for Work and Pensions.

Note 18. Equity investments in the public sector banks

The Government has investments in the Bank of England, Royal Bank of Scotland Group Plc, Lloyds Banking Group Plc, Northern Rock (Asset Management) Plc, Northern Rock Plc and Bradford & Bingley Plc, as shown below. Other than the Bank of England, these investments are managed by UK Financial Investments Limited (UKFI). Further information is available in the 2009-10 accounts of HM Treasury and UKFI.

	£bn
Bank of England	4.2
Royal Bank of Scotland Group Plc	42.4
Lloyds Banking Group Plc	17.3
Northern Rock Plc	1.4
Northern Rock (Asset Management) Plc	-
Bradford & Bingley Plc	-
Total investment	**65.3**

As a consequence of these equity holdings and, where relevant, the related financial interventions, there are a number of related transactions with public sector banks. These include:

- loans to banks (see note 21)
- guarantees (see note 32)
- contingent liabilities (see notes 33 and 34)

The overall relationship with each bank, key events in 2009-10 and their summarised financial results can be found in note 37.

Note 19. Inventories

	Raw materials and consumables £bn	Land, buildings and other work in progress £bn	Goods for resale and finished goods £bn	Land and buildings for resale and finished land and buildings £bn	Total £bn
As at 1 April 2009	7.6	1.9	1.1	0.5	11.1
Additions	6.5	0.3	1.1	0.2	8.1
Disposals	(5.2)	(0.2)	(1.0)	(0.1)	(6.5)
Write offs	(0.4)	(0.1)	(0.1)	-	(0.6)
Revaluation	0.5	-	-	-	0.5
Reclassification	-	(0.1)	-	(0.1)	(0.2)
As at 31 March 2010	**9.0**	**1.8**	**1.1**	**0.5**	**12.4**

Raw materials and consumables

Included in the raw materials and consumables balance is an amount of £7.2 billion held for defence purposes. This covers a wide range of material and equipment such as munitions which have a limited life. The Department of Health held £0.2 billion of emergency or essential medical supplies and vaccines. The remaining balances were held by central government entities (£0.5 billion), NHS trusts and foundation trusts (£0.4 billion), a number of entities in local government (£0.2 billion), and public corporations (£0.2 billion).

Of the total amount of stock written off during the course of the year, £0.3 billion was in respect of defence inventories.

The Comptroller and Auditor General limited the scope of his opinion in relation to £5.5 billion of inventories, as the Ministry of Defence was unable to provide sufficient evidence to support the existence and value of certain inventory balances reported within its financial statements. Further details are available in its 2009-10 accounts (www.mod.gov.uk).

Land, buildings and other work in progress

The balance of £1.8 billion includes £0.8 billion of expenditure incurred by the Homes and Communities Agency to acquire and improve property, development assets and civic assets pending their disposal. The Regional Development Agencies and the London Thames Gateway Development Corporation also held land valued at £0.5 billion for improvement and disposal.

The balance also includes prepayments of £0.3 billion by the BBC to acquire future programme related rights. The remaining balance of £0.2 billion is held by a number of entities in central government, local government and by public corporations.

Goods for resale and finished goods

This includes £0.6 billion of completed programmes and rights to broadcast acquired programmes and films by the BBC and Channel Four, and £0.2 billion of development assets held by the Welsh Assembly Government. The remaining balances were held by NHS trusts and foundation trusts (£0.1 billion), a number of entities in central government (£0.1 billion), and local government (£0.1 billion).

Land & buildings for resale & finished land & buildings

This includes short term holdings of land and buildings held by the Olympic Delivery Authority (£0.2 billion), Regional Control Centres under the FiRe Control project held by the Department for

Communities and Local Government (£0.1 billion), the Ministry of Defence (£0.1 billion) and Thurrock Development Corporation (£0.1 billion).

Note 20. Cash and cash equivalents

	£bn
Balance as at 1 April	9.0
Net change in cash and cash equivalent balances	(0.9)
Balance as at 31 March	**8.1**
The following balances at 31 March were held at:	
Office of HM Paymaster General	(2.6)
Commercial banks	9.2
Short term deposits	1.5
Balance as at 31 March	**8.1**

Short term deposits are readily convertible investments of known value which are subject to an insignificant risk of changes in value.

Note 21. Other financial assets

Other financial assets include the following:

	Loans and deposits with banks £bn	Equity investments £bn	Debt securities £bn	IMF Special Drawing Rights £bn	Other £bn	Total £bn
Current						
As at 31 March 2010	**63.1**	**0.4**	**23.8**	**9.2**	**3.7**	**100.2**
Non Current						
As at 1 April 2009	52.0	14.0	-	11.2	1.5	78.7
Additions	13.1	1.5	-	-	0.2	14.8
Disposals	(0.3)	(0.4)	-	-	(0.2)	(0.9)
Repayments	(2.7)	(0.1)	-	-	(0.1)	(2.9)
Revaluation	0.2	0.3	-	(0.4)	0.1	0.2
Impairments	0.3	(0.1)	-	-	-	0.2
Reclassification	(0.5)	0.1	-	-	(0.1)	(0.5)
As at 31 March 2010	**62.1**	**15.3**	**-**	**10.8**	**1.4**	**89.6**
Total	**125.2**	**15.7**	**23.8**	**20.0**	**5.1**	**189.8**

Loans and deposits with banks

Loans and deposits with banks include £57.5 billion of loans and advances to banks and other financial services entities by HM Treasury. The largest of these were made to Northern Rock (£23.0 billion), the Financial Services Compensation Scheme (£19.3 billion), Bradford and Bingley (£10.7 billion) and the Depositors' and Investors' Guarantee Fund (£2.2 billion). Northern Rock and Bradford and Bingley had the most significant additions during the year, increasing their loans by £8.7 billion and £2.6 billion respectively. Further details are available in the 2009-10 accounts of HM Treasury (www.hm-treasury.gov.uk).

£48.1 billion of funds were advanced to banks (or bank subsidiaries) and central clearing counterparties under reverse repurchase agreements where securities are held as collateral and then returned when the funds are repaid. Reverse sale and repurchase agreements were valued daily, and, depending on whether the value of the collateral has risen or fallen, collateral were returned to the provider of collateral, or additional securities requested from the provider of collateral. Further details are available in the 2009-10 accounts of the Exchange Equalisation Account and Debt Management Account.

Loans and deposits with banks also include deposits made by local government to commercial institutions of £11.8 billion.

Equity investments

Equity investments include investments in the European Investment Bank (£5.5 billion), investments in international financial institutions held by the Department for International Development (£3.3 billion), and launch investments held by the Department for Business, Innovation and Skills (£1.7 billion). The equity investment in the public sector banks is shown separately in Note 18.

Debt securities

£23.8 billion of debt securities issued by public bodies, primarily foreign governments, were held by the Exchange Equalisation Account (EEA). EEA investments need to be highly liquid in order that they can be made available for use quickly, whilst minimising the costs of holding the reserves. Inevitably, these investments carry some element of credit risk. In order to reduce this risk and to ensure the necessary liquidity, the EEA predominantly holds securities issued or guaranteed by the national governments of the United States, Euro area countries and Japan. Further details are available in the 2009-10 accounts of the EEA.

IMF Special Drawing Rights

Non-current International Monetary Fund (IMF) Special Drawing Rights (SDRs) comprise the UK's Quota Subscription to the IMF. On becoming a member of IMF, the UK was required to pay a subscription to the IMF in a mix of SDRs, the IMF's unit of account, and other widely accepted currencies. The UK's Quota Subscription to the IMF is treated as both a loan and a receivable and is measured at amortised cost.

Current IMF SDRs comprise the UK's holding of SDRs resulting from SDR allocations made by the IMF plus subsequent purchases and sales of SDRs with other IMF members. SDR holdings are classified as 'held for trading' and measured at fair value.

Other

Other investments include derivative transactions used in trading activities to manage risk in operational activities. Such instruments include exchange rate forwards, currency swaps, interest rate swaps and interest rate and bond futures. The largest balance is made up of short term foreign exchange derivatives totalling £0.8 billion, which are held by the Exchange Equalisation Account.

Other financial assets comprise the following types of financial instruments as at 31 March 2010:

	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Held for trading at fair value £bn	Total £bn
Current					
Loans and deposits with banks	48.2	10.9	-	4.0	63.1
Equity investments	-	0.1	0.1	0.3	0.5
Debt securities	-	-	-	23.8	23.8
IMF Special Drawing Rights	-	-	-	9.2	9.2
Other	-	-	0.3	3.3	3.6
Total Current	**48.2**	**11.0**	**0.4**	**40.6**	**100.2**
Non-Current					
Loans and deposits with banks	61.0	1.1	-	-	62.1
Equity investments	-	0.7	13.7	0.8	15.2
IMF Quota Subscription	10.8	-	-	-	10.8
Other	0.2	-	1.1	0.2	1.5
Total Non-Current	**72.0**	**1.8**	**14.8**	**1.0**	**89.6**
Total	**120.2**	**12.8**	**15.2**	**41.6**	**189.8**

'Loans and receivables' and 'Held to maturity investments' are measured at amortised cost, and 'Available for sale' and 'Held for trading' assets are measured at fair value.

'Loans and advances to banks' include the loans made to the financial institutions by HM Treasury.

Note 22. Assets held for sale

As at 31 March 2010, there were £0.3 billion of non-financial assets held for sale. The majority of these assets held for sale are in defence and health and consist principally of land and property held for sale. All assets held for sale are included in property, plant and equipment in note 14.

Assets held for sale are discloseable under IFRS. As local authorities have not prepared their 2009-10 accounts under IFRS, they have not recognised assets as "assets held for sale" and the amount above does not include assets held by local authorities.

Note 23. Trade and other payables

	£bn
Amounts falling due within one year:	
Bank and other borrowings	5.2
Refunds of taxation and duties payable	22.4
Accruals and deferred income	30.0
Trade payables	18.7
Other payables	24.4
Obligations under finance leases and hire purchase contracts	0.9
Imputed finance lease element of on-balance sheet PFI contracts	0.9
Current trade and other payables	**102.5**
Amounts falling due after more than one year:	
Bank and other borrowings	25.8
Imputed finance lease element of on-balance sheet PFI contracts	27.2
Trade payables	0.4
Other payables	9.4
Obligations under finance leases and hire purchase contracts	5.7
Accruals and deferred income	5.2
Non-current trade and other payables	**73.7**
Total trade and other payables at 31 March 2010	**176.2**

Borrowings include £2.2 billion of bank overdrafts held by local authorities. This balance forms part of the total borrowing of local authorities. They have wide powers to borrow which are enshrined in statute. Their ability to borrow is controlled under the current regulatory framework, which has been in place since 2004 and through the application of the Prudential Code for Capital Finance in Local Authorities and the Code of Practice for Treasury Management in the Public Services which have both been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Refunds of taxation and duties payable incorporate an expectation on taxation refunds.

The imputed finance lease element of on-balance sheet PFI contracts includes the outstanding capital repayments payable under the finance lease.

Trade and other payables are held across a wide range of public sector entities and relate to accrued expenses and payables for day to day business delivery costs. The most significant payable is £5.2 billion relating to the financing of the construction of High Speed One (formerly the Channel Tunnel Rail Link) and the Channel Tunnel. Further details are available in the 2009-10 accounts of the Department for Transport.

Note 24. Government financing and borrowing

	£bn
Amounts falling due within one year:	
Gilt edged securities	39.1
National Savings & Investment products	98.8
Treasury bills	63.0
	200.9
Amounts falling due after more than one year:	
Gilt edged securities	764.7
Total at 31 March 2010	**965.6**

Gilt-edged securities, or gilts, are UK Government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Prices Index. As the Government's debt manager, the Debt Management Office (DMO) sells gilts to the market to ensure sufficient funding is available to meet the Government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, with the exception of gilts held by funded public sector pension schemes. Further details regarding gilts are available in the 2009-10 Debt and Reserves Management Report.

National Savings and Investments (NS&I) products are a range of secure savings and investments, primarily bonds, offered to the public, that are backed by HM Treasury. They provide the Government with a source for financing public spending. Further details of these products, and a copy of NS&I's 2009-10 accounts, can be found on the NS&I website: http://www.nsandi.com.

Treasury bills are issued by the DMO and, along with other money market operations, are used to meet the Government's daily cash requirements. Further details on these operations can be found in the 2009-10 Debt and Reserves Management Report.

Note 25. Provisions for liabilities and charges

	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
At 1 April 2009	55.3	13.9	60.4	129.6
Provisions arising during the year	0.9	3.7	7.3	11.9
Provisions utilised during the year	(2.4)	(0.9)	(8.6)	(11.9)
Unwinding of discount	2.7	-	0.6	3.3
Provisions not required written back	0.1	(1.0)	(30.5)	(31.4)
Transfers in-year	0.1	-	-	0.1
At 31 March 2010	**56.7**	**15.7**	**29.2**	**101.6**

Expected timing of discounted cash flows:	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
Within one year	2.4	2.1	10.9	15.4
Between 1 and 5 years	10.2	4.6	8.2	23.0
Thereafter	44.1	9.0	10.1	63.2
Total Future payments	**56.7**	**15.7**	**29.2**	**101.6**
Current provisions	**2.4**	**2.1**	**10.9**	**15.4**
Non-current provisions	**54.3**	**13.6**	**18.3**	**86.2**

Local authorities are not required to identify provision expense separately in their Statement of Revenue & Expenditure under their accounting framework. This creates a difference between the provision amount shown separately in the Statement of Revenue and Expenditure of £17.0 billion and the movement in provisions shown above.

Provision for nuclear decommissioning

These financial statements include provisions for the Government's obligations in respect of nuclear liabilities, being the costs associated with the nuclear decommissioning of designated sites of radioactive plant and facilities. The costs include costs of: storing, processing and eventual disposal of radioactive waste; reprocessing, or in other ways managing, nuclear fuels and materials; care and maintenance of redundant facilities (the conditioning, retrieval and storage of contaminated materials); research and development; and the procurement of capital facilities to handle the various waste streams.

The majority of this provision is recognised by the Nuclear Decommissioning Authority. Its provision is based on the Lifetime Plan for the designated sites, being the latest available technical assessments of the processes and methods likely to be used in the future, and represent best estimates of future required work. The Government's obligations are reviewed on a continual basis and provisions are updated accordingly. The provision and recoverable balances are expressed at current price levels and discounted at 2.2%, to take account of the time value of money for the very long timescales over which work will be carried out, currently expected to be over 100 years. The nuclear liabilities recorded are the best estimate from the information available. However, the lengthy timescales, final disposition plans for waste and spent fuel, timing of final site clearance and the confirmation of site end states mean that the ultimate liability will vary as a result of the subsequent information and events, and may result in significant changes to the overall costs of decommissioning as these uncertainties change as a result of events after the year end. Certain expenditure required to discharge nuclear provisions is recoverable from third parties under commercial agreements. The amount recoverable at 31 March 2010 is £4.6 billion.

The Provision for Nuclear Decommission was subject to an Emphasis of Matter on uncertainties in the provision in the Audit Opinion of the Comptroller & Auditor General. Further details are available in the 2009-10 accounts of the Nuclear Decommissioning Authority.

Provision for clinical negligence

These financial statements include provisions made for future costs where health service entities are the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence.

Known reported claims are individually valued on the basis of likely costs to resolve the claim and probability factors to take account of the potential for a successful defence. Incurred but not reported (IBR) claims are valued using actuarial models to predict likely values. The clinical negligence provision included in this account therefore reflects an actuarially determined assessment of incidents that have occurred, including those yet to be reported, where the amount of the claim can be reliably estimated. The amount provided is calculated on a percentage expected probability basis. Expenditure is likely to be incurred over a period of more than 20 years.

Clinical negligence claims which may succeed, but which are less likely or cannot be reliably estimated, are accounted for as contingent liabilities.

Other provisions

These financial statements provide for the additional future costs arising from compensation payment for termination of employment through redundancy, severance or early retirement, beyond the normal benefit awards for which employees are eligible under the terms of their pension scheme. The provision also takes account of arrangements with pension schemes under which employees could make prepayments to meet future liabilities. Departments meet the additional costs of benefits beyond the normal civil service pension scheme benefits in respect of employees who retire early by paying the required amounts annually to the pension schemes over the period between early departure and normal retirement date. Departments provide for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by 2.2% in real terms, where material.

Other provisions also included £4.9 billion relating to taxpayers' legal claims against Her Majesty's Revenue & Customs and £4.2 billion relating to the Financial Assistance Scheme (FAS). FAS was announced in 2004 to provide assistance to members of defined benefit occupational pension schemes that wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005, before the introduction of the Pension Protection Fund. Since 2004, the scope of the scheme and the levels of assistance have been expanded through additional legislation.

Additional provisions have been made in relation to injury benefits, medical costs, criminal injuries compensation, legal aid, and capital investment activities. Provisions in relation to capital investment activities included compulsory purchases, claims in respect of structural damage and diminution of value of properties affected by transport schemes.

Movements in other provisions included £30.5 billion being provisions not required written back. The majority of this relates to a provision for £25.0 billion in relation to the Asset Protection Scheme (APS) made as at 31 March 2009. As HM Treasury's obligation under this scheme is accounted for at fair value through the Statement of Revenue and Expenditure (with a derivative liability of £1.3 billion as at 31 March 2010, as disclosed in note 26 below), no provision under IAS 37 was required as at 31 March 2010 and therefore the provision was written back.

Note 26. Other financial liabilities

Other financial liabilities include the following:

	Deposits by banks £bn	IMF SDR allocation £bn	Financial Guarantees £bn	Other £bn	Total £bn
Current					
As at 31 March 2010	**18.1**	**10.1**	**-**	**8.1**	**36.3**
Non Current					
As at 1 April 2009	-	-	11.6	0.4	12.0
Additions	-	-	1.5	1.4	2.9
Disposals	-	-	(0.1)	(0.1)	(0.2)
Repayments	-	-	-	(0.3)	(0.3)
Revaluation	-	-	(0.3)	(0.3)	(0.6)
Impairments	-	-	(1.7)	-	(1.7)
Reclassification	-	-	(5.0)	0.2	(4.8)
As at 31 March 2010	-	-	**6.0**	**1.3**	**7.3**
Total	**18.1**	**10.1**	**6.0**	**9.4**	**43.6**

Deposits by banks

Deposits by banks include sales and repurchase agreements, where an entity sells securities and receives a deposit, under the understanding that it will buy the securities back at a specified time and price. The largest balance is made up of deposits by banks under sales and repurchase agreements of £15.2 billion entered into by the Debt Management Office (DMO) as part of its cash management operations, reflecting the Government's daily cash flows. During 2009- 2010, the DMO continued to hold large asset and liability balances, as it sought to manage historically large aggregate Exchequer borrowing requirements.

Deposits by banks also include sale and repurchase agreements of £2.9 billion entered into by the Exchange Equalisation Account (EEA) to preserve the liquidity and security of the foreign currency reserves and to ensure that the Government maintains its capability to intervene in the foreign exchange market if required, while also minimising the overall cost of holding the foreign currency reserves and ensuring exposure to financial risk is limited. Further details are available in the 2009-10 accounts of the DMO and the EEA.

IMF special drawing rights allocation

International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation comprises a liability to the IMF (£10.1 billion) for those SDRs that have been allocated to the UK when the country became a participant in the Special Drawing Rights Agreement and that have been allocated subsequently. Additional allocations were made in August & September 2009 as part of the response to the global economic crisis. The UK received an additional £8.1 billion, bringing its total allocation to £10.1 billion. The UK's SDR allocation is recognised as a liability and the resultant holding of SDRs by the UK is recognised as an asset. Further details are available in the 2009-10 accounts of the EEA.

Financial guarantees

The Government's financial guarantees include guarantees provided by the Department for Transport to Network Rail (£3.0 billion) and guarantees issued to certain depositors in Bradford and Bingley (£0.6 billion) and Northern Rock (£0.1 billion), and various institutions under the Credit Guarantee Scheme, (£2.1 billion). These valuations reflect the fair value of guarantees at 31 March 2010, with the remaining value of the guarantees held as contingent liabilities and disclosed in Notes 33 and 34.

The reclassification of financial guarantees for £5.0 billion relates to a financial guarantee to LCR Finance plc and CTRL Section 1 Finance plc provided by the Department for Transport that was reclassified as a payable in 2009-10. Further details are available in the 2009-10 accounts of the Department of Transport.

As well as guarantees, the Government provided indemnities as described in Notes 33 and 34.

Other

Other current financial liabilities include £4.1 billion relating to Court Funds that have been invested with the Debt Management Office (DMO) by the Commissioner for Reduction of National Debt's Court Funds Investment Account. These funds are held in court on behalf of clients who may be involved in civil legal action, patients who under the Court of Protection are not able to manage their property and affairs, and children under the age of 18. The funds in the form of cash have been deposited with DMO. Further details are available in the 2009-10 Funds in Court Part A Accounts.

Other current financial liabilities also include £1.9 billion of derivative financial liabilities held by the Exchange Equalisation Account (EEA) comprising currency swaps, foreign exchange transactions and interest rate swaps used to manage its risk in the trading portfolios. Further details are available in the 2009-10 accounts of the EEA.

Other financial liabilities comprise the following types of financial instruments as at 31 March 2010:

	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	Total £bn
Current				
Deposits by banks	15.2	-	2.9	18.1
IMF SDR allocation	-	-	10.1	10.1
Other	2.9	0.3	4.9	8.1
Total Current	18.1	0.3	17.9	**36.3**
Non-Current				
Financial Guarantees	6.0	-	-	6.0
Other	-	1.3	-	1.3
Total Non-Current	6.0	1.3	-	7.3
Total	**24.1**	**1.6**	**17.9**	**43.6**

The IMF SDR allocation is held by EEA and managed on a homogeneous basis. Although the foreign currency reserves are not held primarily to make a profit, HM Treasury seeks to minimise the cost of holding the reserves whilst avoiding exposing the public purse to unnecessary risk. The SDR allocation is part of the EEA portfolio of financial instruments, which is actively managed against the benchmark to meet the return set by HM Treasury. As a result, the financial assets and liabilities of the EEA, including the SDR allocation, are all "held for trading", in accordance with the definition of IAS 39 '*Financial Instruments: Recognition and Measurement*'.

After initial recognition, financial guarantee contracts are recognised at the higher of amortised cost or the best estimate of the probable expenditure required to settle any financial obligation arising at the balance sheet date, in line with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'. Thus, if it is more likely than not that additional resources will be needed to settle the obligations under the contract, i.e. if it more likely than not the guarantee will be called, and if the value of those resources is higher than the amortised cost, then this higher value will be used.

Note 27. Net public service pension liability

27.1 Pension scheme details

The Government operates a range of defined benefit pension schemes for public servants. The arrangements for individual schemes vary according to the specific circumstances of the scheme. Schemes may be funded or unfunded and may be administered by government departments, devolved administrations or other public entities (such as local authorities) or independent trustees. Information that applies generally to the principal schemes is provided in this note. Information on the specific schemes can be found in the Annual Report of the responsible entities.

Other than as described below, the cash required to meet the payment of pensions is met from employer and employee contributions with any shortfall financed by the Exchequer.

Unfunded schemes

The significant unfunded schemes are the Principal Civil Service Pension Scheme, NHS Pension Schemes, Armed Forces Pension Scheme and Teachers Pensions Scheme. The significant local government pension schemes are the Police Pension Scheme and the Firefighters Pension Scheme. These are unfunded, defined benefit, occupational pension schemes, the majority of which are contributory. Employer entities, such as government departments, NHS entities, local authorities (including police and fire authorities) and education institutions, recognise the expected cost of these elements on a systematic and rational basis over the period during which they benefit from employees' services, by payment to the scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme. In respect of the defined contribution schemes, employing entities recognise the contributions payable for the year.

Public service pension schemes carry out full actuarial valuations periodically. Between full valuations, annual updates are made to the liabilities to reflect current conditions. Contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Scheme liabilities reflect the expected future benefit payments arising in respect of both current and deferred pensioners and currently active members of the scheme. Benefits are paid as they fall due and are guaranteed by the employer.

The administration of the Police Pensions Scheme and the Firefighters Pension Scheme is the responsibility of the separate police and fire authorities and regional local authorities that provide a police or fire service. Each individual employer authority that contributes to these schemes recognise their proportion of the liabilities in their Statement of Accounts. The scheme liability in WGA is the aggregate of amounts reported in the Statement of Accounts of the individual authority employers, and the amounts reported by the Northern Ireland Police Pension Scheme and Northern Ireland Fire and Rescue Service (Note 27.3).

Funded schemes

Funded Pension Schemes are shown on a net liability basis (or net asset where the total scheme asset balance exceeds the gross liability). This means that scheme assets are deducted from the gross pension liability balance. Changes in scheme assets in the year are included within actuarial gains and losses.

The Local Government Pensions Scheme (LGPS) is the largest funded scheme. The LGPS (England and Wales) consists of around 89 separately administered Funds, with the LGPS (Scotland) having a further ten funds. Under the LGPS Regulations each Fund is subject to an independent actuarial valuation every three years. The individual local authority employers that contribute to these Funds recognise their proportion of the scheme liabilities in their Statement of Accounts, with the exception of Northern Ireland which is administered and reported centrally by the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC). The 'local government funded schemes' balance disclosed in Note 27.3 includes the portion of the pension liability of the LGPS that is reported in the financial accounts of the individual local authority employers and NILGOSC, which are consolidated in WGA.

27.2 Analysis of movements in the liability

	Note	Funded (net) £bn	Unfunded (gross) £bn	Total £bn
Liability at 1 April 2009		66.7	735.3	802.0
Current Service Costs	*27.5*	4.6	22.9	27.5
Past service costs	*27.5*	-	0.7	0.7
Losses on settlements and curtailments	*27.5*	0.3	-	0.3
Interest on scheme liabilities	*27.5*	13.9	45.0	58.9
Expected rate of return on funded schemes' assets	*27.5*	(9.0)	-	(9.0)
Actuarial losses	*27.6*	48.2	238.6	286.8
Contributions by employer (Funded Schemes)		(8.0)	-	(8.0)
Benefits paid		-	(26.9)	(26.9)
Liability at 31 March 2010	*27.3*	**116.7**	**1,015.6**	**1,132.3**

The pension liability only relates to public service pension liabilities for employees and former employees of the public sector, with a small component for other approved organisations that qualify for membership of these government schemes. State retirement pensions are outside the scope of the IAS 19 '*Employee Benefits*' pension liability as they are paid to the general public, and are not employee benefits for public sector staff.

The funded pension scheme liability is shown on a net liability basis and the unfunded pension scheme liability is shown on a gross liability basis.

Of the 605 bodies which participate in funded schemes, 10 have reported a net pension asset, which collectively amounts to £0.4 billion. The funded pension schemes hold a range of assets including gilts as part of their investment portfolio. Gilts held by these pension schemes have not been eliminated.

'Current service costs' are the increase in the present value of the scheme liabilities arising from current members' service in the current period. 'Past service costs' are increases/decreases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change, or improvement to retirement benefits.

'Interest on scheme liabilities' is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Revenue and Expenditure. The interest cost is based on the discount rate, including inflation, and is calculated on the gross liability of unfunded schemes (which is shown gross) and the gross liability of funded schemes (which is shown net of assets).

'Actuarial losses' comprise the effects of differences between the actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions. They are accounted for through reserves as required by the FReM. An actuarial loss of £286.8 billion has been recognised, primarily due to the reduction in the discount rate used by central government schemes.

The 'Contributions by employer (funded pension schemes)' balance reflects the increase in scheme assets due to payments made into the scheme by the employer as a consequence of scheme requirements to fund any deficit of scheme assets compared to the total scheme liability. These contributions therefore exceed the current service costs for those schemes.

'Benefits paid' on funded schemes impact on both the gross liability and the scheme assets and so have a nil movement on the net liability.

Note 1.21.5 sets out the key assumptions in determining the pension liability.

27.3 Analysis of the liability by type of scheme

	£bn	Percentage of Liability
Unfunded schemes (gross)		
Teachers (UK)	258.2	23%
NHS (UK)	328.7	29%
Civil Service	163.5	14%
Armed Forces	120.7	11%
Police	101.6	9%
Fire	21.1	2%
Other unfunded	21.8	2%
	1,015.6	**90%**
Funded schemes (net)		
Local Government	100.4	9%
Other funded	16.3	1%
	116.7	10%
Total	**1,132.3**	**100%**

The 'Police' and 'Fire' balances include the amounts reported by designated police and fire authorities, the Northern Ireland Police Pension Scheme, and the Northern Ireland Fire and Rescue Service. A number of local authorities that are not specifically police or fire authorities have staff in the Police and Fire Pension Schemes, and recognise their proportion of the scheme liabilities in their Statement of Accounts, which is included in the 'Other unfunded' balance above.

Local authorities account for £7.8 billion of the 'Other unfunded' balance, which predominantly relates to the Police and Fire Pension Schemes.

The 'Other unfunded' balance also includes amounts accounted for by the United Kingdom Atomic Energy Authority Pension Scheme (£6.0 billion), the Research Councils Pension Scheme (£3.5 billion), the Judicial Pension Scheme (£2.4 billion), and the Department for International Development Overseas Superannuation (£1.3 billion). The 'Other funded' balance includes net pension liabilities for Royal Mail (£8.0 billion), BBC (£1.6 billion), the National Probation Service (£1.4 billion), the Department for Environment, Food, and Rural Affairs and the Environment Agency closed and active funds (£1.6 billion), and Railways Pensions accounted for by Department for Transport (£1.2 billion).

The 'local government funded schemes' balance includes the portion of the pension liability of the Local Government Pension Scheme ("LGPS") that is reported in the financial accounts of the individual local authority employers and NILGOSC. This represents the material majority of the pension liability of LGPS and excludes the portion that relates to employers that are outside the WGA boundary, as that portion of the liability is the responsibility of the non-government employers.

27.4 Scheme assets

The assets in core local authority funded schemes and the associated expected long-term rates of return were:

	Expected rate of return	Value
	%	£bn
Equities	6.50% - 8.60%	96.4
Bonds	4.00% - 6.80%	23.3
Other	0.50% - 9.45%	18.7
Total Market value		**138.4**

This balance is comprised of local authority funded schemes that reported assets on an individual basis rather than for the Local Government Pension Scheme as a single entity.

The 'Other' balance consists of property, cash and other alternative assets, such as hedge funds and private equity or infrastructure investments, which have varying levels of performance. This mix of assets leads to a broad range for the rate of return on assets at the WGA level. The 0.5% reflects the lower expected return on cash, while the alternative assets can achieve much higher returns.

27.5 Amounts recognised in the Statement of Revenue and Expenditure

	£bn
Current service cost	27.5
Past service cost	0.7
Losses on settlements and curtailments	0.3
Interest on pension scheme liabilities	58.9
Expected return on funding pension schemes' assets	(9.0)

27.6 Amounts recognised in the Statement of Changes in Taxpayers' Equity

	£bn
Actual return less expected return on scheme assets	(16.7)
Experience gains and losses arising on liabilities	45.4
Changes in assumptions underlying the value of liabilities	258.1
Actuarial loss on pension liabilities	**286.8**

The 'Changes in assumptions underlying the value of liabilities' balance is almost entirely due to the reduction in the discount rate for central government schemes, which went from 3.2% in 2008-09 to 1.8% in 2009-10. This underlines the sensitivity of the liability valuation to changes in the discount rate, as the discount rate assumption has the biggest impact on the amount of the reported liability. As set out in the FReM, and required by IAS 19, the discount rate for central government schemes is determined by those responsible for the management of the individual pension fund based on yields of high quality corporate bonds (in practice a AA corporate bond rate) determined by the Government Actuary Department.

Note 28. Notes to the cash flow statement

	£bn
Net deficit before financing costs	83.7
Adjusted for non-cash transactions:	
Depreciation, amortisation and impairment charges	(44.6)
Revaluations	(0.6)
Provisions for liabilities and charges[1]	17.0
Capital grant released to income and expenditure	(2.8)
Pension fund adjustments	5.8
Other non cash transactions	3.6
Increase in operating trade and other receivables	5.0
Increase in inventories	0.8
Decrease in operating trades and other payables	2.1
Provisions utilised in the year	11.9
Net cash outflow from operating activities	**81.9**

[1]'Provisions for liabilities and charges' exclude capitalised provisions.

Note 29. Capital commitments

Capital commitments comprise contractual commitments for the acquisition of property, plant and equipment and intangible assets. Capital commitments for which no provision has been made in these financial statements amounted to £51.3 billion.

Capital commitments were made by a range of public sector entities as they became a party to contracts for capital expenditure for property, plant and equipment or intangible fixed assets. The most significant commitments were made by the Ministry of Defence, which made capital commitments of £20.5 billion in relation to property, plant and equipment and £2.7 billion in relation to intangible fixed assets. Other significant commitments include those made by entities within the National Health Service and the Department of Health of £4.4 billion (mostly in relation to IT, purchase of property, plant and equipment and intangible assets), the Scottish Government with £3.0 billion (relating to the purchase of property, plant and equipment and intangible assets), Transport for London with £2.4 billion (in respect of contracts placed for London Underground projects), the Olympic Delivery Authority with £1.3 billion (relating to the purchase of property, plant and equipment) and the Department for Transport with £1.1 billion (relating to the purchase of property, plant and equipment and intangible assets).

Note 30. Commitments under leases

30.1 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.

	Land £bn	Buildings £bn	Other leases £bn	Total £bn
Obligations under operating leases comprise:				
Total payments within 1 year	0.1	1.4	1.2	2.7
Total payments between 1 and 5 years	0.3	4.2	2.5	7.0
Total payments thereafter	9.2	7.1	2.7	19.0
TOTAL future minimum lease payments under operating leases	**9.6**	**12.7**	**6.4**	**28.7**

Current year operating lease costs are disclosed in Note 11 to the Accounts. A large portion of operating leases is in defence and education.

Local authorities do not make the split between land and buildings, so their data is included in buildings.

30.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

	Land £bn	Buildings £bn	Other leases £bn	Total £bn
Obligations under finance leases comprise:				
Total payments within 1 year	-	0.4	0.7	1.1
Total payments between 1 and 5 years	-	0.9	2.2	3.1
Total payments thereafter	0.6	10.3	1.1	12.0
Total	**0.6**	**11.6**	**4.0**	**16.2**
Less interest element	-	(9.4)	(1.0)	(10.4)
TOTAL future minimum lease payments under finance leases	**0.6**	**2.2**	**3.0**	**5.8**

Current year finance charges in respect of finance lease are disclosed in Note 13 alongside PFI interest. Finance leases are predominately in defence and broadcasting.

Local authorities do not split between land and buildings, so their data is included in buildings.

Note 31. Commitments under PFI contracts

Private Finance Initiative (PFI) contracts between government and the private sector are accounted for in accordance with IFRIC 12 *Service Concession Arrangements*. Accordingly, PFI assets are recognised on the Statement of Financial Position where the Government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the infrastructure. Where WGA entities have entered PFI contracts but do not meet the control criteria, the assets provided as part of the contract are not recognised in these accounts and the costs are recognised when they are incurred. Further detail of PFI projects with central government support is available on the Treasury website at www.hm-treasury.gov.uk/ppp_index.htm. The website currently includes data provided by central government departments at the time of the Budget in March 2011.

Note 31.1 PFI contracts recognised on the Statement of Financial Position

The net book value of PFI assets included in the Statement of Financial Position was £30.9 billion as at 31 March 2010. The assets were accounted for in a manner consistent with other assets of that type. The PFI liability for the present value of capital amounts payable included in the Statement of Financial Position was £28.1 billion.

Interest on the liability and expenditure on services provided under PFI transactions are recognised in the Statement of Revenue and Expenditure as they accrue. Charges payable under the PFI contract are apportioned between three elements: for services, interest, and an element to repay the capital liability.

Future obligations in relation to those PFI contracts recognised on the Statement of Financial Position are shown below.

Obligations for future periods arise in the following periods:	**£bn**
No later than one year	3.1
Later than one year and not later than five years	12.7
Later than five years	51.7
Gross present value of future obligations	**67.5**
Less finance charges allocated to future periods	(33.4)
Net present value of future obligations	**34.1**
Plus: service charges due in future periods	97.4
Total future obligations	**131.5**
Total number of PFI contracts	**609**

The amount of future obligations shown above includes obligations to pay life cycle replacement costs and service charges which will be payable in relation to these PFI contracts. The amount of service charges includes an estimate of £6.4 billion, using current year service charges multiplied by the average remaining years left on the PFI contracts, where total service charges were not available from individual WGA entities.

Future obligations later than five years may arise for another 30 to 50 years, depending on the individual contract. The net present value of future obligation of £34.1 billion, excluding service charges, was different from the liability recognised on the Statement of Financial Position of £28.1 billion for a number of reasons. Some WGA entities included costs such as contingent rents and lifecycle replacement costs in future obligations but not in the liability figure. Some WGA entities also reported future obligations but had not recognised a liability as an asset had not yet been commissioned.

The total number of PFI contracts recognised on the Statement of Financial Position and the gross present value obligations by segment is:

	Number of contracts	**Value £bn**
Central Government	243	14.4
Entities within the NHS	129	20.4
Sub total of Central Government Departments	372	34.8
Local Authorities	226	31.8
Public Corporations	11	0.9
Total	**609**	**67.5**

Details on PFI contracts are available in the individual accounts of WGA entities.

A summary of the PFI contracts recognised on the Statement of Financial Position with a capital value greater than £0.5 billion is provided below.

Department	Description of PFI contract	Contract start date	Contract end date
Department for Environment, Food and Rural Affairs	PFI contract to invest in and improve 42 (out of 44) waste disposal sites in Greater Manchester	Apr-2009	Mar-2034
Department for Transport	Widen most of the remaining 3 lane section of the M25 to 4 lanes.	Dec-2008	Nov-2038
Department for Work and Pensions	Private sector Resource Management of Estate is a PFI contract to fully manage the buildings for Health and Safety Executive and Health and Safety Laboratories	May-2005	May-2035
Department of Health	Redevelopment of the cardiac and cancer facilities at Barts and the London NHS Trust	Mar-2010	Apr-2048
Department of Health	PFI contract to deliver acute hospital facilities for University Hospital Birmingham NHS Foundation Trust.	Jun-2006	Aug-2046
Department of Health	Construction of new and improved Saint Mary's Hospital in Greater Manchester.	May-2009	Apr-2047
Ministry of Defence	PFI to provide modern air-to-air refuelling and passenger air transport capabilities.	Mar-2008	Mar-2035
Ministry of Defence	Range of satellite services, including management of existing Skynet 4 satellites.	Oct-2003	Feb-2039
Ministry of Defence	Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-2006	Apr-2041
Ministry of Defence	Redevelopment, rebuilding and refurbishment of Colchester Garrison to provide accommodation and associated services	Feb-2004	Feb-2039

Note 31.2 PFI contracts not recognised on the Statement of Financial Position

During the 2009-10 financial year, a number of WGA entities had PFI contracts which were not recognised on the Statement of Financial Position because, under IFRIC 12 *Service Concession Arrangements*, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these contracts in their accounts in different ways, as the accounting standards allow flexibility as to how to present the information. Therefore it is not possible to provide a summary of all these PFI contracts.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in 2009-10 WGA that are not already consolidated.

The most significant PFI contract not recognised in this account, in line with the policy above, was an arrangement to design, build and operate a secure national digital radio network for the use of the UK's emergency and public safety services, with Airwave Solutions Ltd responsible for providing the service until 2020. The future service charges payable to Airwave are estimated to be £2.0 billion. Airwave is used by the National Policing Improvement Agency, which pays the core service charges, as well as fire and ambulance services, and other public sector organisations. Airwave is not recognised on the Statement of Financial Position of any WGA entity under IFRIC 12 *Service Concession Arrangements*, as no single WGA entity controls access to the service or individually uses a significant amount of the output. Further details are available in the 2009-10 accounts of the National Policing Improvement Agency, which can be found on the website: www.npia.police.uk.

Note 32. Other financial commitments

Some WGA entities entered into other non-cancellable contracts that are not leases or PFI contracts. These financial commitments were made by a range of public sector entities. Future payments in relation to these commitments totalled £63.4 billion and consisted of £55.3 billion for central government, £6.0 billion for local government and £2.1 billion for public corporations.

Details of significant commitments are provided below, and all other financial commitments are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

Entity	Description of commitment	Commitment £bn
Department for Transport	Franchise agreements with train operating companies	14.9
HM Treasury	New equity/loans into Northern Rock and increasing the available working capital loan in Bradford and Bingley	5.6
Learning and Skills Council	Grants payable to colleges and schools for further education participation and school sixth form funding, mostly related to the remaining months of the academic year from April to July 2010	3.8
Scottish Government	Primarily commitments with Network Rail and First Scotrail	3.2
Department of Health	Service contracts entered into by Connecting for Health for the delivery of a NHS National Programme for Information Technology, to be fulfilled over the next six years. The government announced on 22 September 2011 that it would be accelerating the dismantling of the National Programme for IT.	3.2
Commonwealth Development Corporation	Subscriptions to debentures, loans and shares	1.6
Home Office	Service contracts entered into by the Identity and Passport Service and the UK Border Agency	1.4

Note 33. Contingent assets and liabilities disclosed under IAS 37

33.1 Quantifiable contingent assets

A number of WGA entities have quantifiable contingent assets discloseable under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*', which total £0.7 billion. The contingent assets are individually not material to WGA. Details of those contingent assets are available in the individual accounts of WGA entities.

33.2 Quantifiable contingent liabilities

The Government has a number of quantifiable contingent liabilities discloseable under IAS 37. Total quantifiable contingent liabilities reported by category are as follows:

	£bn
Financial stability interventions	174.7
Export guarantees and insurance policies	9.0
Clinical negligence	7.5
Taxes subject to challenge	5.5
Supporting international organisations	1.9
Other	7.8
Total quantifiable contingent liabilities	**206.4**

Details of significant quantifiable contingent liabilities are provided below, and all other financial commitments are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

	Quantifiable contingent liabilities	**Potential liabilities £bn**
Financial stability intervention: Special Liquidity Scheme	HM Treasury has indemnified the Bank of England in its operation of the Special Liquidity Scheme, which allows banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills. Payment under the scheme would only arise if the capital losses exceed any surplus accruing to the Bank of England over the duration of the scheme.	165.0
Financial stability intervention: RBS	To ensure that RBS is properly and robustly secured in a downturn, HM Treasury has made available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum. This commitment is in place for 5 years, until 22 December 2014, but can be ended early by the bank with the consent of the Financial Services Authority. The contingent capital would, if drawn down, be injected in tranches in the form of B-shares, should the core tier one capital ratio of RBS fall below 5 per cent. The fee may be satisfied in cash, B-shares or deferred tax assets with the consent of the HM Treasury. As at 31 March 2010, no contingent capital had been drawn down.	8.0
Financial stability intervention: Northern Rock	HM Treasury has confirmed to the FSA its intention to take appropriate steps (should they prove necessary) to ensure that Northern Rock (Asset Management) plc will continue to operate above the minimum regulatory capital requirements.	1.7
Export guarantees and insurance policies	The Export Credits Guarantee Department supported exports and investments through issuing and renewing guarantees and insurance policies of £9.0 billion. It issues guarantees and insurance against loss for or on behalf of exporters of goods and services and overseas investors from the UK, and supports the provision of Fixed Rate Export Finance.	9.0
Clinical negligence	A number of WGA entities have reported a contingent liability where they are the actual or potential defendant in an action regarding alleged clinical negligence. The Department of Health is the actual or potential defendant in several actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is large degree of uncertainty as to the Department's liability and to the amounts involved.	7.5

	Quantifiable contingent liabilities	Potential liabilities £bn
Legal proceedings against HMRC	HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. Depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax. There are many risks and uncertainties in assessing both the number and value of contingent liabilities; this assessment is drawn up using the Department's experience of litigation and forming judgements on our chances of success. Legal cases are unpredictable and no assurance can be given that the amount will not exceed that shown below.	5.5
Supporting International organisations	The Department for International Development has reported contingent liabilities in respect of contributions it expects to pay to international organisations which have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.	1.9

Other

Other quantifiable contingent liabilities have been reported by a number of WGA entities. With the exception of the contingent liabilities described below the remaining quantifiable contingent liabilities are made up of liabilities which individually are not material to WGA. Details of those liabilities are available in the individual accounts of WGA entities.

To support delivery of the Crossrail project, the Department for Transport has provided indemnities to parties carrying risks that they would be unable to bear. The maximum potential liability of this transaction is £1.0 billion. The Department for Transport also disclosed £0.7 billion of contingent liabilities in relation to legal claims and challenges, and £0.5 billion in relation to a PPP contract for certain London Underground lines, where the Department provided a letter of comfort indicating the Secretary of State's intention to provide support under certain occurrences.

The Ministry of Defence has provided an indemnity to contractors in respect of nuclear risk and decontamination of around £0.5 billion.

The Department for Communities and Local Government has taken on a statutory contingent liability under the provisions of the Banking Act 2009 in respect of the Homeowners Mortgage Support Scheme. The estimated potential liability of this action is £0.5 billion.

33.3 Non-quantifiable contingent liabilities

The Government has entered into a number of contingent liabilities discloseable under IAS 37 where the quantum of the liability can either not be determined with reasonable certainty or to quantify it would jeopardise the outcome of the case. The details of the most significant non-quantifiable contingent liabilities are outlined below. The remaining non-quantifiable contingent liabilities are made up of liabilities which individually are not significant to WGA. Details of those liabilities are available in the accounts of individual WGA entities.

Legal claims

Non-quantifiable contingent liabilities have arisen as a result of a number of legal claims, compensation claims and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Commitments in relation to pension scheme deficits

Non-quantifiable contingent liabilities have arisen as a result of commitments made by several WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded.

Indemnities in relation to financial stability interventions

HM Treasury has guaranteed indemnities provided by Northern Rock plc and Northern Rock (Asset Management) plc, Bradford & Bingley, Deposits Management (Heritable) Limited, Infrastructure Finance Unit Limited, and United Kingdom Financial Investments, to their appointed directors (in Bradford & Bingley's case for the directors appointed post public ownership) against liabilities and losses in the course of their actions whilst these entities are in public ownership. In addition, HM Treasury has confirmed to the Financial Services Authority its intention to take appropriate steps, should it prove necessary, to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements.

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

Compensation schemes

Compensation schemes were established in 2008 in relation to Northern Rock plc and Bradford & Bingley plc. Under the schemes, an independent valuer assessed if any compensation was payable by HM Treasury to former shareholders of Northern Rock plc and Bradford & Bingley plc and others, and in 2010 he concluded that no compensation is payable. Any affected party had to right to request the valuer to reconsider his assessments, and could refer his revised assessments to the Financial Services and Markets Tribunal. The valuer issued revised assessment notices upholding his view that the amount payable to former shareholders was nil. A number of former Northern Rock shareholders disputed the Northern Rock assessment and referred the case to the Upper Tribunal where a hearing took place between 31 May and 6 June 2011. The Tribunal's decision, upholding the assessment of the independent valuer was issued on 6 October 2011. Maximum potential liabilities under this intervention are considered unquantifiable.

A compensation scheme was established in 2009 in relation to the Dunfermline Building Society. Under the order, HM Treasury is liable to pay to specified third parties any amount of compensation determined to be payable by an independent valuer, and is required to set up an Appointment Panel responsible for appointing the independent valuer. HM Treasury has indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred by Panel members in connection with or arising from their membership of the Panel and the performance of the Panel's functions. Maximum potential liabilities under these interventions are considered unquantifiable.

Equitable Life

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

The current Government pledged to set up an Independent Commission that will advise it on an independently designed payment scheme as swiftly as possible. The Government will consider Sir John Chadwick's advice, alongside representations by interested parties. As part of the October 2010 Spending Review, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out over the first three years of the Spending Review period.

Contingent liabilities for reinsurance arising from acts of terrorism

Pool Re and Pool Re (Nuclear) are responsible for arrangements for reinsurance of industrial and commercial property damage and consequential business interruption arising from terrorist attacks in Great Britain (excluding Northern Ireland). HM Treasury carries the contingent liability for these risks. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993. Maximum potential liabilities under this arrangement are considered unquantifiable.

Civil nuclear liabilities

The Government has a range of civil nuclear liabilities arising through its association with the United Kingdom Atomic Energy Authority and British Nuclear Fuels Limited as well as ensuring that Government complies with its obligations under the various international nuclear agreements and treaties.

Financial Assistance Scheme

In December 2007, the Government announced its intention for the Financial Assistance Scheme (FAS) to take over payments of some fully funded private sector pensions and other associated benefits in qualifying schemes and, in return, to take the assets of those pension schemes into Government (the FAS Review of Assets estimated the value of these assets to be £1.7 billion). Further regulations came into force on 2 April 2010 which enable the transfer of assets remaining in FAS qualifying schemes to the Government. As a result, the liabilities associated with FAS will increase as the assets transfer from individual schemes to Government. No assets were transferred to Government in 2009-10, but may in future.

Crown guarantee to protect BT's pension liabilities

To protect employee pensions when BT privatised in 1984, the Government guaranteed to stand behind BT's pension obligations following the unlikely event of BT becoming insolvent. The BT Pension Scheme Trustees brought a case to the High Court to clarify the terms and scope of the Crown Guarantee provided under section 68 of the Telecommunications Act 1984 (as amended by the Communications Act 2003). In October 2010 the High Court ruled that the Government could be liable for liabilities that accrued after BT was privatised, including members who joined the BT Pension Scheme after privatisation, in the unlikely event of BT becoming insolvent.

Contingent liabilities arising from rail franchising agreements

Agreements were entered into by the Director of Passenger Rail Franchising (novated to the Strategic Rail Authority and then to the Department for Transport), prior to the privatisation of each of the three rolling-stock companies. It is not possible to quantify the liabilities associated with these agreements because they will depend on the circumstances that arise at this time.

Guarantees were given by the Strategic Rail Authority (and previously by the Director of Passenger Rail Franchising), and novated to the Department for Transport, in relation to new, replacement and extended passenger rail franchise agreements. It is not possible to quantify the potential liability that might arise as a result of these undertakings.

Contingent liability in relation to the Channel Tunnel

The Department for Transport has a statutory liability under the Channel Tunnel Act 1987 that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the Tunnel will not be resumed in the near future, he shall take the necessary steps to ensure that the land is left in a suitable condition in accordance with the scheme.

Tenancy Deposit Protection Service

The Deposit Protection Service ("DPS") operates the Tenancy Deposit Protection custodial scheme. The DPS hold deposits and meet their operating costs from the interest generated. The contract between the Department for Communities and Local Government and the DPS provides incentives to encourage the DPS to maximise interest receipts and also guarantees against operating losses arising where interest generated on deposits does not meet DPS's approved fees. Exceptionally low interest rates mean that the Department carries a potential liability in respect of the contract, but it is not possible to forecast this accurately since it depends on other variables under the contract.

Levy on imported sea fish and sea fish products

The Court of Appeal ruled in March 2010 that the levy collected from industry on imported sea fish and sea fish products is unlawful. The levy is collected by Seafish, a UK-wide, levy funded Non-Departmental Public Body, under the responsibility of the Department of Environment, Food and Rural Affairs. The ruling requires Seafish to repay the levy to the appellants and some of their legal costs, and it raises concerns about the future of the organisation. The decision has been challenged through the Courts, and the Department has been granted leave to appeal to the Supreme Court against the Court of Appeal's decision. The timing and cost of the outcome cannot yet be determined.

Service Life Insurance

The Government provides access to life insurance for Ministry of Defence service personnel through Service Life Insurance. Details of the scheme and key features can be found at: www.servicelifeinsurance.co.uk.

Note 34. Remote contingent liabilities reported to Parliament

Government departments disclose contingent liabilities under requirements that are more stringent than those applicable to commercial entities under accounting standards. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*', they disclose contingent liabilities for which the risk of crystallisation is greater than remote but not probable. In addition, they also disclose contingent liabilities for which the risk of crystallisation is remote, and which have been reported to Parliament in accordance with the HM Treasury guidance provided in Managing Public Money because as guarantees, indemnities and letters of comfort they expose the taxpayer to financial risk. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

Remote contingent liabilities are measured following the requirements of IAS 39 '*Financial Instruments: Recognition and Measurement*', initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability.

The full potential costs of the Government's remote contingent liabilities are as follows:

	1 April 2009 £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2010 £bn
Guarantees	359.5	34.8	-	(148.3)	**246.0**
Indemnities	638.0	60.3	-	(312.1)	**386.2**
Letters of comfort	4.0	-	-	-	**4.0**
TOTAL	**1,001.5**	**95.1**	-	**(460.4)**	**636.2**

Details of the most significant quantifiable guarantees, indemnities and letters of comfort for which the risk of crystallisation is remote, and which have been reported to Parliament, are outlined below. The remaining remote quantifiable contingent liabilities are made up of liabilities which individually are not material to WGA. Details of those liabilities are available in the individual accounts of WGA entities.

	Remote quantifiable contingent liabilities: Guarantees	Potential liabilities £bn
Credit Guarantee Scheme	The Credit Guarantee Scheme was put in place as part of the financial support to the banking sector announced on 8 October 2008. It provides a government guarantee for new short and medium term debt issuance to eligible institutions. The Scheme became operational on 13 October 2008 and closed to new issuance on 28 February 2010. £2.1 billion of the contingent liabilities are carried at fair value on the Statement of Financial Position at 31 March 2010	125.0
Bank of England Issue Department	The National Loans Fund has a remote contingent liability to the Bank of England Issue Department in respect of that part of the assets backing the notes in circulation that is not represented by government securities.	45.6
European Investment Bank – callable capital subscription	An increase of the European Investment Bank's (EIB) subscribed capital from €164.8 billion to €232.4 billion came into force on 1 April 2009, to enable the EIB to expand its lending volume as part of its anti-crisis measures in response to the economic downturn. The paid-in capital was financed from the EIB's additional reserves, with the balance being callable from Member States and therefore had no impact on the value of the UK's share in the bank, as the increase was financed from the bank's reserves.	31.9
Financial guarantees issued to certain depositors with public sector banks	In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley plc. £0.6 billion of the contingent liabilities is carried at fair value on the Statement of Financial Position. HM Treasury announced further guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and derivative transactions of, and certain wholesale deposits held in, accounts with Northern Rock (Asset Management) plc, which would not be transferred to Northern Rock plc pursuant to the restructuring of the bank. £0.1 billion of the contingent liabilities is carried at fair value on the Statement of Financial Position. HM Treasury's guarantee arrangements also covered certain retail and	29.8

	Remote quantifiable contingent liabilities: Guarantees	Potential liabilities £bn
	wholesale deposits transferred to Northern Rock plc pursuant to the restructuring of the bank. On 24 February 2010 the Treasury gave three months' notice to terminate the guarantee arrangements covering retail deposits in Northern Rock plc. £0.04 billion of the contingent liabilities is carried at fair value on the Statement of Financial Position.	
Department for International Development	The department has a remote contingent liability in respect of callable capital on investments in International Financial Institutions at 31 March 2010.	9.2
Coins that are returned from circulation	The Consolidated Fund disclosed a remote contingent liability representing its potential obligation in respect of coins returned from circulation.	3.9
Loans to EU Member States and Third Countries	This represents the UK's maximum liability from current outstanding loans to EU Member States and Third Countries. Guaranteed loans to EU Member States include outstanding support under the Balance of Payments Facility, which offers medium-term financial assistance for EU countries outside the Euro area. Guarantees to Third Countries include support to Bosnia-Herzegovina, Georgia and Serbia and Montenegro for macro financial assistance purposes and other specific projects. The loans are guaranteed by the EU Budget and the liability will only crystallise if the loans are defaulted on. The European Commission periodically prepares reports showing the total capital outstanding.	2.8

	Remote quantifiable contingent liabilities: Indemnities	Potential liabilities £bn
Bank of England Asset Purchase Facility	The Asset Purchase Facility (APF) was created in January 2009 to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK, and for monetary policy purposes. HM Treasury indemnified the Bank of England and the fund specially created by the Bank to implement the facility from any losses arising out of or in connection with the facility. The Bank of England was authorised to purchase up to £200 billion of high quality private sector assets by November 2009. £0.1 billion of the contingent liabilities was carried at fair value on the Statement of Financial Position.	200.0

	Remote quantifiable contingent liabilities: Indemnities	Potential liabilities £bn
Asset Protection Scheme	The Asset Protection Scheme (APS) was created in January 2009 to provide certainty and confidence to banks in their lending, when the Government announced its intention to offer capital and asset protection on those assets most affected by the current economic conditions. On 22 December 2009, the Royal Bank of Scotland (RBS) acceded to the Asset Protection Scheme, insuring an asset pool of £282 billion, with a £60 billion first loss piece, and 90 per cent of losses thereafter insured. Following the announcement of its Quarter One results on 7 May 2010, RBS's asset pool reduced to £230.9 billion, thereby reducing the contingent liability to £153.8 billion being the estimated maximum exposure to HM Treasury as at 31 March 2010. Of this, £1.2 billion of the contingent liabilities was recognised on the Statement of Financial Position at fair value.	153.8
Network Rail Debt Issuance Programme	The Department for Transport has provided a financial indemnity in support of Network Rail's Debt Issuance Programme.	23.8
Government Indemnity Scheme	The Government Indemnity Scheme indemnifies private lenders to enable museums, galleries and other eligible institutions to borrow objects and artworks when mounting exhibitions or taking long-term loans for either study or display. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability. This includes the Department for Culture, Media and Sport's non-statutory liabilities for indemnities granted in respect of works of art on loan from the Royal Collection, and for items on loan to the Government Art Collection.	6.6
PFI arrangements	The Department for Education provides an indemnity to the local authority for potential costs on buildings they own, with existing PFI arrangements, which will be used by the Academies. This type of indemnity is considered to be low risk and is only a feature of the Academies programme in very specific circumstances. These remote contingent liabilities only arise where an academy is using a local authority building with an existing PFI contract.	2.4

Letters of comfort

Standby credit facility for Network Rail
The Department for Transport has issued a standby credit facility for Network Rail, with a term of 50 years, to act as a long term contingency buffer. This has not been used to date, but a potential liability of £4 billion remains at 31 March 2010.

34.2 Remote non-quantifiable contingent liabilities reported to Parliament

Government departments also disclose contingent liabilities reported to Parliament which are deemed to be non-quantifiable. Details of the most significant non-quantifiable guarantees, indemnities and letters of comfort for which the risk of crystallisation is remote, and which have been reported to Parliament, are provided below. Details of other remote contingent liabilities are available in the accounts of individual government departments.

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 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.

Olympic and Paralympic games

The Department for Culture, Media and Sport has reported that the Government has given guarantees to the International Olympic Committee that it will act as the ultimate financial guarantor should there be a shortfall between Olympic costs and revenues. These will include any shortfall in the budget of London Organising Committee of the Olympic and Paralympic Games.

In order to facilitate the redevelopment of the Olympic Park, the Olympic Delivery Authority relocated the railway siding at Thornton's Field to Orient Way. Eurostar, as the lessee of Orient Way can repossess the site any time between 1 July 2023 and the end of its lease on 30 June 2086. The Authority has agreed to meet 33 per cent of the cost of relocating the siding between 1 July 2023 and 30 June 2038 and 22 per cent of the cost between 1 July 2038 and 30 June 2086.

Nationalised industries

There is a possibility that other liabilities exist in relation to nationalised, and former nationalised, industries that, if they crystallised, may fall to the Department of Business, Innovation and Skills.

Regional development banks and funds

The Department for International Development is responsible for the maintenance of the value of subscriptions paid to the capital stock of regional development banks and funds.

National Health Service

The Department of Health reported to Parliament that it has entered into a number of unquantifiable or unlimited contingent liabilities with various health service entities and private sector private companies. There were 30 indemnities. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Nuclear matter

Indemnities have been given to UK Atomic Energy Authority by the Secretary of State to cover certain indemnities given by UKAEA to carriers and British Nuclear Fuels Plc against certain claims for damage caused by nuclear matter in the course of carriage.

Note 35. Related party transactions

WGA comprises a consolidation of those entities that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. No one entity appears to have the ability to control all the entities that are consolidated, and as a consequence, for the purposes of WGA, there is no parent company disclosed in this account.

Related parties, for WGA purposes, are those public sector entities, as detailed in Annex 2, that have not been consolidated into 2009-10 WGA. As described in Annex 5 additional entities will be consolidated in WGA in future years, as set out in the FReM.

Entities within the WGA boundary have varying levels of activities with these related parties; material transactions are described below.

The most significant WGA related parties are the public sector banks, Royal Bank of Scotland (RBS), Lloyds Banking Group (Lloyds) and Northern Rock. The Government acquired substantial shareholding in these entities following the financial crisis in 2008; the Government holds 43.4% in Lloyds and 68.4% in RBS as at 31 March 2010. Northern Rock restructured itself and created Northern Rock plc, a retail bank and Northern Rock (Asset Management) plc, a company controlled by UK Asset Resolution Limited. Government holds the entire share capital of both these companies. In the course of normal business, WGA entities have entered into arms-length banking transactions with these institutions such as loans and deposits. The volume and diversity of these transactions make disclosure of them all impractical. These transactions will result in the reimbursement of related expenses, the payment of management fees, interest receipts and dividends being recorded in the statement of recognised expenditure as well as assets in form loans made, cash received from deposits and a corresponding liability. In addition, HM Treasury has been involved in a number of transactions with the public sector banks, such as the Asset Protection Scheme and Credit Guarantee Schemes, which are described in Note 34. Further details are available in the 2009-10 accounts of HM Treasury at www.hm-treasury.gov.uk.

Certain WGA entities, mainly HM Treasury, the Consolidated Fund, National Loans Fund, and Debt Management Office, have a number of financial transactions in the normal course of their business with the Bank of England. These are described in the accounts of these entities.

HM Revenue and Customs has transactions with WGA related parties in relation to VAT, Income Tax and National Insurance.

Local government entities have transactions with municipal ports, airports and parish councils, primarily through the provision of funding. These amounts are reflected in the individual accounts of local government entities. They also have transactions with local government pension schemes and in some instances record the scheme's assets and liabilities in their accounts. Further details are available in the 2009-10 accounts of the individual entities.

The Department for Business, Innovation and Skills, through the Higher Education Funding Council, Learning & Skills Council, and local authorities, provides funding to Further Education Institutions (FEIs) in England and Wales for research and provision of further education courses. In Scotland, the Scottish Funding Council provides funding to about 40 colleges. In Northern Ireland, the Department for Employment and Learning provide funding to about 6 colleges.

The Department for Transport has transactions with London and Continental Railways Limited, London and Continental Railways Finance PLC, CTRL Section 1 Finance plc, HS2 Ltd, Directly Operated Railways Limited, and East Coast Mainline Limited, primarily to support the provision of railway services in the UK. This support includes grants and capital funding provided by the Department. Further details are available in the Department's 2009-10 accounts.

Note 36. Financial instruments

Financial instrument

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. IAS 32 '*Financial Instruments: Presentation*', IAS 39 '*Financial Instruments: Recognition and Measurement*' and IFRS 7 '*Financial Instrument: Disclosures'* require information on the role of financial instruments on the activities of the entity. Details of the significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial instrument are disclosed in Note 1.19 to the financial statements.

The following tables and narrative provide information on the financial instruments balances included in the Government's accounts and analyse the extent of risks faced by the Government and how these risks have been managed.

36.1 Carrying value of financial instruments

The carrying amounts of financial assets, as at 31 March 2010, are categorised as follows:

	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Held for trading at fair value £bn	TOTAL £bn
Cash and cash equivalents	8.1	-	-	-	-	8.1
Trade and other receivables	-	165.7	-	-	-	165.7
Loans and deposits with banks	-	109.2	12.0	-	4.0	125.2
Equity investments in banks	-	-	-	65.3	-	65.3
Other equity investments	-	-	0.8	13.9	1.0	15.7
Debt securities	-	-	-	-	23.8	23.8
IMF Quota Subscription	-	10.8	-	-	-	10.8
IMF Special Drawing Rights	-	-	-	-	9.2	9.2
Other	-	0.2	-	1.4	3.5	5.1
Total financial assets	**8.1**	**285.9**	**12.8**	**80.6**	**41.5**	**428.9**

The carrying amounts of financial liabilities, as at 31 March 2010, are categorised as follows:

	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	TOTAL £bn
Government financing and borrowing	965.6	-	-	965.6
Trade and other payables	176.2	-	-	176.2
Deposits by banks	15.2	-	2.9	18.1
IMF SDR allocation	-	-	10.1	10.1
Financial guarantees	6.0	-	-	6.0
Other	2.9	1.6	4.9	9.4
Total financial liabilities	**1,165.9**	**1.6**	**17.9**	**1,185.4**

36.2 Fair value of financial instruments

The table below identifies the carrying values and fair values at 31 March 2010 for each category of financial assets and liabilities:

	Carrying value £bn	Fair value £bn
Cash and cash equivalents	8.1	8.1
Loans and receivables at amortised cost	285.9	285.9
Held to maturity investments at amortised cost	12.8	12.8
Available for sale financial assets	80.6	80.6
Financial assets held for trading	41.5	41.5
Total financial assets	**428.9**	**428.9**

	Carrying value £bn	Fair value £bn
Financial liabilities at amortised cost	1,165.9	1,208.8
Financial liabilities at fair value	1.6	1.6
Financial liabilities held for trading	17.9	17.9
Total financial liabilities	**1,185.4**	**1,228.3**

Financial instruments measured at fair value use the valuation techniques described in Note 1.19. The remaining financial instruments are carried at cost or amortised cost which approximates to fair value.

36.3 Financial guarantees

Details of the Government's significant financial guarantees are disclosed in Note 26. The accounting treatment of financial guarantees is provided in Note 1.19.5.

36.4 Hedging

The UK's official reserves of gold and currencies (including IMF Special Drawing Rights) comprise £43.4 billion held by the Exchange Equalisation Account (EEA) and £2.3 billion held by the National Loans Fund (NLF). Of these, £23.9 billion are hedged for currency and interest rate risk. The hedged reserves comprise portfolios of eligible dollar, euro and yen denominated assets and holdings of Special Drawing Rights. Assets in the hedged reserves are hedged for currency risk either by being denominated in the same currency as the liabilities which finance them or by using currency swaps. The hedged reserves are also hedged against interest rate risk, through the use of swaps.

Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. Financing of the hedged reserves in 2009-10 included sterling swapped into foreign currencies of £8.7 billion and the SDR allocation of £10.1 billion. There were no outstanding foreign currency securities at the end of the year and no new foreign currency securities issued during the year.

The EEA provides foreign currency services to various government departments and agencies including the Ministry of Defence, through sales of foreign currency to departments with foreign currency obligations and purchases of foreign currency from departments with foreign currency receipts, in aggregate totalling £14.3 billion. These purchases and sales, both spot and forward, are hedged through offsetting trades with the market.

The fair value of the Credit Guarantee Scheme (CGS) fee income foreign exchange currency receivable, and the fair value of the forward contract derivative net liability hedged by HM Treasury, was £1.7 billion and £0.3 million respectively. Fees for the guarantee are received from the start of the guarantee until the end of the scheme (9 April 2014) and are paid three months in arrears and/or on maturity. The Statement of Revenue and Expenditure is updated on the date of the receipt of the guarantee fee. The hedge is considered 100 per cent effective. Further details are available in the 2009-10 accounts of HM Treasury.

The Rural Payments Agency entered into a forward exchange contract to hedge the monthly Euro denominated receipts in relation to the Single Payment Scheme. In March 2010, this hedge became ineffective and the requirements for applying hedge accounting were therefore no longer met. As at 31 March 2010, the aggregate amount of losses under forward foreign exchange contracts deferred in the cash flow hedging reserve, relating to the exposure on these anticipated future receipts is nil. Net gains on cash hedges transferred from reserves to the Statement of Revenue and Expenditure were £0.1 billion.

36.5 Financial risk management

The government's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. Individual entities are responsible for ensuring that appropriate risk management policies are in place.

36.5.1 Risk management policies and financial risk factors

Traditional risk management, in the private sector, aims to maximise investor return while maintaining risk at an acceptable level. Government risks are normally related to financing arrangements to provide funds for public services and infrastructure. Each year, the Government will assess the costs and risks associated with different possible patterns of debt issuance taking into account the most up-to-date evidence and information about market conditions and demand for debt instruments.

The Government has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. Through its risk management, the Government seeks to minimise overall fiscal risk to the public sector while maximising taxpayer value.

The Government's preferences in relation to the different types of risk taking inherent in cash management are defined by a set of explicit limits covering four types of risk (liquidity risk, interest rate risk, foreign exchange risk and credit risk) which, taken together, represent the Government's overall risk appetite. Within the Government's risk boundary, public bodies have some discretion to take the actions judged to best achieve the cost minimisation objective.

Much of the Government's risks arising from financial risk are managed through the Central Funds, including the National Loans Fund (NLF), Debt Management Office (DMO), Exchange Equalisation Account (EEA), National Savings and Investments (NS&I) and the Public Works Loan Board (PWLB). The NLF is central government's principal borrowing and lending account. The DMO meets the financing needs of the NLF, and the liability of the gilts that the DMO buys remain with the NLF. The NS&I also finances a part of the Government's borrowing by selling investment products to retail savers and investors. The EEA and the NLF hold the UK's official reserves of gold and currencies, which are managed on a day to day basis by the Bank of England, acting as HM Treasury's agent. The structural relationship between HM Treasury, DMO, NLF, EEA and NS&I is designed to minimise financial risk.

Cash requirements of central government departments are met through the Estimates process, and therefore financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The Government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. HM Treasury and the DMO work together to achieve this, with HM Treasury's role to make arrangements for a forecast of the daily net flows into or out of the NLF; and its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time. The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by Ministers.

Local authorities adopt independent liquidity and interest rate risk management, but these are managed within statutory constraints. Local authorities are required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Medium Term Plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities have access to borrowings from the Money Markets to cover any day to day cash flow need, and the Public Works Loan Board (PWLB) provides access to longer term funds and acts as a lender of last resort to ensure their financing needs are met.

36.5.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the Government by failing to discharge an obligation. The Government is exposed to credit risk through a number of schemes it has entered into.

The Government's material credit risk is centred in the central funds, particularly the NLF and DMO, HM Treasury, and the Department for Business, Innovation and Skills (BIS). The main credit risks arise from the loans and guarantees provided by the Treasury to the financial institutions, the purchases of assets from the financial institutions, including reverse sale and repurchase agreements entered into by DMO, and student loans provided by BIS. The credit risk arising from student loans and the management of that risk are discussed in more detail below.

The Government's material exposures to credit risk are analysed below:

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	Total £bn
Cash and cash equivalents	1.7	-	-	-	-	**1.7**
Loans and receivables	19.5	5.4	38.6	2.2	49.9	**115.6**
Available for sale financial assets	4.2	17.3	-	42.4	1.4	**65.3**
Financial assets held for trading	22.2	7.1	0.8	0.2	9.7	**40.0**
Total material exposure	**47.6**	**29.8**	**39.4**	**44.8**	**61.0**	**222.6**

Financial assets rated 'not strong' (i.e. less than A rating) include equity investments in the Royal Bank of Scotland (£42.4 billion), reflecting its credit rating as at 31 March 2010. Financial assets that are 'not rated' include the loans to the public sector banks such as Northern Rock (total facility of £25.5 billion) and Bradford & Bingley (total facility of £13.1 billion) that are winding down or in administration and so are not rated. Other financial assets that are 'Not rated' include the Government's holdings of IMF Special Drawing Rights (£9.1 billion).

The Government's material exposures to credit risk are analysed below, by geographic area:

	UK £bn	Europe £bn	North America £bn	IMF £bn	Other £bn	Total £bn
Cash and cash equivalents	1.4	-	0.2	-	0.1	**1.7**
Loans and receivables	96.4	6.8	0.2	11.0	1.2	**115.6**
Available for sale financial assets	65.3	-	-	-	-	**65.3**
Financial assets held for trading	1.0	14.5	11.4	9.1	4.0	**40.0**
Total material exposure	**164.1**	**21.3**	**11.8**	**20.1**	**5.3**	**222.6**

Credit risk management

The Government has adopted a policy of dealing only with highly creditworthy counterparties and issuers. An exception was made to this policy for the financial interventions which involved transactions with financial institutions such as the Royal Bank of Scotland which was rated 'not strong', on the basis that the costs of inaction would have been far greater for the economy as a whole. Other than for the financial interventions, the following comments describe the Government's general approach to credit risk management.

The creditworthiness of potential counterparties and security issuers is analysed using the information provided by external credit assessment institutions, such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Information from these and other information sources is monitored continuously for subsequent changes. The Government generally transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement. Each counterparty and issuer must meet this requirement for each external credit rating available at the time the transaction is entered into. The Government regularly monitors its exposure to credit risk. Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value; in measuring credit exposure, different risk weightings are applied to different transaction types. Limits are applied to total unsecured lending and on holdings of debt securities issued by financial institutions and corporate entities, and on the maximum maturity of loans made and securities held.

Student loans

The Department for Business, Innovation and Skills (BIS) has a statutory obligation to issue student loans and seek repayments in line with legislation. It is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. BIS is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by HM Revenue & Customs (HMRC) as part of the tax collection process. The face value of the outstanding loan book is £29.9 billion.

BIS estimates the value of future write-offs when loans are issued using the Student Loan Repayment model, to reflect the intrinsic cost of issuing loans. The department's current estimate as at 31 March 2010 is that £2.3 billion (around 8%) of the total face value of the loans issued will not be recovered and this amount is deducted from the face value of the loans to arrive at the carrying amount. However, not all of this is "credit risk" in the normal sense, as the estimates include factoring in the amounts that the department will write off because it is current policy to write off debts due to death, disability, or age of the student or loan.

BIS works together with the Student Loan Company (SLC) and HMRC, given their role of collecting the loan repayments, to manage the collection of student loan repayments and manage the associated credit risks. There is a Memorandum of Understanding in place between the department and the devolved administrations, who jointly own the loan book, the SLC who administers the loan book, and

HMRC. This sets out the responsibilities of the all parties and contains performance targets and indicators, which are revised annually. The Accounting Officers of HMRC and the SLC report quarterly to the department's Accounting Officer on progress towards the agreed targets and performance indicators.

36.5.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated with financial liabilities as they fall due. Liquidity risk also refers to the loss due to the lack of liquidity preventing quick or cost-effective liquidation of products, positions or portfolios.

Central government departments' net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament. Accordingly, future financing of liabilities held by departments would be met by future grants of Supply, voted annually by Parliament. Departments are not, therefore, exposed to significant liquidity risks in the same way that a private sector organisation would be.

Liquidity management is managed through the Debt Management Office (DMO) on behalf of central government. DMO maintains a minimum prudent level of highly liquid quality assets at all times to ensure that commitments, as forecast by HM Treasury, are met. The risk is minimised through the diversification of its portfolio. At individual entity level liquidity risk is managed by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and reassessing the net cash requirement on a regular basis.

The following table details the Government's remaining contractual maturity for its financial liabilities.

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	Total £bn
Non-derivative liabilities	271.9	84.8	211.5	256.3	541.1	13.0	**1,378.6**
Derivative liabilities	2.0	1.1	1.4	-	-	-	**4.5**
Total	**273.9**	**85.9**	**212.9**	**256.3**	**541.1**	**13.0**	**1,383.1**

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Government can be required to pay. The majority of non-derivative financial liabilities with a maturity of less than 12 months are Treasury bills, National Savings & Investment products, and gilts. The majority of non-derivative financial liabilities with a maturity of more than 10 years are gilts.

Management of liquidity risk

The Government manages its exposure to liquidity risk in various ways, primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding sufficient financial assets for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury bills, National Saving & Investment products, and gilts to raise funds.

36.5.4 Market risk

Market risk is the risk that fair values and future cash flows will fluctuate due to changes in market prices. Market risk generally comprises: interest rate risk, foreign exchange risk, and price risk.

36.5.5 Interest rate risk

There are two types of interest rate risk: cash flow and fair value. Cash flow and fair value interest rate risk is the risk that the future cash flows of a financial instrument or its value will fluctuate because of changes in market interest rates. Cash flow interest rate risk arises on variable rate loans. Fair value interest rate risk arises on fixed interest rate loans.

The Government's interest rate risk is concentrated mainly in the National Loans Fund (NLF) and Debt Management Office (DMO). The NLF manages the Government's interest rate risk in conjunction with DMO. Central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk.

In relation to student loans, the Department for Business, Innovation and Skills relies on long term assumptions to determine the impact of interest rate changes both on the borrower's ability to pay, and the Department's forecasts of future payment streams. Income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1% above the Bank of England base rate nor can it be less than 0%. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. This can lead to a risk in forecasting the amount of interest payable.

Furthermore, if the UK continues to experience interest rates that are lower than RPI and, therefore, the interest rate cap reoccurs with frequency, the student loan book may be over-valued, as the modelling assumes, in the long term, that interest is added in line with RPI. This has been addressed in the 2010-11 accounts of the Department for Business, Innovation and Skills.

Where the Government is exposed to material interest rate risk, the interest rate profile is as follows:

	Total £bn	Non-interest bearing £bn	Floating rate £bn	Fixed rate £bn	Fixed rate Weighted average int rate %	Fixed rate Weighted average period years
Financial assets in sterling	**30.8**	11.8	0.9	18.1	1.9%	2
Financial assets in other currencies	**3.9**	-	-	3.9	0.7%	1
Financial liabilities in sterling	**1,006.0**	18.7	284.8	702.5	4.9%	24

Where the Government is exposed to material interest rate risk, its sensitivity to movements in interest rates is as follows:

Change in GBP interest rates	Impact on Revenue & Expenditure £bn	Impact on Net liabilities £bn
Increase by 1% (100 basis points)	1.3	1.3
Decrease by 1% (100 basis points)	(1.3)	(1.3)

Management of interest rate risk

The Government manages its exposure to interest rate risk in various ways that can be summarised into three main areas:

- interest rate risk from bank loans and advances and from debt securities (comprising the cash management portfolio of trading and non-trading assets and liabilities);
- interest rate and other price risk from the derivatives hedging the Guaranteed Equity Bonds issued by National Savings & Investments; and
- interest rate risk from the retail gilts book.

36.5.6 Foreign-exchange rate risk

The Government undertakes transactions denominated in foreign currencies and it holds international monetary reserves including foreign currency assets and IMF Special Drawing Rights. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Foreign-exchange rate risks are concentrated in the central funds such as the Exchange Equalisation Account (EEA). For central government departments, local authorities, entities within the National Health Service, and public corporations, exposure to foreign currency risk during the year was insignificant from a WGA perspective. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure (less than 1%).

The UK's official reserves are held by EEA and National Loans Fund (NLF) and can be split into reserves that are hedged for currency and interest rate risk and the remaining reserves, which are unhedged. The hedged reserves comprise portfolios of eligible dollar, euro and yen denominated assets and holdings of SDRs. The unhedged reserves comprise dollar and euro denominated bonds, gold, IMF lending and yen exposure normally obtained through forward yen purchases. The unhedged reserves are in the main financed out of sterling through accumulated retained earnings and sterling financing provided by the NLF.

Assets in the hedged reserves are hedged for currency risk either by being denominated in the same currency as the liabilities which finance them or by using currency swaps. The hedged reserves are also hedged against interest rate risk, through the use of swaps. The hedged reserves are primarily financed either by issuing securities denominated in foreign currency or by sterling advanced from the NLF to the EEA. Financing of the hedged reserves in 2009-10 included sterling swapped into foreign currencies of £8.7 billion and the SDR allocation of £10.1 billion.

Presented below is the sterling equivalent of the Government's foreign currency assets and liabilities, analysed by their underlying foreign currencies, that give rise to a material level of foreign-exchange rate risk.

The Government's material exposures to foreign-exchange risk are analysed below:

Foreign currency denominated financial assets/liabilities	Euro £bn	USD £bn	YEN £bn	Other £bn	Total £bn
Financial assets					
Cash and cash equivalents	0.2	0.9	0.1	0.2	1.4
Loans and receivables	1.1	1.4	0.1	11.1	13.7
Available for sale financial assets	0.9	2.1	-	-	3.0
Financial assets held for trading	12.9	12.2	3.0	9.8	37.9
Total	**15.1**	**16.6**	**3.2**	**21.1**	**56.0**
Financial liabilities					
Financial liabilities at amortised cost	0.6	1.2	0.1	8.8	10.7
Financial liabilities at fair value	0.1	0.3	0.1	-	0.5
Financial liabilities held for trading	7.4	6.0	0.4	10.1	23.9
Total	**8.1**	**7.5**	**0.6**	**18.9**	**35.1**

Where the Government is exposed to material foreign-exchange rate risk, its sensitivity to movements in GBP exchange rates is as follows:

Change in GBP exchange rates	Impact on Revenue & Expenditure £bn	Impact on Net liabilities £bn
Strengthen by 10%	(0.3)	(0.4)
Weaken by 10%	0.3	0.8

Management of foreign-exchange rate risk

Foreign-exchange rate risks are concentrated mainly in the Exchange Equalisation Account (EEA). The Bank of England undertakes the day-to-day management of the EEA and its risk management, monitoring and controlling market risk on a daily basis. Further details are available in the 2009-10 accounts of EEA.

For central government departments, local authorities, entities within the National Health Service and public corporations, exposure to foreign currency risk during the year was insignificant from a WGA perspective. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure (less than 1%).

36.5.7 Price risk

The Government is exposed to equity securities price risk through investments held by HM Treasury and classified on the consolidated Statement of Financial Position as available-for-sale. Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and The Royal Bank of Scotland are listed on the London Stock Exchange. No market exists for the remaining investments, which are primarily other Government entities, some of which are never intended for sale. Such investments are primarily accounted for at historical cost and thus not exposed to price risk.

The holding value of equity securities exposed to material price risk was £34.8 billion as at 31 March 2010. The analysis below shows the Statement of Revenue and Expenditure impact of a 10 per cent and 25 per cent increase/(decrease) in the market price of these investments. These variances were considered reasonably possible at the balance date.

Variance in market price	Impact on Revenue & Expenditure £bn
Increase of 10 per cent	0.5
Increase of 25 per cent	0.5
(Decrease) of 10 per cent	(5.8)
(Decrease) of 25 per cent	(10.4)

HM Treasury's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on the Government's financial performance. The HM Treasury Board carries out risk management, and identifies and evaluates financial risks in close cooperation with HM Treasury's policy teams and sub-committees.

Note 37. Significant financial assets and liabilities that are not consolidated in the account

This account includes equity investments in the Bank of England (BoE), the Royal Bank of Scotland (RBS), Lloyds Banking Group (LBG), Northern Rock plc (NR), Northern Rock (Asset Management) plc (NR(AM)), and Bradford and Bingley plc (B&B), as disclosed in Note 18. Their assets and liabilities have not been fully consolidated into these accounts, for reasons outlined below.

As reported in their published accounts	BoE[1] £bn	NR(AM) and B&B[2] £bn	RBS and LBG[3] £bn	Total £bn	WGA £bn
Total assets	223.1	135.8	2,723.8	3,082.7	1,207.5
Total liabilities	(218.9)	(134.4)	(2,585.1)	(2,938.4)	(2,419.3)
Net liability	**4.2**	**1.4**	**138.7**	**144.3**	**(1,211.8)**

[1] Source: accounts of Bank of England Banking Department's for year ended 28 February 2010
[2] Source: accounts of Northern Rock (Asset Management) plc and Bradford & Bingley for the year ended 31 December 2009
[3] Source: accounts of Royal Bank of Scotland Group plc and Lloyds Banking Group plc for year ended 31 December 2009

The Bank of England will be fully consolidated for 2010-11.

Northern Rock (Asset Management) plc and Bradford and Bingley plc are proposed to be consolidated into WGA over time, as they are expected to be a permanent part of government until their mortgage books have expired and therefore form a longer-term part of the public sector.

The remaining banks will continue to be held as available-for-sale financial assets and liabilities. These entities are not consolidated in WGA in 2009-10 and will not be in future years, because their scale would dwarf other aspects of WGA, distorting the accounts, and therefore making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of the remaining banks in the long term and, in due course, they will return to the private sector. For example, in June 2011, the Chancellor announced the decision to pursue the sale of Northern Rock plc. Finally, it would also be extremely costly to carry out the consolidation (mostly because of differing year ends), which would not represent good value for the taxpayer, given the expected temporary nature of their ownership.

In the sections below, the relationship with each bank is described, along with extracts from their accounts showing their gross assets and liabilities, and profit or loss for the year. Further information is also available from the HM Treasury accounts which can be found at www.hm-treasury.gov.uk.

37.1 Bank of England

The Bank of England was set up as a corporate body under the Bank of England Act 1946 as the central bank of the United Kingdom and HM Treasury wholly owns the capital stock. It is responsible for maintaining stable prices and confidence in the currency, and detecting and reducing threats to the financial system as a whole. The relationship between HM Treasury and the Bank of England is governed by the Bank of England Act 1998.

The Bank's note issue function is separate from its other activities in accordance with the Bank Charter Act 1844. Accordingly, for accounting purposes, the Bank is divided into the Issue Department and the Banking Department. The Issue Department is solely concerned with the note issue and the assets backing the issue. The Banking Department comprises all other activities of the Bank.

As per the Issue Department, notes in circulation at its year end, 28 February 2010, totalled £50.22 billion. The notes are a liability of the Bank of England, which must be backed by an equivalent value of securities. Total securities and other assets held by the Issue Department at 28 February 2010 were £50.22 billion, which included the Ways and Means Advance to the National Loans Fund of £0.37 billion, British Government stocks of £5.31 billion, deposits with the Banking Department of £26.65 billion and reverse repurchase agreements of £17.89 billion. The amount payable to HM Treasury (to the National Loans Fund) by the Issue Department for the year ended 28 February 2010 was £0.5 billion. This represents the interest on securities and other assets held by the Issue Department less the costs of production of bank notes and other expenses. The Issue Department's liabilities (bank notes in circulation) are interest free.

The Bank is required to pay HM Treasury in lieu of dividend a sum equal to 50 per cent of the net profit for its previous financial year, or such other sum as HM Treasury and the Bank of England may agree. A dividend of £0.1 billion is payable for 2009-10. The investment in the Bank of England is re-measured to HM Treasury's share of net assets, as a proxy to fair value. Gains and losses arising on re-measurement are recognised directly in the Available-for-Sale Reserve. As at 31 March 2010, the equity interest has been revalued to the net asset value, and therefore held in this account at £4.2 billion.

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

	£ billion
Extracts from the income statement	
Profit before tax	0.2
Payment to HM Treasury	(0.1)
Profit retained for the year	**0.1**
Extracts from the balance sheet	
Assets	
Loans and advances to banks and other financial institutions	12.5
Other loans and advances	199.9
Financial assets at fair value through profit and loss	4.1
Available-for-Sale securities	4.4
Other assets	2.2
Total assets	**223.1**
Liabilities	
Deposits from central banks and other financial institutions	181.4
Foreign currency bonds in issue	4.1
Derivative financial instruments	0.3
Other liabilities	33.1
Total liabilities	**218.9**
Total equity attributable to shareholders'	**4.2**

Further details are available in the 2009-10 accounts of the Bank of England, which can be viewed on the following website: www.bankofengland.co.uk.

37.2 UKFI

UK Financial Investments Limited (UKFI) is a registered Company, wholly owned by the Government. It was established to manage the Government's shareholdings in UK financial institutions, acquired through recapitalisation and other financial stability interventions in 2008 and 2009. UKFI's objectives are to:

- develop and execute an investment strategy for disposing of the Government's shareholdings in an orderly and active way through share sale, redemption or buyback or other means; and
- manage the Government's shareholdings to protect and create value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

UKFI is responsible for managing Government's shares in Royal Bank of Scotland, Lloyds Banking Group, Northern Rock plc, Northern Rock (Asset Management) plc and Bradford and Bingley. As at 31 March 2010 the Government holds 68.4 per cent of the total ordinary share capital of RBS (with 83.2 per cent economic ownership), 41.3 per cent of the total ordinary share capital of LBG and 100 per cent of Northern Rock plc, Northern Rock (Asset Management) plc and Bradford and Bingley plc.

Responsibility for management of the banks wholly owned by Government was transferred from HM Treasury to UKFI during the year. During the period of HM Treasury's responsibility for managing these banks, Framework Documents were agreed between both companies and HM Treasury, which set out the shareholder relationships. Following the transfer of management responsibility to UKFI, new framework documents were drawn up.

UKFI is funded by fee income from the HM Treasury. Its activities are governed by its Board, which is accountable to the Chancellor of the Exchequer. In accordance with the FReM, the HM Treasury's shares in UKFI are carried at historic cost, which is £1. It is considered a minor entity for the purposes of WGA and not consolidated into the accounts (see Annex 3). More details on Government's holdings in financial institutions and of UKFI's activities over the last year are available in the UKFI's 2009-10 accounts, which can be viewed on the following website www.ukfi.co.uk.

37.3 Royal Bank of Scotland Group Plc

The Royal Bank of Scotland Group Plc (RBS) is a British banking and insurance holding company. As part of the Government Recapitalisation Scheme in December 2008, HM Treasury acquired approximately £15 billion of ordinary shares plus £5 billion of preference shares in RBS. The preference shares were subsequently converted into new ordinary shares, following an open offer to all existing shareholders to fund the preference share redemption. In line with the terms of the conversion HM Treasury underwrote the open offer and subscribed to those shares not taken up by existing shareholders. The subscription price due from HM Treasury for these shares was then offset against RBS's obligation to pay the redemption price in respect of the preference shares (together with the accrued coupon and the underwriting fees) to HM Treasury.

In November 2009, the Government and RBS signed binding agreements under which the Government injected £25.5 billion of capital in the form of B shares, which comprised £13 billion in upfront capital, £6 billion of capital to be drawn at the option of RBS and £6.5 billion in a fee taken as capital. As a result the Government's economic ownership of RBS rose to 83.2 per cent as at 31 March 2010. HM Treasury agreed that it would not vote in respect of the B shares to the extent that such votes, together with any votes that HM Treasury is entitled to cast in respect of any ordinary shares held by it, would exceed 75 per cent of the total votes eligible to be cast on a resolution. It currently holds 68.4 per cent of the total ordinary share capital of RBS. HM Treasury charged RBS an underwriting fee of 0.5 per cent on all shares underwritten and 1 per cent on shares purchased by HM Treasury.

The Government has also agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's Core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5 per cent ('the Contingent Capital Commitment'). This will ensure that RBS is properly and robustly secured in a severe downturn. This commitment has a duration of five years, and this capital can only be retired early if the FSA judges it is no longer required. In consideration for providing capital, RBS will pay a premium of 4 per cent per year on the unused capital commitment.

RBS acceded to the Asset Protection Scheme (APS) on 22 December 2009 meaning that RBS has insured an asset pool of £282 billion, with a first loss piece of £60 billion borne by RBS. For losses exceeding the first loss amount, HM Treasury provides protection on 90 per cent of losses incurred. RBS is paying an annual fee of £0.7 billion for the first three years (2009-11), and £0.5 billion thereafter for the insurance provided. RBS has also paid for a portion of the APS set up costs, and will pay for the ongoing operation of the APS. The APS asset pool has reduced to £230.9 billion as at 31 March 2010 (due to disposals, repayments, maturities, other movements and exchange rate movements).

In addition, the Dividend Access Share, issued in connection with RBS' participation in the APS, (in conjunction with the B shares) will pay a non-cumulative discretionary dividend at the higher of 7 per cent of the acquisition price and 2.5 times any dividend paid in respect of the ordinary shares. Such dividend rights will continue until the Parity Value of the B shares equals or exceeds 65p for 20 or more dealing days in any 30 day trading period.

The carried forward value of investments in ordinary shares of RBS as at 31 March 2010 stood at £17.4 billion. This value represents the fair value, being the price per share quoted as at the reporting date. The B shares are carried at fair value, as at 31 March 2010, they stood at £22.4 billion and the dividend access share at £2.5 billion.

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

	£ billion
Extracts from the income statement	
Total income	38.7
(Loss) before taxation	(2.6)
Tax on loss of ordinary activities	0.4
Profit/(Loss) from discontinued operations, net of tax	(0.1)
Profit/(loss) for the year	**(2.3)**
Extracts from the balance sheet	
Total assets	1,696.5
Total liabilities	(1,601.9)
Net assets and shareholders' funds	**94.6**

Further details are available in the 2009-10 accounts of Royal Bank of Scotland Group Plc, which can be viewed on the following website www.rbs.com.

37.4 Lloyds Banking Group Plc

Lloyds Banking Group (LBG) was formed on the 19 January 2009 from the merger of Lloyds TSB and HBOS. It is a British Banking and Insurance Company. Under the Government Recapitalisation Scheme, HM Treasury acquired ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB. It also acquired preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB. These transactions resulted in HM Treasury holding 43.4 per cent of the enlarged share capital and £4 billion of preference shares in LBG.

The preference shares were redeemed in June 2009. In order to fund the redemption, LBG conducted a placing and open offer of ordinary shares to all its existing shareholders. HM Treasury subscribed to its pro rata entitlement of ordinary shares under the open offer. In December 2009, LBG raised additional capital through a combination of a £13.5 billion rights issue, and swapping £9 billion of existing debt for contingent capital, equity or cash. HM Treasury took up its rights as a shareholder investing £5.7 billion net of an underwriting fee. The Government's shareholding in LBG as at end March 2010 was 41.3 per cent. Lloyds Banking Group was charged an underwriting fee of 0.5 per cent and 1 per cent on shares purchased as part of preference shares conversion. For the 2009 rights issue, HM Treasury charged Lloyds Banking Group a commitment fee of 2.45 per cent on shares purchased by HM Treasury.

LBG paid the Government a fee of £2.5 billion in return for the implicit benefit it received from its intended participation in the Asset Protection Scheme (APS). LBG raised sufficient capital through the market to meet the FSA's capital requirements and decided not to take up the support from the APS. In addition, HM Treasury has charged LBG for all legal, financial and other costs incurred in relation to LBG's participation in the recapitalisation and APS.

As at 31 March 2010, the carried forward value of the investments in the ordinary shares of LBG is £17.3 billion. This value represents fair value of the investments, being the price per share quoted on the reporting date.

	£billion
Extracts from the income statement	
Total income	45.3
Profit before taxation	1.0
Tax on profit of ordinary activities	1.9
Profit for the year	**2.9**
Extracts from the statement of financial position	
Total assets	1,027.3
Total liabilities	(983.2)
Net assets and shareholders' funds	**44.1**

Further details are available in the 2009-10 accounts of Lloyds Banking Group Plc, which can be viewed on the following website www.lloydsbankinggroup.com.

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

On 22 February 2008, by an order made under the Banking (Special Provisions) Act 2008, the shares of Northern Rock plc (NR) were transferred into temporary public ownership (TPO). In February 2009, the then Government announced that subject to state aid approval Northern Rock Plc would be restructured into two separate entities, with its back book of mortgages to be managed separately to its other business. Following approval from the European Commission, in January 2010, the legal and capital restructure of the former Northern Rock Plc was completed. This resulted in the business being split between two separate companies, a new bank, Northern Rock plc (NR), (offering mortgage and savings' products) and the existing company renamed, Northern Rock (Asset Management) plc (NR (AM)). All customers' deposits and a proportion (around 10 per cent) of the mortgage book were transferred to NR. The remaining mortgages, the existing loan from HM Treasury and all wholesale funding remained in NR (AM). NR (AM) does not offer new mortgage products or hold any deposits and is committed to a wind down of its business. The March 2010 Budget announced that Northern Rock (Asset Management) plc and Bradford & Bingley plc will be integrated under a single holding company. Both companies will remain as separate legal entities under the new holding company, each with its own liabilities and government support arrangements.

In December 2009, HM Treasury provided NR plc with £1.4 billion of capital support in order for the company to meet the FSA's regulatory capital requirements. HM Treasury also provided a commitment to the FSA that up to £1.6 billion in additional capital support will be provided to NR (AM) should that be necessary to allow it to continue to meet its regulatory capital requirements. In February 2010, following consultation with the FSA, HM Treasury announced that it intended to remove HM Treasury's temporary guarantee arrangements for retail deposits in NR plc. Consequently, these guarantee arrangements were lifted with effect from close of business on 24 May 2010. However, fixed term deposits existing at 24 February 2010 will continue to be covered by the guarantee arrangements until maturity. The guarantee arrangements for wholesale deposits and borrowings of NR plc terminated on 31 December 2010. Every eligible depositor with NR plc has the first £50,000 of their deposit guaranteed by the Financial Services Compensation Scheme (FSCS). The guarantee arrangements for certain wholesale deposits and borrowings of NR (AM) will continue until the end of the wind down process.

On 30 March 2010, the independent valuer appointed under the Northern Rock plc Compensation Scheme Order 2008, published his assessment of the compensation payable to former shareholders in NR (now renamed NR (AM)). He determined that there was no value in the shares (or right to receive shares) as at the valuation date i.e. immediately before the transfer of Northern Rock into TPO and therefore that no compensation is payable by HM Treasury to former shareholders (and to those whose rights to receive shares were extinguished under the Northern Rock plc Transfer Order 2008). For further details see website: www.northernrockvaluer.org.uk

Both companies (NR and NR (AM)) have agreed to reimburse HM Treasury for any expenses and costs incurred, including the professional fees incurred by HM Treasury in connection with the restructuring of NR. NR plc and NR (AM) have paid a monthly fee in respect of the guarantee arrangements, in line with the terms of the agreement between HM Treasury, the Bank of England and the two companies. Under the current arrangements, professional fees will continue to be incurred during the period of TPO and recharged accordingly to either NR plc or NR (AM) in accordance with the indemnity. Guarantee fees will continue to be received from both companies to the extent retail and wholesale deposits are covered by the guarantee arrangements.

A new loan facility structure and agreement was put in place as part of the restructuring of NR. The loan and payment in kind (PIK) balances existing under the loan as at 31 December 2009 remained with NR (AM) under the new loan facility agreement. Loans to NR (AM) include the original loan (as reduced by subsequent repayments) plus an additional amount (£1.4 billion) to finance the difference between mortgage assets and retail and wholesale deposit liabilities that were transferred to NR plc. The gross loan (including the PIK balance) as at 31 March 2010 is £23.0 billion including PIK balance of £0.15 billion. HM Treasury is also providing a working capital facility (WCF) loan to NR (AM) with a current commitment of up to £2.5 billion to help the company with its wind down. No fee is payable on the WCF unless it is drawn down. The loan facilities to NR (AM) are expected to be repaid in full over the period of wind down.

HM Treasury is both a shareholder and a creditor for Northern Rock. The ordinary and preference shares in NR (AM) are held by HM Treasury at historic cost (nil) on its Statement of Financial Position. HM Treasury received ordinary shares following the capital injection of £1.4 billion in NR plc. These unquoted shares are held by HM Treasury at historic cost, being the price paid, on its Statement of Financial Position. The ordinary and preference shares that were transferred to HM Treasury following the Northern Rock plc Transfer Order 2008 continue to be carried at historic cost, which is nil. This is in line with FReM and the valuation of the company by the Independent valuer on 30 March 2010. The ordinary shares in Northern Rock plc (the new bank) are carried at historic cost in line with FReM.

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

	£ billion
Extracts from the income statement	
Total income	1.1
Loss before taxation	(0.3)
Tax on profit/(loss) of ordinary activities	-
Loss for the year	**(0.3)**
Extracts from the balance sheet	
Total assets	87.4
Total liabilities	(86.4)
Total equity	1.0
Total non-shareholders' funds	(1.4)
Total equity attributable to equity shareholders'	**(0.4)**

In June 2011, the Chancellor announced the decision to pursue the sale option of Northern Rock plc.

Further details are available in the 2009-10 accounts of Northern Rock (Asset Management) plc, which can be viewed on the following website www.northernrockassetmanagement.co.uk.

37.6 Bradford & Bingley Plc

Bradford & Bingley Plc (B&B) is a UK based financial services business. On 29 September 2008, in exercise of a power under the Banking (Special Provisions) Act 2008, HM Treasury transferred the shares of Bradford & Bingley plc (B&B) into temporary public ownership (TPO). Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey). To facilitate this transfer and in accordance with provisions of Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 (the Transfer Order), the FSCS and HM Treasury made cash payments to Abbey in respect of the retail deposit liabilities. The Bank of England provided the FSCS with a loan in order to enable the FSCS to make this payment. This loan was transferred to HM Treasury in December 2008. The interest on HM Treasury's loan to the FSCS is charged at twelve month LIBOR plus 30 basis points. The remaining assets and liabilities of B&B - principally comprising its mortgage book, personal loan book, headquarters and relevant staff, and treasury assets and its wholesale liabilities remain in public ownership and will be wound down over a period of time. The total cash paid to Abbey by the FSCS and HM Treasury (taking into account the £0.6 billion consideration paid by Abbey to HM Treasury) was £18.4 billion as at 31 March 2010.

The Bank of England provided a Working Capital Facility (WCF) loan to B&B. This WCF was refinanced by HM Treasury in December 2008 and stood at £8.5 billion as at 31 March 2010 whilst the commitment remains at £11.5 billion. The WCF will be repaid by B&B in line with the B&B's agreed business plan. The WCF attracts monthly interest on a net basis and also a monthly commitment and interest fee on the daily balance on the proportion of the WCF that has been drawdown but not used.

HM Treasury has provided a guarantee to B&B on the unsecured and unsubordinated wholesale deposits and unsecured and unsubordinated wholesale borrowings, including any accumulated interests as existed as at midnight of 28 September 2008. This guarantee remained in place as at 31 March 2010. As a result of the support and guarantee arrangements provided to B&B, the review of options for resolution, the transfer of B&B into TPO and the transfer of B&B's retail deposit book, branch and agency network and share in its Isle of Man subsidiary to Abbey, HM Treasury incurred certain costs. B&B agreed to indemnify HM Treasury for certain costs incurred.

On 5 July 2010 the independent valuer completed his final assessment and concluded that no compensation is payable by HM Treasury to former B&B's shareholders and bondholders. The full report can be viewed on this website http://www.bandbvaluer.org.uk.

On 25 January 2010, the European Commission gave State aid approval to the restructuring plan for B&B and also approved the guarantee arrangements for B&B's wholesale deposits and borrowings. The guarantees will remain in place until the wind down of B&B is complete. The March 2010 Budget announced that Northern Rock (Asset Management) plc and Bradford & Bingley plc will be integrated under a single holding company.

HM Treasury is both a shareholder and a creditor for Bradford and Bingley. The ordinary shares that were brought onto HM Treasury's Statement of Financial Position when B&B entered TPO continue to be valued at historic cost (nil) as at the reporting date. In accordance with the FReM, the shares are being carried at historic cost. This is currently shown as nil, which is in line with the conclusion of the independent valuer.

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

	£ billion
Extracts from the income statement	
Total income	0.6
Profit/(Loss) before taxation	(0.2)
Tax on profit of ordinary activities	0.1
Profit/(Loss) for the year	**(0.1)**
Extracts from the balance sheet	
Total assets	49.4
Total liabilities	(48.0)
Net assets and shareholders' funds	**1.4**

Further details are available in the 2009-10 accounts of Bradford & Bingley, which can be viewed on their website www.bbg.co.uk.

Note 38. Third party assets

The government holds, as custodian or trustee, certain assets belonging to third parties, for example funds in court or money held on behalf of others. These are referred to as third party assets. These assets are not public assets and are not recognised in the Statement of Financial Position since the government does not have a direct beneficial interest in them. Central government entities are required to disclose them in accordance with the 2009-10 Government Financial Reporting Manual.

	£bn
Investments	0.3
Monetary assets	4.6
Total third party assets	**4.9**

The Court Funds Office, part of the Ministry of Justice, manages money held in court on behalf of clients who may be involved in a civil legal action, individuals who, under the Court of Protection, are not able to manage their property and affairs; and children under the age of 18. Assets held at the reporting period end date comprised cash, Index Tracker Funds and securities. The market values of these assets as at 28 February 2010 (financial reporting period end date for the Court Funds Office) were:

- approximately £4.1 billion of cash, sterling held and invested on behalf of the Accountant General through the Commissioners for the Reduction of National Debt's Court Funds Investment Account; and
- approximately £0.2 billion of securities, a combination of units and stock holdings held in the name of the Accountant General, including the Index Tracker Fund.

Further information regarding funds in court is available in the 2009-10 Funds in Court Part A Accounts.

Note 39. Events after the reporting period

In accordance with IAS 10 '*Events after the reporting period*', reporting entities are required to disclose any event between the date at the end of the reporting period and the date when the financial statements are authorised for issue that may affect the financial statements. The standard classifies these events as either 'adjusting' or 'non-adjusting'. Adjusting events refer to conditions that existed during the reporting period, and if the conditions change the statements should be adjusted accordingly. Non-adjusting events are significant conditions that arise after the reporting period, but do not require the statements to be adjusted. The FReM modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the consolidated entity's reporting date and the WGA reporting date do not apply, and therefore all events are non-adjusting.

The following events that have occurred after the reporting period have been identified as significant to WGA.

Change of government

Following the UK General Election on 6 May 2010, a coalition government was formed on the 12th of May between the Conservatives and the Liberal Democrats, replacing the Labour government.

In June 2010 the new Chancellor, Rt Hon George Osborne MP, presented the June 2010 Budget and set out plans to reduce the budget deficit and to support enterprise, as well as personal tax measures and welfare reforms. He announced £8 billion of additional net tax increases, including increasing the standard rate of Value Added Tax (VAT) to 20%, and over £30 billion of spending reductions. These plans included: £11 billion of welfare reform savings; £10 billion from lower debt interest payments; £6 billion of efficiency savings in 2010-11; and £3 billion savings from a two year freeze in public sector pay starting in 2011-12. On 20 October 2010 the Chancellor presented the Government's Spending Review which announced further savings and reforms in welfare, environmental levies and public service pensions, as well as an average real central department budget cut of around 19 per cent over the Spending Review period. Further details are available on the HM Treasury website: http://www.hm-treasury.gov.uk/d/junebudget_press_notice1.pdf and http://www.hm-treasury.gov.uk/spend_sr2010_documents.htm.

Machinery of Government (MOG) changes

Since the General Election in May 2010, the Prime Minister has announced a number of changes to ministerial responsibilities. These are commonly referred to as machinery of government (MOG) changes where functions are transferred from one part of government to another. Details of these changes can be found on the Cabinet Office website (http://www.cabinetoffice.gov.uk) and in the 2009-10 and 2010-11 accounts of central government departments.

Public Bodies Reform and sale of government assets

The Government has proposed to sell certain government assets (such as Royal Mail and student loans) if this represents value for money and to reform the number of public bodies. For example, on 25 May 2010 the Government announced that it intends to introduce a Bill to allow for private sector investment in Royal Mail. In the June 2010 Budget the Government confirmed it is examining the possibility of selling part of the student loans book, subject to confirmation that this would provide value for money. In October 2010, the Government announced its Public Bodies Reform proposals. Of the 901 bodies in the review, substantial reforms were proposed for more than half. It was proposed that 192 should cease to be public bodies at all and that 118 should be merged down into 57 successor bodies. Some 171 bodies are proposed for substantial reform while retaining their current status. The Audit Commission is to be disbanded and the audit practice transferred into private ownership. The Public Bodies Bill was introduced to grant new powers to allow Ministers to reform, merge or abolish public bodies. Further details are available in the 2009-10 Accounts of the Department for Business, Innovation and Skills and on the government website: http://www.number10.gov.uk.

On 3 June 2011 the Government announced that it had entered into a binding agreement to sell the business of the Horserace Totalisator Board (Tote) to Betfred for a headline transaction value of £265 million. After deductions including debt and pensions, the net equity value to be paid to Government by Betfred is over £180 million divided equally between the taxpayer and racing, subject to compliance with state aid regulations. Further details are available in the 2009-10 Accounts of the Department for Culture, Media and Sport.

Sale of equity investments in the public sector banks

UK Financial Investments Limited (UKFI) and Northern Rock plc appointed Deutsche Bank as advisers to explore options for the disposal of Northern Rock plc. Following advice from UKFI and their advisers, the Chancellor has decided to pursue the sale option. This was announced in his speech at Mansion House on 15 June 2011.

Defence and Security Review

The Strategic Defence and Security Review (SDSR), setting out how the Government will deliver the priorities identified in the National Security Strategy, was published on 19 October 2010. There will be some major changes to force elements of all three Services (Royal Navy, Army and RAF) to enable them to meet future force structures. The review will lead to reductions in manpower over the next five years across all three Services and the civilians in Defence: the Royal Navy by around 5,000 personnel; the Army by 7,000; the RAF by 5,000; civilians by 25,000. No changes will be made to front line Army, Royal Marine or RAF Regiment units while operations in Afghanistan continue. Changes were announced in relation to the Department's assets, including the Royal Navy's ships and the air transport fleet. Following the SDSR announcements, a general contingent liability will materialise, representing the unknown future liabilities likely to arise from the ongoing renegotiation of MOD contracts. Further details, including other impacts on the three Services, are available on the Ministry of Defence website (www.mod.uk).

Bank Payroll Tax

Bank Payroll Tax was introduced by the Finance Bill 2010 on 1 July 2010 with retrospective effect for the period 9 December 2009 - 5 April 2010 and payable by 31 August 2010. The gross receipts were forecast to be £2.5 billion before taking into account the potential impact on other tax revenues and included as accrued income receivable in taxation revenues in Note 3 to the Accounts. Additional revenue of £0.9 billion in excess of the amount accrued at 31 March 2010 was received due to higher than expected bonuses being paid. Further details are in the 2009-10 and 2010-11 accounts of HMRC Trust Statement.

Future changes to the pension liability

It was announced in the June 2010 Budget that the Government intends to adopt the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation and value of the pension schemes consolidated in WGA, reducing the value of the pension liabilities in the individual accounts of WGA entities. The decision to uprate public service pensions using CPI rather than RPI is currently before the courts in judicial review proceedings. The Government is robustly defending the case, and the financial implications consequent on the review finding against the government have not been assessed.

At the Spending Review, the Government announced its intention to implement progressive changes to the level of employee contributions equivalent to 3.2 percentage points on average (apart from the Armed Forces Pension Scheme), to be phased in from April 2012. Also, the Public Service Pension Commission headed by Lord Hutton and created by the Government to undertake a "fundamental, structural review of public service pensions", including the Local Government Pension Scheme, issued its final report in March 2011 which included recommendations to the Government for the future design of public service pension schemes. Recommendations included introducing a defined benefit career average revalued earnings scheme which would give a pension based on average salary indexed by average earnings over the employee's career, rather than one based on final salary. The Government announced at the March 2011 Budget its acceptance of Lord Hutton's proposals as the basis for reform.

Discussions between the Government, including departments responsible for the largest public service schemes, and employee representatives on proposals are continuing. More information is available from the HM Treasury website (www.hm-treasury.gov.uk).

IMF's New Arrangements to Borrow

As a member of the International Monetary Fund (IMF), the UK is committed to a credit arrangement called the New Arrangements to Borrow (NAB). The NAB is a credit arrangement to provide supplementary resources in the form of contingent loans to the IMF when these are needed to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system.

On 1 April 2011, IMF members agreed to the activation of an expanded NAB. The UK's commitment to the new NAB is SDR 18.66 billion (£18.39 billion). The new NAB, however, can only be used to finance programmes agreed after its activation. Previously agreed programmes will continue to be funded from the quota and bilateral loans. The UK, along with all other major bilateral creditors, has agreed to keep open its bilateral loan facility of SDR 9.92 billion (£9.77 billion) for this purpose, on the condition that combined drawings from the UK's share of the NAB and the UK's bilateral loan do not exceed SDR 18.66 billion.

UK IMF Quota Subscription

In November 2010, G20 countries agreed to double the IMF's quota resource limit. As a result, the UK's quota subscription will increase from SDR 10,738.5 million to SDR 20,155.1 million (an increase of £9,278 million at the 31 March 2011 rate). In order to implement this, the IMF requires that three fifths of member countries with a collective voting share of at least 85 percent finalise their domestic legislative requirements. This increase was approved by Parliament in July 2011.

European Financial Stabilisation Mechanism

The European Financial Stabilisation Mechanism (EFSM) was established in May 2010 under Article 122 (2) of the Treaty on the Functioning of the European Union. The EFSM has a lending capacity of €60 billion and can lend money to any EU Member State via the European Commission raising money on capital markets, guaranteed by the EU budget. The UK's liability would only crystallise if a beneficiary state were to permanently default on its loans; the precise UK share would be determined by the Own Resources Decision on financing the EU budget - we have estimated the UK's liability would, in these circumstances be around 15% of the total amount drawn down.

The international financial assistance package for Ireland agreed in December 2010 included a €22.5 billion loan from the EFSM, of which €13.9 billion has been disbursed; and the international financial assistance package for Portugal agreed in May 2011 included a €26 billion loan from the EFSM, of which €14.1 billion has been disbursed.

Asset Purchase Facility

In January 2009, the Chancellor of the Exchequer authorised the Bank to set up an Asset Purchase Facility (APF) to buy high-quality assets financed by the issue of Treasury bills and the DMO's cash management operations. The aim of the Facility is to improve liquidity in credit markets. The Chancellor also announced that the APF provided an additional tool that the Monetary Policy Committee (MPC) could use for monetary policy purposes. When the APF is used for monetary policy purposes, purchases of assets are financed by the creation of central bank reserves. The Bank of England was originally authorised to purchase £200 billion of such assets. The Chancellor has subsequently authorised further £75 billion of quantitative easing following an independent judgement by the Bank of England that it is an appropriate course of action. This is a response to the deterioration in the international economy, and to the severe strains in the Eurozone.

Financial stability interventions

A number of remote contingent liabilities disclosed in Note 34 relate to HM Treasury's financial stability interventions and have been impacted by events after 31 March 2010.

During 2010-11, the Department's exposure to contingent liabilities across financial stability interventions has significantly decreased. Whilst not all contingent liabilities are quantifiable, the most significant changes since the reporting date are reductions in exposure for the Special Liquidity Scheme (SLS), Asset Protection Scheme (APS), Credit Guarantee Scheme (CGS), and for deposit guarantees at Northern Rock plc, Northern Rock Asset Management and Bradford and Bingley. There has also been a reduction in the probability of future payouts across these schemes.

The SLS contingent liability has reduced from £165 billion to £71 billion as a result of reductions in the level of securities held under the scheme. Similarly, the CGS contingent liability has reduced from £125 billion to £115 billion in line with debt maturities within the scheme and the APS contingent liability has reduced from £154 billion to £110 billion in line with reductions in the size of the portfolio of covered assets due to maturities and disposals.

Contingent liabilities for deposit guarantees have reduced as some guarantee arrangements were terminated during 2010-11and other guarantees are reducing as fixed term deposits mature. At the 31 March 2011, the contingent liability is estimated at £20.6 billion, compared with £29.8 billion at 31 March 2010.

Further details are available in the 2010-11 accounts of HM Treasury.

Building Schools for the Future Programme

Building Schools for the Future was a £55 billion government investment programme in secondary school buildings that was set up in 2005 to rebuild or renew every secondary school in England throughout a 10- to 15-year period. On 5 July 2010, the Education Secretary announced a curtailment of the Building Schools for the Future Programme, meaning that 715 school refurbishments already signed up to the scheme would not now go ahead. A number of local authorities, together with partners in the Local Education Partnership, had already made significant investment in aspects of the Programme which will not be continued. Therefore they may be impacted by this change, although at the time this account was finalised, the extent of the effects of this change was not available.

In January 2011, six local councils (Waltham Forest Council, Kent County Council, Luton Borough Council, Nottingham City Council, Newham Council and Sandwell Council) sought a judicial review of the Government's decision to curtail the Programme. In February, the court found in favour of the Secretary of State, that the decision to stop the programme had been lawful, and that the claimants had no legitimate expectation of receiving funding. The court ruled in favour of the claimants on failure to consult and to consider the equality impact and ruled that the Secretary of State should reconsider his decision after representations from the six authorities. The consultation launched by the Secretary of State with the claimant authorities is in progress. In July 2011, the Department for Education announced that "The Government is minded not to fund the BSF projects which were the subject of a judicial review earlier this year, subject to further representations from the authorities involved" (http://www.education.gov.uk/inthenews/inthenews/a00192488/michael-gove-announcement-on-education-funding).

Further details are available on the Department for Education's website (http://www.education.gov.uk) and the 2009-10 Accounts of the relevant authorities.

The sale of High Speed 1 Limited

High Speed 1 is the railway between St Pancras in London and the Channel Tunnel, used by the international high speed routes to Paris and Brussels, high speed domestic trains, and freight traffic.HS1 Ltd is the owner of the stations along the route, including St Pancras International in London. In November 2010, the Department for Transport (DfT) sold HS1 Ltd and, with it, the right to operate the Channel Tunnel high speed rail link for the next thirty years, for £2.1 billion. The successful bidder was a Canadian consortium comprising Borealis Infrastructure and Ontario Teachers' Pension Plan. At the point of sale, DfT reviewed its accounting treatment of its special relationship with the London and Continental Railways Limited (LCR) and its concession arrangement with HS1 Ltd, and concluded that retrospective accounting changes were required affecting the 2009-10 financial statements, shown as comparatives in the 2010-11 financial statements. The net effect of the 2009-10 restatement decreases the net deficit and net liabilities by £2.0 billion. Further details are available in the 2010-11 accounts of DfT.

Note 40. Date authorised for issue

The financial statements were authorised for issue on 31 October 2011.

Annex 1:
List of entities consolidated in WGA

The list below comprises entities consolidated in WGA based on their audited accounts. Accounts that were qualified are indicated by an asterix. Those accounts have had qualifications on their financial statements or on regularity[65] and may be considered in the WGA Statement on Internal Control. In addition the WGA returns, which translate the underlying statutory accounts into the WGA format, for the Department of Health and academies were also qualified.*

Central Government

Advantage West Midlands
Agriculture & Horticulture Development Board
Agrifood and Biosciences Institute of Northern Ireland
Alcohol Education and Research Council
Armed Forces Retired Pay, Pensions etc
Arts and Humanities Research Council
Arts Council of England
Arts Council of England Lottery
*Arts Council of Northern Ireland
Arts Council of Northern Ireland Lottery Distribution Account
Arts Council of Wales
Arts Council of Wales National Lottery
Belfast Education & Library Board - Northern Ireland
Big Lottery Fund
*Biotechnology and Biological Sciences Research Council
British Educational Communications and Technology Agency
British Film Institute
British Library
British Museum
British Railways Board (Residuary) Ltd
British Transport Police
Business Services Organisation
Cabinet Office
Cabinet Office: Civil superannuation
Capacity Builders
Care Council for Wales
Care Quality Commission
Charity Commission
Children and Family Court Advisory and Support Service
Children's Commissioner for Wales
Children's Workforce Development Council
Civil Nuclear Police Authority and Constabulary
Coal Authority
Commission for Healthcare & Audit Inspection (The Healthcare Commission)
Commission for Local Administration
Commission for Social Care Inspection for England
Community Development Foundation
Community Relations Council for Northern Ireland
Competition Commission
Consolidated Fund
Construction Industry Training Board
ConsumerFocus - National Consumer Council
Contingencies Fund
Countryside Council for Wales
Criminal Injuries Compensation Authority
Crown Office and Procurator Fiscal Service - Scotland
Debt Management Account
Department for Business, Innovation and Skills
Department for Business, Innovation and Skills: UKAEA pension schemes
Department for Communities and Local Government
Department for Culture, Media and Sport
Department for Education
Department for Employment and Learning - Northern Ireland
*Department for Environment, Food and Rural Affairs
Department for International Development
Department for International Development: Overseas Superannuation
*Department for Regional Development - Northern Ireland
*Department for Social Development - Northern Ireland
Department for Transport
*Department for Work and Pensions
*Department of Agriculture and Rural Development - Northern Ireland

[65] A regularity opinion is on whether the transactions recorded in the financial statements are in accordance with Parliamentary or other authority.

*Department of Culture Arts and Leisure - Northern Ireland
*Department of Education - Northern Ireland
Department of Energy and Climate Change
Department of Enterprise Trade and Investment - Northern Ireland
*Department of Finance and Personnel - Northern Ireland
Department of Health
Department of Health Social Services & Public Safety
Department of the Environment - Northern Ireland
DFP - Superannuation & Other Allowances - Northern Ireland
Driver and Vehicle Licensing Agency
East Midlands Regional Development Agency
East of England Development Agency
Economic and Social Research Council
Engineering and Physical Sciences Research Council
Engineering Construction Industry Training Board
English Heritage
Environment Agency
*Equality and Human Rights Commission
Equality Commission for Northern Ireland
Estyn - Her Majesty's Inspectorate and Training for Wales
Exchange Equalisation Account
Export Credits Guarantee Department
Food Standards Agency
Foreign and Commonwealth Office
Forestry Commission
Gambling Commission
Geffrye Museum
General Registers of Scotland
General Social Care Council
*Government Actuary's Department
Government Equalities Office
Guaranteed Export Finance Corporation
Health Protection Agency
Heritage Lottery Fund
Higher Education Funding Council for England
Higher Education Funding Council for Wales
Highlands and Islands Enterprise
HM Procurator General and Treasury Solicitor
HM Revenue and Customs
*HM Revenue and Customs Trust Statement
HM Treasury
Home Office
Homes and Community Agency
Horniman Museum
Horserace Betting Levy Board
HPSS Superannuation Account - Northern Ireland
Imperial War Museum
Independent Living Fund
Independent Police Complaints Commission
Independent Safeguarding Authority
Insolvency Service Investment Account
Invest Northern Ireland
Land Registry
Learning and Skills Council
Learning and Skills Improvement Service
Learning and Teaching Scotland
*Legal Services Commission
Local Government Boundary Commission for Wales
London Organising Committee of the Olympic Games Limited
London Thames Gateway UDC
Marine and Aviation Insurance
Medical Research Council
*Ministry of Defence
Ministry of Justice
Ministry of Justice: Judicial Pensions Scheme
Monitor - Independent Regulator of NHS Foundation Trusts
Museum of Science and Industry in Manchester
Museums, Libraries and Archives Council
National Archives of Scotland
National Army Museum
National Biological Standards Board
National College for School Leadership
National Endowment for Science, Technology and the Arts (NESTA)
National Galleries of Scotland
National Gallery
National Health Service Pension Scheme
National Heritage Memorial Fund
National Heritage Memorial Fund Investment Account
National Insurance Fund
*National Library of Scotland
National Library of Wales
National Loans Fund
National Lottery Distribution Fund
National Lottery: UKSC Lottery
National Maritime Museum
National Museum of Science and Industry
National Museums and Galleries of Northern Ireland
National Museums and Galleries of Wales
National Museums Liverpool
National Museums of Scotland
National Policing Improvement Agency
National Portrait Gallery
National Savings and Investments
National Savings Bank Fund
National School of Government
Natural England
Natural Environment Research Council
Natural History Museum
NHS Direct

North Eastern Education and Library Board - Northern Ireland
North West Regional Development Agency
Northern Ireland Authority for Energy Regulation
Northern Ireland Blood Transfusion Service
Northern Ireland Consolidated Fund
Northern Ireland Construction Industry Training Board
Northern Ireland Council for the Curriculum, Examinations and Assessment
Northern Ireland Court Service
Northern Ireland Fire and Rescue Service
Northern Ireland Fishery Harbour Authority
Northern Ireland Legal Services Commission
Northern Ireland Library Authority
Northern Ireland Local Government Officers Superannuation Committee
Northern Ireland Medical and Dental Training Agency
*Northern Ireland National Insurance Fund
Northern Ireland Office
Northern Ireland Regional Medical Physics Agency
Northern Ireland Screen Commission
Northern Ireland Tourist Board
Nuclear Decommissioning Authority
Nuclear Liabilities Fund
*Office for National Statistics
Office for Standards in Education, Children's Services and Skills
Office of Fair Trading
Office of Gas and Electricity Markets
Office of Rail Regulation
Office of the First Minister and Deputy First Minister - Northern Ireland
Office of the Information Commissioner
Olympic Delivery Authority
Olympic Lottery Distribution Fund
Olympic Lottery Distributor
One North East
Ordinary Deposit Account - National Savings
Partnerships for Schools
Personal Accounts Delivery Authority
Police Pension Scheme - Northern Ireland Office
Police Service of Northern Ireland
Postal Services Commission
Privy Council Office
Probation Board for Northern Ireland
Public Works Loans Board
Qualifications and Curriculum Authority
Quality Improvement Agency
Research Councils Pension Scheme
Research Councils Shared Service Centre
Revenue and Customs Prosecutions Office
Royal Air Force Museum
Royal Armouries Museum
Royal Botanic Garden, Edinburgh
Royal Botanic Gardens, Kew
Royal Hospital, Chelsea
School Food Trust
*Science and Technology Facilities Council
Scottish Arts Council
Scottish Childrens Reporter Administration
Scottish Commission for the Regulation of Care
Scottish Consolidated Fund
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Funding Council
Scottish Government
Scottish Legal Aid Board
Scottish Natural Heritage
Scottish NHS Pension Scheme
Scottish Police Services Authority
Scottish Qualifications Authority
Scottish Teachers Pension Scheme
SeaFish Industry Authority
Security and Intelligence Agencies
Security Industry Authority
Serious Fraud Office
Serious Organised Crime Agency
South East England Development Agency
South Eastern Education and Library Board - Northern Ireland
South West England Development Agency
Southern Education and Library Board - Northern Ireland
Sport England
Sport England Lottery
Sport Scotland
Sports Council for Northern Ireland
Sports Council for Northern Ireland Lottery Distribution Account
Sports Council for Wales
Sports Council for Wales National Lottery
Strategic Investment Board
Student Loans Company Ltd
Tate Gallery
Teachers' Pension Scheme (England & Wales)
*Teachers Superannuation Scheme Statements - Northern Ireland
Technology Strategy Board
Tenant Services Authority
The Crown Prosecution Service
The National Archives
The Pensions Regulator
The Valuation Tribunal Service
Thurrock Urban Development Corporation
Training and Development Agency for Schools
UK Commission for Employment and Skills
UK Film Council
UK Sport

UK Trade & Investment
Ulster Supported Employment Limited - Northern Ireland
United Kingdom Atomic Energy Authority
University for Industry
Vehicle Excise Duty
Victoria and Albert Museum
Visit Britain
Visit Scotland
Wales Centre for Health
Wallace Collection
Water Services Regulation Authority
Welsh Assembly Government
Welsh Consolidated Fund
Welsh Language Board
Welsh Levy Board
West Northants Urban Development Corporation
Western Education and Library Board - Northern Ireland
Yorkshire Forward
Youth Justice Board for England and Wales

English National Health Service Trusts

5 Boroughs Partnership NFT
Airedale NFT
Ashford and St Peter's Hospitals NFT
Avon and Wiltshire Mental Health Partner NFT
Barking, Havering and Redbridge Hospital NFT
Barnet and Chase Farm Hospitals NFT
Barnet, Enfield and Haringey Mental Health NFT
Barts and The London NFT
Bedford Hospitals NFT
Bedfordshire and Luton Community NFT
Birmingham and Solihull Mental Health NFT
Black Country Mental Health NFT
Blackburn, Hyndburn and Ribble Valley Health NFT
Bolton Hospitals NFT
Bradford District Care Trust NFT
Brighton and Sussex University Hospitals NFT
Bromley Hospitals NFT
Buckinghamshire Hospitals NFT
Burnley Health Care NFT
Burton Hospitals NFT
Calderstones NFT
Cambridgeshire and Peterborough Mental Health NFT
Central Manchester and Manchester Children’s University Hospitals NFT
Chorley and South Ribble NFT
Community Health Sheffield NFT
Cornwall Partnership NFT
Coventry and Warwickshire Partnership NHS Trust
Dartford and Gravesham NFT
Derbyshire Mental Health Services NFT
Devon Partnership NFT
Doncaster and South Humber Healthcare NFT
Dudley Group of Hospitals NFT
Ealing Hospital NFT
East And North Hertfordshire NFT
East Cheshire NFT
East Kent Hospitals NFT
East Kent NHS and Social Care Partnership NFT
East Lancashire Hospitals NFT
East Midlands Ambulance Service NHS Trust
East of England Ambulance Service NHS Trust
East Sussex County Healthcare NFT
East Sussex Hospitals NFT
Epsom and St Helier University Hospitals NFT
Essex Rivers Healthcare NFT
George Eliot Hospital NFT
Good Hope Hospital NFT
Great Ormond Street Hospital NFT
Great Western Ambulance Service NHS Trust
Hammersmith Hospitals NFT
Hereford Hospitals NFT
Hinchingbrooke Health Care NFT
Hull and East Riding Community Health NFT
Hull and East Yorkshire Hospitals NFT
Ipswich Hospital NFT
Isle of Wight Healthcare NFT
Kettering General Hospital NFT
Kings Lynn and Wisbech Hospitals NFT
Kingston Hospital NFT
Leeds Teaching Hospitals NFT
Leicestershire Partnership NFT
Local Health Partnerships NFT
London Ambulance Service NFT
Maidstone and Tunbridge Wells NFT
Manchester Mental Health and Social Care NFT
Mayday Healthcare NFT
Mental Health Services of Salford NFT
Mersey Care NFT
Mid Essex Hospital Services NFT
Mid Yorkshire Hospitals NFT
Morecambe Bay Hospitals NFT
New Possibilities NFT
Newham Healthcare NFT
NHS Direct
Norfolk and Norwich University Hospital NFT
North Bristol NFT
North Cheshire Hospitals NFT
North Cumbria Acute Hospitals NFT
North Durham Health Care NFT
North East Ambulance Service NHS Trust
North East London Mental Health NFT
North Middlesex University Hospital NFT
North Staffordshire Combined Healthcare NFT
North West Ambulance Service NHS Trust

North West London Hospitals NFT
North West Surrey Mental Health NHS Partnership NFT
Northampton General Hospital NFT
Northamptonshire Healthcare NFT
Northern Birmingham Mental Health NFT
Northern Devon Healthcare NFT
Nottinghamshire Healthcare NFT
Nuffield Orthopaedic Centre NFT
Oxford Radcliffe Hospitals NFT
Oxfordshire Learning Disability NFT
Pennine Acute Hospitals NFT
Pennine Care NFT
Plymouth Hospitals NFT
Poole Hospitals NFT
Portsmouth Hospitals NFT
Preston Acute Hospitals NFT
Queen Elizabeth Hospital NFT
Queen Mary's Sidcup NFT
Robert Jones and Agnes Hunt Orthopaedic NFT
Royal Brompton and Harefield NFT
Royal Cornwall Hospitals NFT
Royal Free Hampstead NFT
Royal Liverpool and Broadgreen University Hospital NFT
Royal Liverpool Childrens NFT
Royal National Orthopaedic Hospital NFT
Royal Shrewsbury Hospitals NFT
Royal Surrey County Hospital NFT
Royal United Hospital Bath NFT
Royal West Sussex NFT
Sandwell and West Birmingham Hospitals NFT
Sandwell Mental Health NHS and Social Care NFT
Scarborough and North East Yorkshire Health Care NFT
Sheffield Care Trust NFT
Shrewsbury and Telford Hospitals NFT
Somerset Partnership NHS and Social Care NFT
South Birmingham Mental Health NFT
South Central Ambulance Service NHS Trust
South Downs Health NFT
South Durham Health Care NFT
South East Coast Ambulance Service NHS Trust
South Tees Hospitals NFT
South Warwickshire General Hospitals NFT
South West Ambulance Service NHS Trust
South West London and St George's Mental NFT
South West Yorkshire Mental Health NFT
Southampton University Hospitals NFT
Southern Derbyshire Acute Hospitals NFT
Southport and Ormskirk Hospital NFT
St George's Healthcare NFT
St Helens and Knowsley Hospitals NFT
St Mary's NFT
Surrey and Sussex Healthcare NFT
Surrey Hampshire Borders NFT
Surrey Oaklands NFT
Sussex Partnership NHS Trust
Swindon and Marlborough NFT
Tees and North East Yorkshire NHS Trust
Tees, Esk And Wear Valleys NHS Trust
The Cardiothoracic Centre - Liverpool NFT
The Hillingdon Hospital NFT
The Lewisham Hospital NFT
The Princess Alexandra Hospital NFT
The Princess Royal Hospital NFT
The Royal Wolverhampton Hospitals NFT
The Whittington Hospital NFT
Trafford Healthcare NFT
United Bristol Healthcare NFT
United Lincolnshire Hospitals NFT
University Hospital of North Staffordshire NFT
University Hospitals Coventry and Warwickshire NFT
University Hospitals of Leicester NFT
Walsall Hospitals NFT
Walton Centre for Neurology and Neurosurgery NFT
West Dorset General Hospitals NFT
West Hampshire NFT
West Hertfordshire Hospitals NFT
West Kent NHS and Social Care NFT
West London Mental Health NFT
West Middlesex University NFT
West Midlands Ambulance Service NHS Trust
West Suffolk Hospitals NFT
West Sussex Health and Social Care NFT
Weston Area Health NFT
Whipps Cross University Hospital NFT
Winchester and Eastleigh Healthcare NFT
Wolverhampton Health Care NFT
Worcestershire Acute Hospitals NFT
Worcestershire Mental Health Partnership NFT
Worthing and Southlands Hospitals NFT
Wrightington, Wigan and Leigh NFT
Yorkshire Ambulance Service NHS Trust

English National Health Services Foundation Trusts

Aintree Hospitals NHS Foundation Trust
Alder Hey Children's NHS Foundation Trust
Barnsley District General Hospital Foundation Trust
Basildon & Thurrock University Hospitals Foundation Trust
Basingstoke and North Hampshire Hospitals Foundation Trust
Berkshire Healthcare Foundation Trust
Birmingham and Solihull Mental Health NHS Foundation Trust

Birmingham Children's Hospital Foundation Trust
Birmingham Women's Foundation Trust
Blackpool Fylde and Wyre Hospitals Foundation Trust
Bradford Teaching Hospitals Foundation Trust
Burton Hospitals NHS Foundation Trust
Calderdale and Huddersfield Foundation Trust
Cambridge University Hospitals Foundation Trust
Cambridgeshire and Peterborough NHS Foundation Trust
Camden and Islington Foundation Trust
Central and North West London Foundation Trust
Central Manchester University Hospitals NHS Foundation Trust
Chelsea and Westminster Healthcare Foundation Trust
Cheshire and Wirral Partnership Foundation Trust
Chesterfield and North Derbyshire Royal Foundation Trust
Christie Hospital Foundation Trust
City Hospitals Sunderland Foundation Trust
Clatterbridge Centre for Oncology Foundation Trust
Colchester Hospital University NHS Foundation Trust
Countess of Chester Hospital Foundation Trust
County Durham and Darlington Acute Hospital Foundation Trust
Cumbria Partnership NHS Foundation Trust
Derby Hospitals Foundation Trust
Doncaster and Bassetlaw Hospitals Foundation Trust
Dorset County Hospital Foundation Trust
Dorset Healthcare Foundation Trust
East Kent Hospitals University NHS Foundation Trust
East London and City Mental Health Foundation Trust
Frimley Park Hospital Foundation Trust
Gateshead Health Foundation Trust
Gloucestershire Hospitals Foundation Trust
Gloucestershire Partnership Foundation Trust
Great Western Hospitals NHS Foundation Trust
Greater Manchester West Mental Health Foundation Trust
Guy's and St Thomas' Foundation Trust
Harrogate Health Care Foundation Trust
Heart of England Foundation Trust
Heatherwood and Wexham Park Hospitals Foundation Trust
Hertfordshire Partnership Foundation Trust
Homerton University Hospital Foundation Trust
James Paget Healthcare Foundation Trust
Kettering General Hospital NHS Foundation Trust
King's College Hospital Foundation Trust
Lancashire Care Foundation Trust
Lancashire Teaching Hospitals Foundation Trust
Leeds Partnerships Foundation Trust
Lincolnshire Partnership Foundation Trust
Liverpool Womens Hospital Foundation Trust
Luton and Dunstable Hospital Foundation Trust
Medway NHS Foundation Trust
Mid Cheshire Hospitals NHS Foundation Trust
*Mid Staffordshire Foundation Trust
Milton Keynes Hospital Foundation Trust
Moorfields Eye Hospital Foundation Trust
Norfolk and Norwich University Hospitals NHS Foundation Trust
Norfolk and Waveney Mental Health Foundation Trust
North East London NHS Foundation Trust
North Essex Partnership Foundation Trust
North Tees and Hartlepool Foundation Trust
Northern Lincolnshire and Goole Hospitals Foundation Trust
Northumbria Health Care Foundation Trust
Oxfordshire and Buckinghamshire Mental Health NHS Foundation Trust
Oxleas Foundation Trust
Papworth Hospital Foundation Trust
Pennine Care NHS Foundation Trust
Peterborough and Stamford Hospitals Foundation Trust
Poole Hospital Foundation Trust
Rotherham Doncaster and South Humber Mental Health Foundation Trust
Rotherham General Hospitals Foundation Trust
Royal Berkshire and Battle Hospitals Foundation Trust
Royal Bolton Hospital NHS Foundation Trust
Royal Bournemouth and Christchurch Hospital Foundation Trust
Royal Devon & Exeter NHS Foundation Trust
Royal National Hospital for Rheumatic Diseases Foundation Trust
Royal Orthopaedic Hospital Foundation Trust
Salford Royal Hospitals Foundation Trust
Salisbury Health Care Foundation Trust
Sandwell Mental Health and Social Care NHS Foundation Trust
Sheffield Children's Hospital Foundation Trust
Sheffield Health & Social Care NHS Foundation Trust
Sheffield Teaching Hospitals Foundation Trust
Sherwood Forest Hospitals Foundation Trust
Somerset Partnership NHS Foundation Trust
South Devon Healthcare NHS Foundation Trust
South Essex Partnership Foundation Trust
South London and Maudsley Foundation Trust
South Staffordshire Healthcare Foundation Trust
South Tyneside Health Care Foundation Trust
Southend Hospital Foundation Trust
Stockport NHS Trust Foundation Trust
Surrey and Borders Partnership NHS Foundation Trust
Sussex Partnership NHS Foundation Trust
Tameside Hospital Foundation Trust
Taunton and Somerset Foundation Trust
Tavistock and Portman Foundation Trust

Tees, Esk and Wear Valleys NHS Foundation Trust
The Dudley Group of Hospitals NHS Foundation Trust
The Newcastle upon Tyne Hospitals Foundation Trust
The Queen Victoria Hospital Foundation Trust
The Royal Marsden Foundation Trust
University College London Hospital Foundation Trust
University Hospital Birmingham Foundation Trust
University Hospital of South Manchester Foundation Trust
University Hospitals Bristol NHS Foundation Trust
Warrington and Halton Hospitals NHS Foundation Trust
Wirral University Teaching Hospital Foundation Trust
Wrightington, Wigan and Leigh NHS Foundation Trust
Yeovil District Hospital Foundation Trust
York Hospitals Foundation Trust

Northern Irish Health and Social Care Trusts

Belfast Health and Social Care Trust
Northern Health and Social Care Trust
South Eastern Health and Social Care Trust
Southern Health and Social Care Trust
Western Health and Social Care Trust
NI Ambulance Service HSS Trust
Northern Ireland Central Services Agency for the Health and Social Services

Welsh National Health Service Trusts

Abertawe Bro Morgannwg University NHS Trust
Bro Morgannwg
Cardiff and Vale
Carmarthenshire NHS Trust
Ceredigion and Mid Wales
Conwy and Denbighshire
Cwm Taf NHS Trust
Gwent Healthcare
Hywel Dda NHS Trust
North East Wales
North Glamorgan
North Wales NHS Trust
North West Wales
Pembrokeshire & Derwen
Pontypridd and Rhondda
Swansea NHS Trust
Velindre
Welsh Ambulance Services

Local Government – England

Adur District Council
Allerdale Borough Council
Alnwick District Council
Amber Valley Borough Council
*Arun District Council
Ashfield District Council
Ashford Borough Council
Avon and Somerset Police Authority
Avon Fire Authority
Aylesbury Vale District Council
Babergh District Council
Barking & Dagenham London Borough Council
Barnet London Borough Council
Barnsley Metropolitan Borough Council
Barrow-in-Furness Borough Council
Basildon District Council
Basingstoke and Deane Borough Council
Bassetlaw District Council
Bath & North East Somerset Council
Bedford Borough Council
Bedfordshire and Luton Fire Authority
Bedfordshire County Council
Bedfordshire Police Authority
Berwick-upon-Tweed Borough Council
Bexley London Borough Council
Birmingham City Council
Blaby District Council
Blackburn with Darwen Borough Council
Blackpool Borough Council
Blyth Valley Borough Council
Bolsover District Council
Bolton Metropolitan Borough Council
Boston Borough Council
Bournemouth Council
Bracknell Forest Borough Council
Bradford City Council
Braintree District Council
Breckland District Council
Brent London Borough Council
*Brentwood Borough Council
Bridgnorth District Council
Brighton & Hove City Council
Bristol City Council
Broadland District Council
Broads Authority (The)
Bromley London Borough Council
Bromsgrove District Council
Broxbourne Borough Council
Broxtowe Borough Council
Buckinghamshire and Milton Keynes Fire Authority
Buckinghamshire County Council
Burnley Borough Council
Bury Metropolitan Borough Council
Calderdale Metropolitan Borough Council
Cambridge City Council
Cambridgeshire and Peterborough Fire Authority
Cambridgeshire County Council

Cambridgeshire Police Authority
Camden London Borough Council
Cannock Chase District Council
Canterbury City Council
Caradon District Council
Carlisle City Council
Carrick District Council
Castle Morpeth Borough Council
Castle Point Borough Council
Charnwood Borough Council
Chelmsford Borough Council
Cheltenham Borough Council
Cherwell District Council
Cheshire County Council
Cheshire Fire Authority
Cheshire Police Authority
Chester City Council
Chesterfield Borough Council
Chester-le-Street District Council
Chichester District Council
Chiltern District Council
Chorley Borough Council
Christchurch Borough Council
City of York Council
Cleveland Fire Authority
Cleveland Police Authority
Colchester Borough Council
Common Council of the City of London
Congleton Borough Council
Copeland Borough Council
Corby Borough Council
Cornwall County Council
Cotswold District Council
County Durham and Darlington Fire and Rescue Authority
Coventry City Council
Craven District Council
Crawley Borough Council
Crewe & Nantwich Borough Council
Croydon London Borough Council
Cumbria County Council
Cumbria Police Authority
Dacorum Borough Council
Darlington Borough Council
Dartford Borough Council
Dartmoor National Park Authority
Daventry District Council
Derby City Council
Derbyshire County Council
Derbyshire Dales District Council
Derbyshire Fire Authority
Derbyshire Police Authority
Derwentside District Council
Devon and Cornwall Police Authority
Devon County Council
Devon & Somerset Fire and Rescue Authority
Doncaster Metropolitan Borough Council
Dorset County Council
Dorset Fire Authority
Dorset Police Authority
Dover District Council
Dudley Metropolitan Borough Council
Durham City Council
Durham County Council
Durham Police Authority
Ealing London Borough Council
Easington District Council
East Cambridgeshire District Council
East Devon District Council
East Dorset District Council
East Hampshire District Council
East Hertfordshire District Council
East Lindsey District Council
East London Waste Authority
East Northamptonshire District Council
East Riding of Yorkshire Council
East Staffordshire Borough Council
East Sussex County Council
East Sussex Fire Authority
Eastbourne Borough Council
Eastleigh Borough Council
Eden District Council
Ellesmere Port and Neston Borough Council
Elmbridge Borough Council
Enfield London Borough Council
Epping Forest District Council
Epsom and Ewell Borough Council
Erewash Borough Council
Essex County Council
Essex Fire Authority
Essex Police Authority
Exeter City Council
Exmoor National Park Authority
Fareham Borough Council
Fenland District Council
Forest Heath District Council
Forest of Dean District Council
Fylde Borough Council
Gateshead Council
Gedling Borough Council
Gloucester City Council
Gloucestershire County Council
Gloucestershire Police Authority
Gosport Borough Council
Gravesham Borough Council
Great Yarmouth Borough Council
Greater London Authority
Greater Manchester Fire and Civil Defence Authority

Greater Manchester Passenger Transport Authority
Greater Manchester Police Authority
Greater Manchester Waste Disposal Authority
Greenwich London Borough Council
Guildford Borough Council
Hackney London Borough Council
Halton Borough Council
Hambleton District Council
Hammersmith and Fulham London Borough Council
Hampshire County Council
Hampshire Fire and Rescue Authority
Hampshire Police Authority
Harborough District Council
Haringey London Borough Council
Harlow District Council
Harrogate Borough Council
Harrow London Borough Council
Hart District Council
Hartlepool Borough Council
Hastings Borough Council
Havant Borough Council
Havering London Borough Council
Hereford and Worcester Fire and Rescue Authority
Herefordshire Council
Hertfordshire County Council
Hertfordshire Police Authority
Hertsmere Borough Council
High Peak Borough Council
Hillingdon London Borough Council
Hinckley and Bosworth Borough Council
Horsham District Council
Hounslow London Borough Council
Humberside Fire Authority
Humberside Police Authority
Huntingdonshire District Council
Hyndburn Borough Council
Ipswich Borough Council
Isle of Wight Council
Isles of Scilly (Council of the)
Islington London Borough Council
Kennet District Council
Kensington and Chelsea Council (Royal Borough of)
Kent and Medway Fire and Rescue Authority
Kent County Council
Kent Police Authority
Kerrier District Council
Kettering Borough Council
Kings Lynn and West Norfolk Borough Council
Kingston upon Hull City Council
Kingston upon Thames Council (Royal Borough of)
Kirklees Metropolitan Council
Knowsley Metropolitan Borough Council
Lake District National Park Authority
Lambeth London Borough Council
Lancashire County Council
Lancashire Fire Authority
Lancashire Police Authority
Lancaster City Council
Lee Valley Regional Park Authority
Leeds City Council
Leicester City Council
Leicester, Leicestershire and Rutland Combined Fire Authority
Leicestershire County Council
Leicestershire Police Authority
Lewes District Council
Lewisham London Borough Council
Lichfield District Council
Lincoln City Council
Lincolnshire County Council
Lincolnshire Police Authority
Liverpool City Council
London Development Agency
London Fire and Emergency Planning Authority
Luton Borough Council
Macclesfield Borough Council
Maidstone Borough Council
Maldon District Council
Malvern Hills District Council
Manchester City Council
Mansfield District Council
Medway Council
Melton Borough Council
Mendip District Council
Merseyside Fire and Civil Defence Authority
Merseyside Passenger Transport Authority
Merseyside Police Authority
Merseyside Waste Disposal Authority
Merton Borough Council
Metropolitan Police Authority
Mid Bedfordshire District Council
Mid Devon District Council
Mid Suffolk District Council
Mid Sussex District Council
Middlesbrough Council
Milton Keynes Council
Mole Valley District Council
Museum of London
New Forest District Council
New Forest National Park Authority
Newark and Sherwood District Council
Newcastle upon Tyne City Council
Newcastle-under-Lyme Borough Council
Newham London Borough Council
Norfolk County Council
Norfolk Police Authority
North Cornwall District Council
North Devon District Council

North Dorset District Council
North East Derbyshire District Council
North East Lincolnshire Council
North Hertfordshire District Council
North Kesteven District Council
North Lincolnshire Council
North London Waste Authority
North Norfolk District Council
North Shropshire District Council
North Somerset Council
North Tyneside Metropolitan Borough Council
North Warwickshire Borough Council
North West Leicestershire District Council
North Wiltshire District Council
North York Moors National Park Authority
North Yorkshire County Council
North Yorkshire Fire and Rescue Authority
North Yorkshire Police Authority
Northampton Borough Council
Northamptonshire County Council
Northamptonshire Police Authority
*Northumberland County Council
Northumberland National Park Authority
Northumbria Police Authority
Norwich City Council
Nottingham City Council
Nottinghamshire and City of Nottingham Fire and Rescue Authority
Nottinghamshire County Council
Nottinghamshire Police Authority
Nuneaton and Bedworth Borough Council
Oadby and Wigston Borough Council
Oldham Metropolitan Borough Council
Oswestry Borough Council
Oxford City Council
Oxfordshire County Council
Peak District National Park Authority
Pendle Borough Council
Penwith District Council
Peterborough City Council
Plymouth City Council
Poole (Borough of)
Portsmouth City Council
Preston City Council
Purbeck District Council
Reading Borough Council
Redbridge London Borough Council
Redcar and Cleveland Borough Council
Redditch Borough Council
Reigate and Banstead Borough Council
Restormel Borough Council
Ribble Valley Borough Council
Richmond upon Thames Borough Council
Richmondshire District Council
Rochdale Borough Council
Rochford District Council
Rossendale Borough Council
Rother District Council
Rotherham Borough Council
Royal Berkshire Fire Authority
Rugby Borough Council
Runnymede Borough Council
Rushcliffe Borough Council
Rushmoor Borough Council
Rutland County Council
Ryedale District Council
Salford City Council
Salisbury District Council
Sandwell Metropolitan Borough Council
Scarborough Borough Council
Sedgefield Borough Council
Sedgemoor District Council
Sefton Metropolitan Borough Council
Selby District Council
Sevenoaks District Council
Sheffield City Council
Shepway District Council
Shrewsbury and Atcham Borough Council
Shropshire and Wrekin Fire Authority
Shropshire County Council
Slough Borough Council
Solihull Metropolitan Borough Council
Somerset County Council
South Bedfordshire District Council
South Bucks District Council
South Cambridgeshire District Council
South Derbyshire District Council
South Gloucestershire Council
South Hams District Council
South Holland District Council
South Kesteven District Council
South Lakeland District Council
South Norfolk District Council
South Northamptonshire Council
South Oxfordshire District Council
South Ribble Borough Council
South Shropshire District Council
South Somerset District Council
South Staffordshire District Council
South Tyneside Council
South Yorkshire Fire and Civil Defence Authority
South Yorkshire Passenger Transport Authority
South Yorkshire Police Authority
Southampton City Council
Southend-on-Sea Borough Council
Southwark London Borough Council
Spelthorne Borough Council
St Albans City and District Council

St Edmundsbury Borough Council
St Helens Metropolitan Borough Council
Stafford Borough Council
Staffordshire County Council
Staffordshire Moorlands District Council
Staffordshire Police Authority
Stevenage Borough Council
Stockport Metropolitan Borough Council
Stockton-on-Tees Borough Council
Stoke-on-Trent and Staffordshire Fire Authority
Stoke-on-Trent City Council
Stratford-on-Avon District Council
Stroud District Council
Suffolk Coastal District Council
Suffolk County Council
Suffolk Police Authority
Sunderland City Metropolitan Borough Council
Surrey County Council
Surrey Heath Borough Council
Surrey Police Authority
Sussex Police Authority
Sutton London Borough Council
Swale Borough Council
Swindon Borough Council
Tameside Metropolitan Borough Council
Tamworth Borough Council
Tandridge District Council
Taunton Deane Borough Council
Teesdale District Council
Teignbridge District Council
Telford and Wrekin (Borough of)
Tendring District Council
Test Valley Borough Council
Tewkesbury Borough Council
Thames Valley Police Authority
Thanet District Council
Three Rivers District Council
Thurrock Borough Council
Tonbridge and Malling Borough Council
Torbay Council
Torridge District Council
Tower Hamlets London Borough Council
Trafford Metropolitan Borough Council
Transport for London
Tunbridge Wells Borough Council
Tyne & Wear Passenger Transport Authority
Tyne and Wear Fire and Civil Defence Authority
Tynedale District Council
Uttlesford District Council
Vale of White Horse District Council
Vale Royal Borough Council
Wakefield City Council
Walsall Metropolitan Borough Council
Waltham Forest London Borough Council
Wandsworth London Borough Council
Wansbeck District Council
Warrington Borough Council
Warwick District Council
Warwickshire County Council
Warwickshire Police Authority
Watford Borough Council
Waveney District Council
Waverley Borough Council
Wealden District Council
Wear Valley District Council
Wellingborough Borough Council
Welwyn Hatfield District Council
West Berkshire Council
West Devon Borough Council
West Dorset District Council
West Lancashire District Council
West Lindsey District Council
West London Waste Authority
West Mercia Police Authority
West Midlands Fire and Civil Defence Authority
West Midlands Passenger Transport Authority
West Midlands Police Authority
West Oxfordshire District Council
West Somerset District Council
West Sussex County Council
West Wiltshire District Council
West Yorkshire Fire and Civil Defence Authority
West Yorkshire Passenger Transport Authority
West Yorkshire Police Authority
Western Riverside Waste Authority
Westminster City Council
Weymouth and Portland Borough Council
Wigan Metropolitan Borough Council
Wiltshire and Swindon Fire Authority
Wiltshire County Council
Wiltshire Police Authority
Winchester City Council
Windsor and Maidenhead (Royal Borough of)
Wirral Metropolitan Borough Council
Woking Borough Council
Wokingham Council
Wolverhampton City Council
Worcester City Council
Worcestershire County Council
Worthing Borough Council
Wychavon District Council
Wycombe District Council
Wyre Borough Council
Wyre Forest District Council
Yorkshire Dales National Park Authority

Local Government – Northern Ireland

Antrim Borough Council
ARC Joint Committee
Ards Borough Council
Armagh City & District Council
Ballymena Borough Council
Ballymoney Borough Council
Banbridge District Council
Belfast City Council
Carrickfergus Borough Council
Castlereagh Borough Council
Coleraine Borough Council
Cookstown District County Council
Craigavon Borough Council
Derry City Council
Down District Council
Dungannon District Council
Fermanagh District Council
Larne Borough Council
Limavady Borough Council
Lisburn Borough Council
Magherafelt District Council
Moyle District Council
Newry and Mourne District Council
Newtownabbey Borough Council
North Down Borough Council
Omagh District Council
Strabane District Council

Local Government – Scotland

Aberdeen City Council
Aberdeenshire Council
Angus Council
Argyll and Bute Council
Central Scotland Fire and Rescue service
Central Scotland Police
Clackmanannshire Council
Dumfries and Galloway Council
Dundee City Council
East Ayrshire Council
East Dunbartonshire Council
East Lothian Council
East Renfrewshire Council
Edinburgh City Council
Falkirk Council
Fife Council
Glasgow City Council
Grampian Fire and Rescue Service
Grampian Police
Highland Council
Highlands & Islands Fire Brigade
Inverclyde Council
Lothian and Borders Police
Lothian and Borders Fire and Rescue Service
Midlothian Council
Moray Council
North Ayrshire Council
North Lanarkshire Council
Northern Constabulary
Orkney Islands Council
Perth and Kinross Council
Renfrewshire Council
Scottish Borders Council
*Shetland Islands Council
South Ayrshire Council
South Lanarkshire Council
South-East of Scotland Transport Partnership
Stirling Council
Strathclyde Fire and Rescue Service
Strathclyde Partnership for Transport
Strathclyde Police
Tayside Fire and Rescue Service
Tayside Police
West Dunbartonshire Council
West Lothian Council
Western Isles Council

Local Government - Wales

Blaenau Gwent County Borough Council
Brecon Beacons National Park Authority
Bridgend County Borough Council
Caerphilly County Borough Council
Cardiff City and County Council
Carmarthenshire County Council
Ceredigion County Council
Conwy County Borough Council
Denbighshire County Council
Dyfed Powys Police Authority
Flintshire County Council
Gwent Police Authority
Gwynedd County Council
Isle of Anglesey County Council
Merthyr Tydfil County Borough Council
Mid and West Wales Fire Authority
Monmouthshire County Council
Neath Port Talbot County Borough Council
Newport City Council
North Wales Fire Authority
North Wales Police Authority
Pembrokeshire Coast National Park Authority
Pembrokeshire County Council
Powys County Council
Rhondda Cynon Taff County Borough Council
Snowdonia National Park Authority
South Wales Fire Authority
South Wales Police Authority
Swansea City and County Council

Torfaen County Borough Council
Vale of Glamorgan County Council
Wrexham County Borough Council

Public Corporations, Trading Funds and Public Broadcasting

Audit Commission
British Broadcasting Corporation
British Council
British Nuclear Fuels plc
British Waterways Board
Buying Solutions
Caledonian MacBrayne Limited
Central Office of Information
Centro (West Midlands Passenger Transport Executive)
Channel Four Television Corporation
Civil Aviation Authority
Commonwealth Development Corporation
Companies House
David MacBrayne Ltd
Defence Science and Technology Laboratory
Defence Support Group
Driver and Vehicle Testing Agency - Northern Ireland
Driving Standards Agency
FCO Services
Fire Service College
Forensic Science Service
Forest Enterprise Agency
General Lighthouse Fund
General Teaching Council
General Teaching Council for Wales
Greater Manchester Passenger Transport Executive
Greenwich Hospital
Horserace Totalisator Board (Tote)
Medicines Healthcare Products Regulatory Agency
Merseytravel (Merseyside Passenger Transport Executive)
Meteorological Office
Metro (West Yorkshire Passenger Transport Executive)
Nexus (Tyne & Wear Passenger Transport Executive)
NHS Blood and Transplant
NHS Professionals
*Northern Ireland Housing Executive
Northern Ireland Transport Holding Company
Northern Ireland Water
Northern Lighthouse Board
The Office of Communications (OFCOM)
Ordnance Survey
Patent Office
Plasma Resources UK Ltd
Registers of Scotland
Remploy Ltd
Royal Mail Holdings plc
Royal Mint
Scottish Water
South Yorkshire Passenger Transport Executive
UK Hydrographic Office
Vehicle and Operator Services Agency
Welsh Fourth Channel Authority

Academies

Abraham Darby Academy
Academy 360
Accrington Academy
All Saints Academy Dunstable
Appleton Academy
Archbishop Sentamu Academy
Ark Academy
Ashcroft Technology Academy
Aylesbury Vale Academy
Bacons College
Barnet City Academy
Barnfield South Academy
Barnfield West Academy
Barnsley Academy
Basildon Lower Academy
Basildon Upper Academy
Bede Academy
Belevedere Academy
Bexley Business Academy
Birkenhead High School Academy
Bolton St Catherine's Academy
Bradford Academy Trust
Bridge Academy, Hackney
Bristol Brunel Academy
Bristol Cathedral Choir School
Bristol Metropolitan Academy
Brit School Ltd
Brooke Weston Trust
Bulwell Academy Trust
Burlington Danes Academy
Bushey Academy
Capital City Academy Trust
Castle View Enterprise Academy
Charter Academy
Chelsea Academy
City Academy Bristol
City Academy Hackney
City Academy Norwich
City of London Academy (Southwark)
City of London Academy Islington Ltd
City of Wolverhampton Academy Trust
Clacton Coastal Academy
Colstons Girls School Academy
Corby Academy

Cornwallis Academy
Crest Boys Academy
Crest Girls Academy
CTC Kingshurst Academy
Darwen Academy Trust
David Young Community Academy
De Warenne Academy
Dixons Allerton Academy
Dixons City Academy
Djanogly City Academy, Nottingham
Droylsden Academy
Eastbourne Church of England Academy Limited
Emmanuel College
Essa Academy
Evelyn Grace Academy
Excelsior Academy, Newcastle
Folkestone Academy
Francis Combe Academy
Fulwood Academy
Furness Academy
Future Academies
Gateway Academy
George Salter Collegiate Academy
Globe Academy
Grace Academy Coventry
Grace Academy Darlaston
Grace Academy Solihull
Greensward Academy
Greig City Academy
Haberdashers' Aske's Crayford Academy
Haberdashers' Aske's Hatcham College Academy
Haberdashers' Aske's Knights Academy
Harefield Academy Trust
Harris Academy at Peckham
Harris Academy Bermondsey
Harris Academy Merton
Harris Academy Purley
Harris Academy South Norwood
Harris Boys' Academy East Dulwich
Harris City Academy Crystal Palace
Harris City Academy Falconwood
Harris Girls' Academy East Dulwich
Havelock Academy
Heartlands Academy
Hereford Academy
Isle Of Sheppey Academy
John Cabot Academy
John Madejski Academy
Kensington Academy Trust
Kettering Buccleuch Academy
Kettering Science Academy
King Solomon Academy
King's Academy
Lambeth Academy
Landau Fort Academy
Langley Academy
Leeds West Academy
Leigh Technology Academy
Littlehampton Academy
Longfield Academy
Macmillan Academy
Madeley Academy Trust Limited
Maltby Academy
Malting's Academy
Manchester Academy
Manchester Creative and Media Academy
Manchester Enterprise Academy
Manchester Health Academy
Marlowe Academy
Marsh Academy
Merchants' Academy Withywood
Middleton Academy Limited
Midhurst Rother College
Milton Keynes Academy Trust
Mossbourne Community Academy
New Charter Academy
New Line Learning Academy
New Rickstone's Academy
North Birmingham Academy
North Liverpool Academy Ltd
North Oxfordshire Academy
Northampton Academy
Northumberland Church of England Academy
Nottingham Academy Trust
Nottingham University Samworth Academy
Oasis Academy Brightstowe
Oasis Academy Bristol
Oasis Academy Coulsdon
Oasis Academy Enfield
Oasis Academy Hadley
Oasis Academy Immingham
Oasis Academy Lord's Hill
Oasis Academy Mayfield
Oasis Academy MediaCity: UK
Oasis Academy Shirley Park
Oasis Academy Wintringham
Open Academy Heartsease
Ormiston Bushfield Academy
Ormiston Park Academy
Ormiston Sandwell Community Academy
Outwood Academy, Adwick
Outwood Grange Academy
Oxford Academy Trust
Paddington Academy
Park Hall Academy
Parkwood Academy
Petchey Academy
Priory Academy LSST

Priory City of Lincoln Academy
Priory Witham Academy
Quaerere Academy Trust
Red House Academy
*Richard Rose Central Academy
*Richard Rose Morton Academy
Ridings' Federation Winterbourne International Academy
Ridings' Federation Yate International Academy
RSA Academy at Tipton
Salford City Academy
Samworth Academy Leicester
Samworth Church Academy
Sandwell Academy Trust Limited
Sheffield Park Academy
Sheffield Springs Academy
Shelfield Community Academy
Shenley Academy
Shireland Collegiate Academy
Shoreham Academy
Sir Robert Woodard Academy
Sirius Academy
Skinners' Kent Academy
South Leeds Academy Trust
*Spires Academy
St Alban's Academy
St George's Academy trust
St Lawrence Academy, Scunthorpe
St Mark's Church of England Academy Trust
St Mary Magdalene Academy
St Matthew Academy
St Michael & All Angels Church of England Academy
St Paul's Academy
Steiner Academy, Hereford
Stockley Academy
Stockport Academy
Swindon Academy
Telford City Technology College Trust Limited
Thomas Deacon Academy
Trent Valley Academy
Trinity Academy
Tudor Grange Academy Worcester Trust
Unity City Academy Trust
University of Chester Church of England Academy, Ellesmere Port
Walsall City Academy Trust
Walthamstow Academy
Walworth Academy
Wellington Academy
West Lakes Academy
West London Academy
Westminster Academy
William Hulme's Grammar School Academy
Wren Academy

Annex 2: Entities that are not consolidated in WGA

The accounting policy for the WGA boundary set out in Note 1.2 is based on section 9(1) of the Government Resources and Accounts Act 2000 (GRAA) and the Government Financial Reporting Manual (FReM) which adapts IAS 27 to reflect the requirements of the GRAA. The GRAA requires HM Treasury to consolidate entities that appear to HM Treasury to "exercise functions of a public nature" or to be "substantially funded from public money". HM Treasury's decisions apply the GRAA and the FReM, taking into account the national accounts classification of entities to the public sector determined by Office for National Statistics (ONS). This is because the ONS consider the factors listed in the GRAA when making their classification decisions as well as taking account of the degree of control that government has over each entity. As a result the scope of WGA is similar to other fiscal measures, which enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances. It also provides a stable and consistent base for the WGA boundary, as ONS classification does not frequently change.

WGA entities that did not provide data or provided data of insufficient quality

A few small WGA entities were not consolidated in the 2009-10 WGA because they did not provide data or provided data of insufficient quality. In total, this did not have a material impact on WGA.

No data provided by:
- Academy 360
- Pimlico Academy
- Petchey Hackney Academy
- St Michaels and All Angels Academy
- Samworth Church Academy

Insufficient quality data from:
- Bradford Academy
- Corby Business Academy
- GDST Academies Trust
- Grace Academies
- Grace Academy Coventry
- Greig Academy
- Abraham Darby Academy
- Leigh Trust Academy
- St Mark's Academy
- Brooke Weston Academy
- Wren Academy
- Wellington Academy
- West London Academy
- Milton Keynes Academy
- Manchester Enterprise Academy
- Kingshurst Academy
- Barnfield South Academy

Entities that are minor

A number of small entities are not consolidated within the accounts on the basis of materiality. These minor entities are listed in Annex 3.

Entities that are not responsible to an executive arm of government

There are a few entities that would satisfy the criteria set out in the GRAA and are classified as public sector entities by ONS, but which HM Treasury, consistent with its legislative remit, has decided to exclude from WGA. This is because, whilst they are accountable to their respective Parliaments or assemblies, they are not responsible to an executive arm of the government, and therefore do not form part of "government". These entities, which are all relatively small in size, are listed below:

Electoral Commission
National Audit Office
Audit Scotland
Wales Audit Office
Northern Ireland Audit Office
Parliament
Parliamentary Ombudsman
The Crown Estate

Public sector financial institutions

There are a number of financial institutions that would satisfy the criteria set out in the GRAA and are classified as public sector entities by ONS: the Bank of England, the Royal Bank of Scotland, Lloyds Banking Group, Northern Rock plc, Northern Rock (Asset Management) plc, and Bradford and Bingley plc. These have not been fully consolidated in these accounts but instead are shown as investments.

The Bank of England will be fully consolidated for 2010-11. We propose over time to consolidate Northern Rock (Asset Management) plc and Bradford and Bingley into WGA, as they are expected to be a permanent part of government until their mortgage books have expired and therefore form a longer-term part of the public sector. The remaining banks will continue to be held as available-for-sale financial assets and liabilities. Their financial assets and liabilities have not been fully consolidated into these accounts, for reasons outlined in Note 37.

The summarised financial statements of all these institutions are disclosed in Note 37.

Other entities

In addition, some entities have been excluded for reasons specific to their circumstances. In these instances, their exclusion is under review and they may be consolidated within WGA in future.

A list of these entities is provided below:

Directly Operated Railways - to be included in 2011-12
Dunfermline Building Society - no government interest at 31 March 2010
East Coast Mainline Company Ltd - proposed to be included in 2010-11
Financial Reporting Council - under consideration for inclusion in future years
Financial Services Authority - expected to be wound down in 2012
Financial Services Compensation Scheme - proposed to be included in future – date to be agreed
Further Education Institutes - under consideration for inclusion in future years
Legacy Trust UK Ltd - small entity specifically created in preparation for the 2012 Olympics, expected to be wound down in 2012
Local Government Pension Schemes - under consideration for inclusion as separate entities in future years
London Continental Railways Ltd - to be included in 2010-11
Maintained Schools - not separately designated as net assets are usually included by local authorities
Municipal Ports - pragmatic exclusion as net assets are immaterial to WGA and expenditure reflected in WGA
NHS Charities - proposed to be included in 2011-12
Parish Councils - pragmatic exclusion as net assets are immaterial to WGA and expenditure reflected in WGA
Pension Protection Fund - proposed to be included in future – date to be agreed
Trust Ports - includes minor entities and a small number of entities which may be privatised in the near future

Network Rail

HM Treasury, consistent with the legislative WGA framework, has decided that WGA should not include bodies that are not classified to the public sector by the ONS. Of particular note, it does not include

Network Rail which is classified to the private sector. Given its close relationship with the public sector, additional information is provided below.

Network Rail Limited (Network Rail) is a private company limited by guarantee and parent company of the Network Rail Group of companies. It owns and operates the main rail network in Great Britain. Its primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on a commercial basis, Network Rail is a not-for-dividend company and all profits made are reinvested in the industry. Its members include the train operating companies and other stakeholders.

The Department for Transport has the lead responsibility for the Government's relationship with Network Rail, and the Secretary of State for Transport is a Special Member but has no rights to any dividend or other distribution.

The Department for Transport's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc by Network Rail, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the Department and Network Rail. The Department considers that the likelihood of Network Rail having to rely upon these letters for financial support is remote.

The Department has also provided a financial indemnity in support of Network Rail's Debt Issuance Programme which amounted to £23.8 billion at 31 March 2010. The indemnity is available until 2052. It also covers guarantees provided by Network Rail in respect of certain financial obligations.

The summary results of Network Rail for 2009-10 are shown below. Further information on Network Rail is available in its accounts which can be viewed at www.networkrail.co.uk.

Extracts from Network Rail Limited's Accounts for the Year Ended 31 March 2010

Extracts from the income statement	**£ billion**
Total income	5.7
Profit before taxation	0.4
Tax on profit of ordinary activities	(0.1)
Profit for the year	**0.3**
Extracts from the statement of financial position	
Total assets	41.7
Total liabilities	(35.7)
Net assets and shareholders' funds	**6.0**

Annex 3: Minor entities excluded from the consolidation

There are a number of entities within the public sector that are relatively small in size. Such entities are deemed minor entities and are considered too small to have any material impact on WGA. In order to be minor, they must satisfy certain tests which are reviewed annually. The entities listed below have not been consolidated into WGA for 2009-10 as they met the minor entity criteria.

Entity	Gross expenditure (£000s)	Property, plant & equipment (£000s)	Net assets (£000s)
Alcohol Education and Research Council	812	11,979	11,979
Appointments Commission	6,274	640	195
Armagh Planetarium and Observatory	2,062	9,119	6,629
Capital for Enterprise Ltd	3,070	137	78
Charity Commission for Northern Ireland	369	124	(5)
Children's Commissioner for Wales	1857	84	107
Churches Conservation Trust	6,036	584	1,529
Commission for Architecture and the Built Environment	29,224	1,186	1,182
Commission for Judicial Appointments	9,880	0	86
Commission for Rural Communities	6,450	514	(490)
Commission for the Compact Ltd	2,035	129	166
Commission for Victims and Survivors for Northern Ireland	1	0	0
Commissioner for Children and Young People for Northern Ireland	1,836	407	604
Commissioner for Older People in Wales	1,449	210	741
Committee on Climate Change	3,666	299	(585)
Competition Service	3,829	162	(1,174)
Consumer Council for Water	6,249	210	766
Council for Catholic Maintained Schools	5,596	32	(1,441)
Council for Healthcare Regulatory Excellence	2,609	96	291
Covent Garden Market Authority	(970)	8,820	14,414
Criminal Cases Review Commission	6,604	418	(5,573)
Criminal Justice Inspection Northern Ireland	1,475	283	303
Design Council	10,089	446	1,193
Economic Research Institute of Northern Ireland	1,094	165	147
Film Industry Training Board for England and Wales	0	0	0
Firebuy Limited	2,541	36	(36)
Fleet Air Arm Museum	2,569	9,425	10,674
Football Licensing Authority	1,238	26	360
Gangmasters Licensing Authority	4,125	372	865
General Consumer Council for Northern Ireland	2,734	610	587
Great Britain-China Centre	1,624	25	121
Health and Safety Executive for Northern Ireland	6,994	152	(283)
Hearing Aid Council	1,232	2	179
Human Fertilisation and Embryology Authority	7,100	443	2,461
Human Tissue Authority	6,025	1,175	3,444
Ilex Urban Regeneration Co Ltd	3,460	5,022	(680)
Independent Housing Ombudsman	3,191	366	(410)
Infrastructure Planning Commission	3,800	0	(111)
Investors in People UK	6,887	238	(1,116)
Joint Nature Conservation Committee	10,725	276	245

Entity	Gross expenditure (£000s)	Property, plant & equipment (£000s)	Net assets (£000s)
Labour Relations Agency	3,510	326	652
Leasehold Advisory Service	1,426	6	128
Legal Services Board	4,021	221	6,303
Livestock & Meat Commission	2,919	1,488	728
Local Better Regulation Office	4,404	154	474
Local Government Boundary Commission for Wales	636	9	14
Local Government Staff Commission for Northern Ireland	728	841	(570)
Marshall Aid Commemoration Commission	2,223	0	558
National Forest Company	3,126	1,974	2,644
National Lottery Commission	4,808	741	123
National Museum of the Royal Navy	3,299	2	59
Northern Ireland Construction Industry Training Board	5,812	3,047	3,165
Northern Ireland Events Company Limited	104	6	(1,256)
Northern Ireland Guardian ad Litem Agency	3,638	323	249
Northern Ireland Human Rights Commission	1,806	217	92
Northern Ireland Judicial Appointments Commission	1,575	8	54
Northern Ireland Museums Council	474	4	79
Northern Ireland Police Fund	1,774	5	(39)
Northern Ireland Policing Board	8,168	74	(787)
Northern Ireland Practice & Education Council for Nursing and Midwifery	1,456	82	126
Northern Ireland Social Care Council	3,750	53	45
Office for Fair Access	464	0	47
Office for the Children's Commissioner	3,052	303	155
Office of the Immigration Services Commissioner	4,194	807	897
Office of the PPP Arbiter	4,615	5	(288)
Parole Board	8,878	146	(58)
Passenger Focus	7,338	165	1
Patient and Client Council	1,346	16	(379)
Pensions Advisory Service	3,707	95	(28)
Pensions Ombudsman	2,868	11	155
Police Complaints Commissioner for Scotland	1,162	272	292
Police Ombudsman for Northern Ireland	8,897	2,301	1,969
Queen Elizabeth II Conference Centre	8,926	3,558	7,009
Railway Heritage Committee	140	0	0
Registrar of the Public Lending Right	7,406	50	70
Regulation and Quality and Improvement Authority	6944	308	85
Renewable Fuels Agency	1,370	278	279
Risk Management Authority	1,067	55	88
Royal Marines Museum	1,436	6,296	6,547
Royal Naval Museum	2,020	4,091	4,369
Royal Navy Submarine Museum	1,165	4,857	5,519
RUC George Cross Foundation	158	42	42
Scottish Criminal Cases Review Commission	1,050	40	211
Scottish Screen	134	25	(313)
Simpler Trade Procedures Board	762	5	183
Sir John Soane's Museum	2,622	2,900	3,900
Sports Council for Wales National Lottery	8,887	55	4,667

Entity	Gross expenditure (£000s)	Property, plant & equipment (£000s)	Net assets (£000s)
Staff Commission for Education & Library Boards	448	5	(1,091)
Standards Board for England	7,840	928	(4,560)
Sustainable Development Commission	6,520	41	488
Ufi Charitable Trust	250	81	571
UK Anti Doping	5,895	709	315
UK Financial Investments Limited	3,944	240	0
Wales Centre for Health	0	0	0
Welsh Levy Board	3,190	0	0
Westminster Foundation for Democracy	5,495	9	155
Youth Council for Northern Ireland	4,476	18	76
Amounts excluded from WGA	**365,134**	**92,505**	**91,656**

Annex 4: List of departures from the 2009-10 Government Financial Reporting Manual

These financial statements are prepared in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2009-10 Government Financial Reporting Manual (FReM). However, in some circumstances departures from the FReM have been made, and these are described below.

Departures in the underlying accounts

General Government Entities (including devolved administrations and the National Health Service)

HM Treasury's Accounts Direction given in accordance with section 5(2) of the GRAA allows for departures from the FReM in exceptional circumstances, where to comply with the FReM would not give a true and fair view. In these instances, any departure is agreed with HM Treasury's Assurance and Financial Reporting Policy Team.

One such instance has arisen in 2009-10 in relation to HM Treasury's investments in financial institutions. In HM Treasury's accounts, financial assets carried at fair value through the Statement of Revenue and Expenditure are initially recognised at fair value, and transaction costs are expensed. Financial assets not carried at fair value through the Statement of Revenue and Expenditure are initially recognised at fair value plus transaction costs. However, the FReM states that Loans, Public Dividend Capital and other interests in public entities outside the departmental boundary should be reported at historical cost, less any impairment. This adaptation in the FReM arose because the vast majority, if not all, of the investments in public corporations and others were those where there was no observable market data. At the time this adaptation was approved, it was not envisaged that the government would take controlling stakes in certain institutions, where there are clear indicators as to market value or viable fair value alternatives. Consequently, consistent with a true and fair view, in these situations certain departments have elected to depart from the FReM adaptation and disclose investments at a fair value where a market value or suitable alternative is available, consistent with IFRS.

The Ministry of Defence has not fully complied with the FReM emissions cap and trade scheme accounting requirements on the grounds of materiality. Rather than registering an asset and a liability to reflect its holding of allowances and its obligation to pay for emissions, the Ministry has reflected the purchase and sale of allowances as expenditure and income within the Statement of Revenue and Expenditure. All other costs associated with the scheme, such as compliance checking, are also charged to the Statement of Revenue and Expenditure.

Inconsistencies in accounting frameworks that led to departures in the FReM

Local Government Entities

Local authority accounting complies with the code of practice developed by the CIPFA / LASAAC SORP Board and in accordance with the Accounting Standard Board's code of practice for the development of Statements of Recommended Practice in accounting. The Local Authority SORP (LA SORP) is based on approved accounting standards and with the Urgent Issues Task Force's Abstracts, except where these are inconsistent with specific statutory requirements. Local authorities will apply international accounting standards for accounting periods on or after 1 April 2010.

The most significant difference between the FReM and the LA SORP arises from the accounting treatment of highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historic cost basis compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation of these assets on a depreciated replacement cost basis for inclusion in the 2012-13 Whole of Government Accounts. The best proxy available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2010 National Accounts estimated the value of the road network at £248 billion as at 31 December 2009. Infrastructure assets are likely to be understated by at least £200 billion.

Under the disclosure requirements in the 2009-10 LA SORP, local authorities do not provide the same level of disclosure as required by the FReM. This impacts this account in the following way:

- Local authorities are not required to disclose assets that are 'held for sale', which are discloseable under IFRS 5. As a result, the total amount of 'assets held for sale' disclosed in Note 22 does not include assets held by local authorities.
- Local authorities are not required to split their assets between land and buildings (but will do so from 2010-11). As a result, 'buildings' in Note 14 include land and buildings held by local authorities with a net book value of £141.9 billion.
- Local authorities are not required to separately disclose vehicles. As a result, 'plant and machinery' in Note 14 include vehicles held by local authorities.
- Local authorities under their SORP are not required to separately identify provision expense in their Statement of Revenue and Expenditure. This gives rise to a difference between the provision expense shown separately in the WGA Statement of Revenue and Expenditure and the movement in provisions shown in the Statement of Financial Position.

Public Corporations

Except where specific powers are defined in statute, public corporations are subject to all the discipline of corporate legislation including conforming to the financial reporting requirements of the Companies Act, and not the FReM.

Scottish Water values its infrastructure assets at historic cost in its accounts, rather than replacement cost per the FReM. An adjustment has been made of £34 billion to reflect the replacement cost in these accounts. Scottish Water also states these at net book value as reported in its accounts. Accordingly, the gross book values in these accounts include the net book value of these assets and depreciation is not separately disclosed.

Health

Non-Foundation NHS Trusts do not report any accumulated depreciation brought forward for buildings, as these assets are considered to be revalued annually with the depreciation at the date of revaluation being eliminated against the gross carrying amount of the asset, and the net amount restated to the revalued amount of the asset. The Non-Foundation NHS Trusts report an opening gross book value of £14.4 billion for buildings, equivalent to the net book value previously reported as at 31 March 2009.

Specific WGA departures from the FReM

PFI disclosures

The FReM requirements for PFI disclosures have been interpreted in different ways by WGA entities. As a result, not all WGA entities reported service charges in their accounts, or they reported it using different measures. On the basis of the best available information, future service charges are estimated to be £97.4 billion as at 31 March 2010.

A number of WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these contracts in their accounts in different ways in 2009-10, as the accounting standards allow flexibility as to how to present the information. Therefore it is not possible to provide a summary of all these PFI contracts in this account. Included in Note 31 is a list of the significant PFI contracts that have been reported.

Level of disclosures

On certain matters, the level of disclosure reported by individual entities in their accounts varies, which has impacted on the level of disclosures able to be reported in these accounts. For example, the FReM requires staff costs to be split between Permanently Employed, Others, Ministers and Special Advisors, however because of the varying level of disclosures in the underlying accounts of WGA entities, a consistent and reliable breakdown is not possible at the WGA level. In these instances, the level of disclosure still provides users of the accounts with sufficient information to understand the state of the Whole of Government Accounts.

On certain matters, the detailed level of disclosure required by financial reporting standards is not appropriate for WGA, as it would create an unwieldy document including details from 1,500 entities that would not serve the purpose of the Whole of Government Accounts. In such cases detailed disclosures are omitted but are available in the individual accounts of the consolidated entities. This affects the following items:

Disclosure	Information omitted
Donated assets	Details of restrictions where a donor imposes restrictions on the use of donated assets.
Heritage assets	Information on the age and scale of assets, how they were acquired and what use is made of them.
Valuation of assets	Detailed disclosures regarding valuations including the following: name and qualification of the value or valuer's organisation and a description of its nature, date and amounts of valuations, if a valuation is performed by an employee or officer of the entity, and certain detailed disclosures regarding impairments required under IAS 38.
Investment property revaluation reserve	Investment property revaluation reserve to be shown separately from any other revaluation reserve.
Secured payables	Details of secured payables and the nature of security given.
Long term contracts	Payments on account of long term contracts separately disclosed in receivables and payables.
Managing capital	Qualitative and quantitative information about objectives, policies and procedures for managing capital.

Annex 5: Proposals for 2010-11 and beyond

These financial statements include substantially all entities in the public sector and have been prepared using IFRS where this is available. There are a number of improvements planned for the future that will improve the completeness and consistency of the data within the statements. The key developments are as follows:

2010-11	• Inclusion of Bank of England, London and Continental Railways, publicly owned railway companies (e.g. East Coast services) • Full adoption of IFRS by local authorities
2011-12 – 2012-13	• Complete plans for the consolidation of Northern Rock (Asset Management) plc and Bradford & Bingley, on the assumption that they will remain in the public sector until their existing mortgage books have expired • Review the status of all other entities not included in WGA as set out in Annex 2 to consider their inclusion in WGA • Adopt depreciated replacement cost for the valuation of highways infrastructure assets by local authorities • Amend the FReM to eliminate inconsistencies
2013-14 and beyond	• Replacement of HM Treasury's consolidation tool • Examine segmental reporting of data to identify improvements to the analysis of revenues, expenditure, assets and liabilities

Consolidation tools and process

HM Treasury uses the Combined Online Information System (COINS) to effect the consolidation of WGA. It is currently replacing COINS with a new consolidation tool which is planned to be available for the 2012-13 account preparation. This is expected to deliver improvements in the efficiency and effectiveness of the consolidation process. In addition, we will keep data collection and consolidation processes under review, with a view to delivering continuous improvements that enable WGA to be produced more quickly with the minimum of effort.

Amendments to the FReM

Production of the 2009-10 accounts has identified that there are in places a number of interpretations of the FReM that have lead to differing disclosures in the underlying accounts. We will be examining whether these can be reduced or eliminated without compromising true and fair view of the underlying accounts.

Adoption of IFRS by local authorities

The local authority sector adopted international accounting standards for the 2010-11 accounting year. Authorities comply with the code of practice on local authority accounting developed by the CIPFA/LASAAC Code board under the oversight of the Financial Reporting Advisory Board. The code is based on IFRS, except where these are inconsistent with specific statutory requirements, and is consistent with the FReM.

Highways infrastructure asset proposals for local authorities

In 2006 the Department for Communities and Local Government and HM Treasury jointly commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to examine the management and accounting arrangements for local authority highway assets. CIPFA's report (CIPFA (2008), Local Authority Transport Infrastructure Assets: Review of Accounting, Management and Finance Mechanisms – Final Report, available from www.cipfa.org.uk/pt/infrastructure/ download/final_report_jun08.pdf) published in June 2008, recommended that local authorities adopt an asset-management approach to maintaining their highways assets, which offers significant benefits in terms of efficiency, and also, in line with the central government sector, move to a depreciated replacement cost basis for valuing its highways assets.

The Government has accepted the report's recommendations and has asked CIPFA to prepare guidance to support the accountancy changes. The intention is that local authorities will first provide information to HM Treasury on depreciated replacement cost values in 2012-13.

Annex 6: Glossary

Accruals basis
A method of recording transactions to relate them to the period when the consumption of the goods, services or financial asset took place, or when the income is earned. For example, value added tax accrues when the expenditure to which it relates takes place, but HM Revenue and Customs receive the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation or the actuarial assumptions have changed.

Assets
Anything of positive economic value that can be owned or controlled.

Asset Protection Scheme
Scheme created in January 2009 to provide certainty and confidence to banks in their lending, when the Government offered capital and asset protection on assets most affected by the current economic conditions.

Asset Purchase Facility
Facility created in January 2009 to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK, and for monetary policy purposes.

Bank of England (BoE)
The Bank of England is the central bank of the United Kingdom. It is independent of the Government and has two core purposes: monetary stability and financial stability. Since 1997 the Bank has had statutory responsibility for setting the UK's official interest rate.

Balance sheet
Also known as the Statement of Financial Position. A statement, drawn up at a particular point in time, showing the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

Bond
A certificate of debt issued by a government or corporation in order to raise money - a bond is essentially an IOU. A bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. In the UK, government bonds are called 'gilts'.

Capital expenditure
Money spent on building, purchasing or upgrading physical assets (i.e. infrastructure, buildings, machinery etc.), for the purpose of creating future benefits.

Cash basis
The recording of transactions when cash or cash equivalents are paid out or received, rather than on an accruals basis.

Cash equivalents
Short-term, highly liquid bank deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Consolidated Fund
The Government's "current account", operated by the Treasury, through which pass most central government payments and receipts.

Consumer Prices Index (CPI)
A measure of inflation. The CPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The CPI is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target.

Corporation tax
A tax on the profits made by companies.

Deficit
The amount by which government spending exceeds government income during a specified period of time (usually a year).

Defined Benefit Scheme
A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined Contribution Scheme
A pension or other retirement benefit scheme into which the employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives
Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (for example a government bond or a bank

deposit), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

Designation Order
The statutory instrument which lists the entities which are to be consolidated within WGA and must provide WGA data to HM Treasury.

Equity
Equity is ownership or potential ownership of a company, as evidenced by the ownership of ordinary shares. They differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are merely outside creditors.

Exchange Rate
The rate at which one currency can be exchanged for another.

Exchange Equalisation Account (EEA)
An account of central government held by the Bank of England in which transactions in the official reserves are recorded. It is the means by which the government, through the Bank of England, influences exchange rates.

Expected Rate of Return on Pensions Assets
For a funded, defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets of the scheme.

Finance Bill
The annual Finance Bill puts into law the measures announced in the Budget. Its formal description is 'a Bill to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, to make further provision in connection with finance.'

Financial leasing
A form of leasing in which the lessee contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the assets to the lessee, financed by an imputed loan. The leasing payments are split into interest payments and repayments of principal.

Fiscal policy
The use of government spending and tax policy to affect changes in the economy.

FReM
The 2009-10 Government Financial Reporting Manual which applies EU adopted International Financial Reporting Standards as adapted or interpreted for the public sector context.

General reserve
The main reserves account to which all revenue transactions are credited and from which revenue liabilities are discharged.

Gilts
Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

GRAA
Government Resources and Accounts Act 2000 which requires HM Treasury to prepare the Whole of Government Accounts.

Grants
Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

Gross Domestic Product (GDP)
GDP is a measure of economic activity. It is the sum of all goods and services produced by a country over a given time period (usually a year). A rise in GDP shows the economy is growing, whilst falling GDP means the economy is contracting. GDP can be measured in three ways:

- i) Income (the value of the income generated mostly in terms of profits and wages);
- ii) Output (the value of the goods and services produced); and
- iii) Expenditure (the value of the goods and services purchased).

Hedge
A hedge is an asset or derivative used to offset the risk in another asset held or liability.

Housing Revenue Account (HRA)
A separate account recorded by local authorities which is required by statute for recording income and expenditure on the provision of council housing. The rental and other HRA income pays for repairs, managing and maintaining the housing stock and repaying any money borrowed for past building and improvements. The HRA is ring fenced and can only be used to fund expenditure on Council Housing.

Income Tax
A tax on personal income, i.e. wages or salary. The level of Income Tax an individual pays depends on their level of income – higher earners pay higher rates of Income Tax. However, nearly everyone who lives in the UK is entitled to an Income Tax Personal Allowance. This sets the amount of income you can receive each tax year without having to pay tax on it.

Index-linked gilts
Gilts whose coupon and redemption value are linked to movements in the retail prices index.

Inflation
A rise in the general price level of goods and services. Often measured over a 12 month period.

Intangible assets
An intangible fixed asset is an identifiable non-monetary asset that doesn't without physical substance. Intangible fixed assets include mineral exploration, computer software and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced intangible assets such as patented entities, leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

Interest rate
A cost that is charged by a person or organisation that lends money to another. Usually expressed as a percentage.

International Monetary Fund (IMF)
The fund was set up in 1947 to supervise the fixed exchange rate system and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries' subscriptions according to agreed quotas. It currently has about 180 member countries including most of the major countries of the world.

IMF quota subscription
A member's International Monetary Fund (IMF) quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund.

Inventories
Inventories consist of finished goods (held by the producer prior to sale, further processing or other use) and products (for example, materials and fuel) acquired from other producers to be used for intermediate consumption or resold without further processing.

Liability
A claim on one entity by another which gives rise to a payment or other transaction transferring assets to the other entity. Conditional liabilities, that is where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

Liquidity
The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

Machinery of Government (MOG) change
Transfer of functions from one part of the public sector to another in the UK.

Managing Public Money
A HM Treasury document for departments in central government that sets out the main principles for dealing with resources used by public sector organisations in the UK. It is publicly available on the HM Treasury website.

Monetary policy
The regulation of money supply and interest rates by a central bank, such as the Bank of England, to achieve economic objectives.

National Insurance contributions (NICs)
National Insurance is a government-operated social security scheme. It is funded by compulsory contributions by employers, employees and the self-employed. Contributions increase according to the level of earnings (or profit, in the case of the self-employed).

NICs pay for contributory benefits, including the State Pension. A proportion of NICs are also used to help fund the National Health Service. Individuals stop paying NICs when they reach State Pension age or are no longer working. Various National Insurance credits are available to maintain entitlements where an individual is not able to work and there is also an option to pay voluntary contributions where credits are not available

National Loans Fund
An account of HM Government set up under the National Loans Fund Act (1968) which handles all government borrowing and most domestic lending transactions.

Non-current assets
Assets that are themselves used repeatedly or continuously for more than one year. They include buildings and other structures, vehicles and other plant and machinery and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy cattle. They also include intangible assets such as computer software and artistic originals.

Non-departmental public body (NDPB)
A body which has a role in the processes of national Government, but is not a Government Department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from Ministers.

Operating leasing
The conventional form of leasing, in which the lessee makes use of the leased asset for a period in return for a

rental while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor, and the intermediate consumption of the lessee. See also Financial leasing.

Parliament
Parliament examines what the Government is doing, makes new laws and debates the issues of the day. The business of Parliament takes place in two Houses: the House of Commons and the House of Lords. Both Houses hold debates in which Members discuss government policy, current issues, and debate and pass legislation.

Pension funds
The institutions that administer pension schemes. Pension schemes are significant investors in securities.

Pension Scheme Liabilities
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Preference share
This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference share holders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However in the UK they usually do not, and are therefore classified as bonds.

Private Finance Initiative (PFI)
Private Finance Initiative (PFI) projects are schemes involving the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk to the private sector, including the design, construction, maintenance and operation of the asset. In return, the Government pays an annual charge over the lifetime of the contract, which is typically 25-30 years.

Private sector
The part of a nation's economy which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state.

Privatisation
The process of transferring a government-owned asset such as a company or property to the private sector.

Public corporations
These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A public corporation is publicly controlled to the extent that the public authority, that is central or local government, usually appoints the whole or a majority of the board of management.

Public finances
The government's accounts, including tax receipts, expenditure, borrowing and debt.

Public sector
The part of the nation's economy that is classified to the public sector by the Office of National Statistics.

Public sector net debt
The total amount of money owed by the public sector as measured by the Office for National Statistics.

Recession
The commonly accepted definition of a recession in the UK is two or more consecutive quarters (a period of three months) of contraction in national GDP.

Reserves
Reserves are created to finance expenditure occurring in future years. They include General reserve working balances, reserves for financing capital expenditure, and "earmarked" reserves for specific projects.

Retail Prices Index (RPI)
The RPI is a measure of inflation. The RPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The RPI is similar in nature to the Consumer Prices Index (CPI) however there are differences in calculation and in the basket of goods covered. In particular the RPI includes mortgage interest payments and housing depreciation whereas CPI does not.

Reverse sales and repurchase agreement (reverse repo)
Where an entity purchases securities and agrees to sell them back at a specified time and price. Securities pledged by an entity as collateral via reverse repos remain on its own statement of financial position.

Sale and repurchase agreements (repo)
Where an entity sells securities and agrees to repurchase them at a fixed price at a future date: essentially, a form of secured borrowing. Securities that are pledged by the entity as collateral via sales and repurchase agreements remain on its statement of financial position.

Sector
In the economic accounts the economy is split into different institutional sectors according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, households and non-profit institutions serving households (NPISH). See also private sector and public sector.

Special Drawing Rights (SDRs)
The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged by IMF members for freely usable currencies. IMF members

can buy SDRs to discharge obligations to the IMF, and can sell SDRs in order to adjust the composition of their reserves. SDRs are also the IMF's unit of account.

Special Liquidity Scheme
Scheme created in 2008 to encourage banks to lend to each other, by allowing banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills.

Spending Review
Spending Reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending.

Subsidies
Current unrequited payments made by general government or the European Union to entities.

Taxes
Compulsory unrequited transfers to central or local government or the European Union.

Third Party Assets
Assets held by the government, through various public entities, as custodian or trustee, but which belong to third parties, for example Funds in Court or money held on behalf of others.

Treasury (The)
HM Treasury is the United Kingdom's economics and finance ministry. It is the Government department responsible for formulating and implementing the Government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

Treasury bills
Short-term securities or promissory notes which are issued by government in return for funding from the money market. In the United Kingdom every week the Bank of England invites tenders for sterling Treasury bills from the financial institutions operating in the market. EU-denominated bills are issued by tender each month. Treasury bills are an important form of short-term borrowing for the government, generally being issued for periods of 3 or 6 months.

United Kingdom
Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

Value Added Tax (VAT)
VAT is a tax that is charged on goods or services. It is levied at each stage in the chain of production and distribution. However, smaller businesses do not have to register for VAT and when VAT-registered businesses buy goods or services they can generally reclaim the VAT that they have paid on them. Therefore VAT principally affects consumers. This is with the exception of certain goods that are taxed at 0%, including food, books, newspapers and children's shoes and clothes.

Value at Risk (VaR)
This measures the aggregate market risk on a portfolio. VaR is an estimate of the maximum potential loss in the value of a portfolio.

WGA boundary
Boundary separating entities included in creating Whole of Government accounts and those excluded.

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