HM Treasury

Whole of Government Accounts

year ended 31 March 2012

HC 531

July 2013

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1 Foreword

1.1 WGA consolidates the audited accounts of around three thousand organisations across the public sector in order to produce a comprehensive, accounts-based picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector.

1.2 WGA is a major step forward in transparency and accountability. The Government places a great deal of importance on fiscal transparency, and the role that it plays in its management of the public finances. Publication of the WGA supports the Government's agenda to make more public data available. The WGA is independently audited giving both Parliament and the outside world greater confidence in the figures, and supports effective scrutiny by Parliament. This scrutiny has been exercised by the Public Accounts Committee who look at each year's accounts.

1.3 WGA is successfully providing a more complete view of the public finances, complementing the information contained in the key national accounts based measures used for managing the public finances. It is also being used to support longer term fiscal analysis, as evidenced by the Office of Budget Responsibility's use of WGA data to inform its annual '*Fiscal Sustainability Report*'.

1.4 WGA is enabling the direct comparability of financial data across the public sector entities and is starting to produce trend data that will help to inform future analysis and decision making. For example, in the 2013 Spending Round, which set central government departments' budgets and annually managed expenditure for 2015-16, account was taken of future commitments and liabilities that the WGA indicated to be building up.

The 2011-12 WGA

1.5 The Treasury has made significant improvements to the quality of the WGA for 2011-12.

1.6 First, this year's accounts were produced 16 months after the year end, three months ahead of the previous WGA. Our plan is to produce the WGA within 9 months of the financial year in future. A key issue in timeliness is delays to the production of the underlying statutory accounts. For example, a number of bodies[1] had not provided any 2011-12 WGA data by 1 November 2012 which affected delivery timescales.

1.7 Second, further steps have been taken to address the issues that are leading to audit qualifications, although the number of qualifications this year is the same as in 2010-11. This work includes more comprehensive coverage of academies and the consolidation of a number of minor bodies, which have been facilitated by the Clear Line of Sight[2] reforms in central government. The audit qualifications apply to limited elements of the account and partly reflect differences in policy views between HM Treasury and NAO, and do not in my view diminish the fundamental usefulness of these accounts.

1.8 Third, different accounting frameworks within the public sector are more aligned, with the only significant outstanding exception being the treatment of highways infrastructure assets (eg roads and bridges), which will start to be addressed in the next accounts.

1.9 Fourth, the underlying data quality is better compared to previous years in a number of respects. The volume of data that could not be eliminated fell by 33 per cent or £7.6 billion. Work to eliminate counter-party transactions, whilst not removing the qualification, has thrown up important information about entity relationships, particularly between central and local government, that can be built on for the future.

1.10 The 2011-12 WGA shows that overall tax revenue increased by 2 per cent in the year, driven by higher indirect taxes revenue such as VAT, where the 20 per cent VAT rate was introduced from January

[1] The bodies were Department of Health, Department for Culture, Media and Sport, Birmingham City Council, National Savings & Investments, and the consolidated academies data as prepared the Education Funding Agency, an agency of the Department for Education.
[2] For further information go to www.gov.uk/hm-treasury

2011. Income tax and corporation tax, which comprised more than a third of all tax revenues, fell in the year, in part due to changes in allowances and tax credits and a lower rate of corporation tax.

1.11 It also shows that the action the Government is taking to reduce public spending is taking effect. As Table 2.2 shows, direct spend fell in 2011-12. Reductions have occurred across all areas of spend except for social benefits, where inflation related increases to individual benefits and the uptake of a range of benefits linked to the economic cycle have led to higher costs. The decreases reflect the spending controls implemented by the Government, the decisions taken in the Budget in June 2010, and the action public sector bodies are taking to implement the 2010 Spending Review that set budgets for 2011-12 to 2014-15.

1.12 Largely due to the increase in taxation revenue and the reduction in spending, the current deficit shown in the National Accounts has decreased by a fifth from 2009-10 to 2011-12[3]. The 2011-12 net expenditure in WGA has also decreased compared to 2010-11 net expenditure excluding the impact of non-recurrent items in 2010-11.

How the WGA is used

1.13 The WGA data provides a comprehensive picture of the Government's assets and liabilities, including "off-balance sheet" liabilities that are not in national account measures, and this enables more informed decision-making, for example, on how Government uses property and financial assets and how it controls the build-up of liabilities. Data gathered to produce WGA is being used in the Treasury's spending control as an additional tool to support and challenge decision-making. For example, in the 2013 Spending Round account was taken of future commitments and liabilities that the WGA indicated to be building up and which could be eased by corrective action. Tackling debt was a key feature of departmental settlements. WGA data has also been used to look at the public sector asset base and challenge how assets are being used in the delivery of public services.

1.14 As part of fiscal transparency, the Chancellor announced in the 2012 Autumn Statement that additional information would be published on liabilities that do not form part of the National Accounts, and that a new control total would be introduced for central government departments' spending arising from off-balance sheet Private Finance 2 (PF2) contracts[4]. The control total will include the existing stock of Private Finance Initiative (PFI) contracts as well as new PF2 contracts signed. WGA data will be used in the implementation of these initiatives.

1.15 The Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances in its annual Fiscal Sustainability Report (published alongside the WGA), drawing on the data published in WGA.

1.16 We are also working to make the WGA more accessible to people working on or interested in public expenditure who do not have a technical accountancy background. To that end, we will shortly publish a summary version of the audited accounts in accessible language to accompany the main accounts[5].

[3] Based on "current budget" for 2009/10 and 2011/12 in the ONS Statistical Bulletin, Public Sector Finances, May 2013

[4] Further details on the PF2 control total for central government were announced in the Chief Secretary's infrastructure planning document "Investing in Britain's Future", published in June 2013. The coverage of the control total will include all PFI and PF2 contracts funded by central government.

[5] https://www.gov.uk/government/publications/whole-of-government-accounts-2011-to-2012

WGA in context

1.17 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, while real-time fiscal measures published by the Office of National Statistics are used to assess the economic and fiscal position of the UK for policy purposes. Two of the main measures used for fiscal management are the current deficit and public sector net debt (PSND). Two of the main measures in WGA are net expenditure and net liabilities.

1.18 Whilst there are similarities between fiscal management measures and WGA, there are also differences, for example WGA net expenditure is materially different from the current deficit used by the Government in its fiscal policy making. Key reasons for these differences are outlined below.

Box 1: Current deficit vs. WGA net expenditure

- Income – the measurement of income is largely the same.
- Expenditure – the measurement of expenditure is largely the same but WGA expenditure also includes such items as impairments to assets and pension charges related to the public service pension liability. This includes more than just the pensions paid in the year. WGA includes longer-term obligations which are triggered by events that have already happened, with cash payments at some point in the future, which could be up to 100 years time. These items can be materially affected by estimating assumptions and accounting revaluations.
- Net expenditure – as a consequence, WGA net expenditure can fluctuate even though the underlying position on income and expenditure relating to the year that feeds into the current deficit are the same. These fluctuations mean that WGA net expenditure is not considered to be the appropriate measure for making fiscal policy decisions to manage public finances, although it does offer new insights into long-term sustainability.

1.19 Similarly, there are differences between PSND and the net liabilities as reported in WGA. PSND has increased year on year since 2009-10 as the current deficit has added to it each year, while WGA net liabilities, in the same way as WGA net expenditure, have fluctuated. Key reasons for these differences are outlined below.

Box 2: Public Sector Net Debt (PSND) vs. WGA net liabilities

- Assets – PSND measures government cash and other liquid assets but WGA includes all assets owned by government such as property, plant and equipment, and amounts owed to the government from tax or loans.
- Liabilities – PSND measures government's direct borrowings, but WGA includes all amounts owed by government such as public service pension liabilities and provisions for future cash expenditure, as a result of events that have already happened.
- Net liabilities – have a wider scope than PSND, most notably because of the inclusion of fixed assets such as property, plant and equipment and public service pension liabilities.

1.20 Whilst these WGA measures go further than the fiscal measures, they do not go as far as the position reported in the Office of Budget Responsibility's Fiscal Sustainability Report which looks ahead at, for example, future cash inflows from future taxation and the future cost of existing policies.

1.21 Explanations of the fluctuations in WGA net expenditure and net liabilities are set out in Chapter 2. Further detail on the reasons for differences between fiscal measures and WGA measures are set out in Chapter 3.

Future Improvements to the WGA

1.22 The Treasury has a programme underway to improve the quality of the accounts year on year. For 2012-13 the main focus will be on implementing new consolidation software to improve reporting on the public sector and bring efficiency benefits. Also in 2012-13 local authorities will be asked to provide full depreciated replacement cost valuations for highways infrastructure assets as part of the process of addressing the qualification on the alignment of accounting systems. Other planned future improvements include:

- Fully consolidate the assets and liabilities of Northern Rock (Asset Management) Plc and Bradford & Bingley Plc;
- Improve academy schools data, particularly around the valuation of fixed assets;
- Improve the position with respect to audit qualifications, so that they start to be removed; and
- Reduce the time to publication of WGA each year until we can publish WGA within nine months of the financial year end.

Conclusion

1.23 We continue to make progress towards the goal of being able to produce timely, unqualified accounts that support strong financial management. I believe that WGA is already making a positive contribution to the richness and accessibility of information about the public sector finances, and this will become more so over time.

Sharon White
Accounting Officer

12 July 2013

2 Performance Report

Economic and fiscal context

2.1 The financial position of the Government in 2011-12 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 economy recorded real GDP growth of 0.8 per cent in 2011-12 (2009-10: 3.4 per cent. 2010-11: 2.0 per cent) but remained 3.8 per cent smaller than 2007-8 before the financial crisis in 2008. Growth in the first half of the financial year was partially offset by contraction of the economy in the final quarter of 2011. Growth in the first quarter of 2012 was zero.

2.2 Public sector net debt rose during 2011-12 from 66.8 per cent to 72.0 per cent of GDP, reflecting the National Accounts deficit of £90 billion. Tax receipts are closely linked to the performance of the economy, and therefore reflected the path of earnings and profits. Public spending reflected the impact of economic performance on cyclical areas of expenditure, such as social security, inflation and the policy decisions of the Government, including its consolidation plans.

2.3 Claimant count unemployment was 1.57 million (2010-11: 1.47 million), while the unemployment rate was 8.1 per cent (2010-11: 7.8 per cent). This rate was falling in the first quarter of 2012.

Policy context

2.4 There were a number of policy decisions, which had a significant impact on figures included in these accounts.

2.5 The Government has introduced measures to reduce the current deficit as defined on fiscal measures. These actions have successfully reduced the current deficit from a peak of £109 billion in 2009-10 to £90 billion in 2011-12.

2.6 In October 2010, the Chancellor announced the Government's Spending Review which set budgets for each Government department up to 2014-15. Real term cuts in many areas of public spending were implemented in 2011-12. In 2015-16, 80 per cent of the total consolidation will be delivered by lower spending.

2.7 In the March 2011 Budget the Chancellor set out further plans for growth. He announced changes to the tax system, including a lower rate of corporation tax; reforms to business regulation, for example, streamlining the system for planning applications; support to investment and exports to boost enterprise; and improvements to workforce education, including the establishment of 21 Enterprise Zones and the expansion of the University Technical Colleges programme. Further details are available on HM Treasury website[6].

2.8 In his June 2010 Budget, the Chancellor increased the standard rate of VAT from 17.5 to 20 per cent effective January 2011. To create a more competitive tax system, the main rate of corporation tax was reduced by 1 per cent to 26 per cent from April 2011, with further reductions in future years. This tax reduction and the extension of business rate relief for small business from October 2011 were off-set by the increase to the Bank Levy. In addition, to ease the burden on motorists, fuel duty was cut by 1p per litre in 2011-12, off-set by £1.8 billion of extra taxes on North Sea oil firms.

2.9 The Government introduced the Public Service Pensions Bill to Parliament on 13 September 2012, as part of its pension reforms. These include changing from RPI to CPI in the uprating of pensions, increasing pension contributions, and reforming schemes. It expects its public service pension reforms to save an estimated £430 billion in current GDP terms over the next 50 years.

2.10 The Government's policy is to sell assets where they are not required for the delivery of policy priorities and where a sale represents value for money. On 3 June 2011, the Government sold the Horserace Totalisator Board (Tote) to Betfred for £0.3 billion and in January 2012, the Government sold Northern Rock Plc to Virgin Money, receiving proceeds of £0.7 billion.

[6] www.gov.uk/treasury

2.11 The Bank of England's Monetary Policy Committee continued with the policy of quantitative easing during 2011-12, with the purchase of £75 billion worth of assets in October 2011 and an additional purchase of £50 billion in February 2012. The assets purchased mostly comprise UK Government debt previously held by financial institutions, which are exchanged for deposits held in the Bank itself. These purchases provide liquidity insurance to the banking system, allowing those organisations to operate instead with high quality liquid assets, with the objective of reviving consumer spending and economic growth.

2012 Key figures

Statement of Revenue and Expenditure

2.12 The Statement of Revenue and Expenditure sets out the scale and nature of the flows to and from the Government and changes arising from changes in the value of public sector assets and liabilities. It shows that in 2011-12 the public sector:

- **received £617 billion** (2010-11: £614 billion) in taxation and other operating revenue, including income from direct taxation of £291 billion (2010-11: £296 billion), indirect taxation of £178 billion (2010-11: £166 billion), and local taxation of £55 billion (2010-11: £53 billion);
- **spent £648 billion (2010-11: £663 billion) on direct expenditure** including £210 billion (2010-11: £204 billion) on social benefit payments, and £149 billion (2010-11: £153 billion) employing staff (excluding pension scheme costs). The largest elements of social security benefits were the state pension at £78 billion (2010-11: £74 billion), and tax credits at £31 billion (2010-11: £28 billion);
- **incurred £67 billion (2010-11: negative £38 billion)** on other operating expenditure relating to impairments of assets and pension scheme charges;
- **incurred £87 billion** (2010-11: £83 billion) on financing costs, investment revenue, interest on the pension liability, and gains and losses on assets; and
- resulted in a **net expenditure of £185 billion** (2010-11: £94 billion).

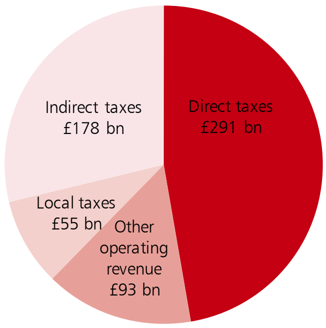
2.13 Net expenditure of £185 billion compares to £94 billion reported in the 2010-11 WGA. This difference was largely due to the impact of two non-recurrent items in 2010-11:

- the Government changed the indexation rate used for public sector pensions from Retail Prices Index to Consumer Prices Index, which created a one-off credit of £126 billion; and
- an impairment arose from the revaluation of council housing, which increased 2010-11 net expenditure by £24 billion.

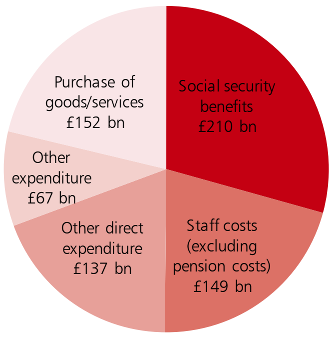
Adjusting for these two items, net expenditure improved by £11 billion between the two years.

2.14 The difference between net expenditure and the Government's chosen measure for fiscal management of current deficit is explained in Chapter 3.

Chart 2.1: Summary of revenue and expenditure 2012



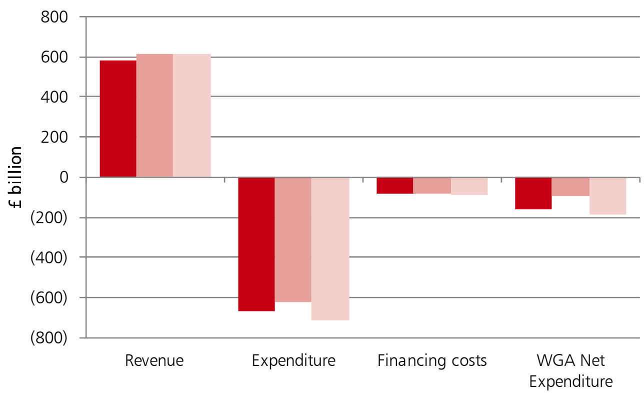
Total revenue £617 billion



Total operating expenditure £715 billion

2.15 Revenue and expenditure for the years 2009-10 to 2011-12 are shown below.

Chart 2.2: Revenue and Expenditure 2010 to 2012



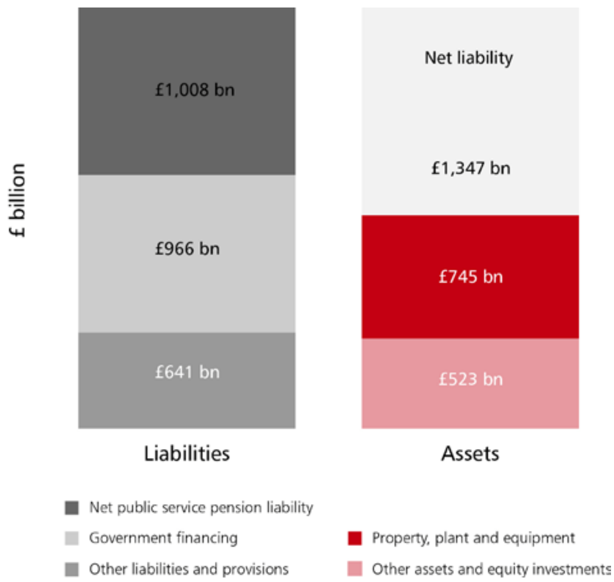
Statement of Financial Position

2.16 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 2012. It shows that the public sector:

- held **assets valued at £1,268 billion** (restated 2010-11: £1,234 billion), including:
  - o £745 billion (restated 2010-11: £714 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;
  - o £41 billion (restated 2010-11: £60 billion) of equity investments in public sector banks;
  - o £142 billion (restated 2010-11: £145 billion) of trade and other receivables, including £85 billion (2010-11: £86 billion) of accrued tax revenue and £26 billion (2010-11: £28 billion) of tax receivables before provisions; and
  - o £340 billion (restated 2010-11: £316 billion) of other assets, including £51 billion (2010-11: £55 billion) of loans and advances by HM Treasury to financial institutions, £33 billion (2010-11: £30 billion) of student loans, and other assets such as intangible fixed assets, investment properties, inventories, debt securities, loans, deposits, and cash.
- had **total liabilities of £2,615 billion** (restated 2010-11: £2,420 billion), including:
  - o a £1,008 billion (restated 2010-11: £961 billion) liability for public service pensions;
  - o £966 billion (2010-11: £908 billion) of debt in the form of Government borrowing and financing such as gilt-edged securities and Treasury bills;
  - o £113 billion (restated 2010-11: £107 billion) of provisions; and
  - o £528 billion (restated 2010-11: £444 billion) of other liabilities, including trade and other payables and obligations under leases and PFI of £155 billion (2010-11; £148 billion), and deposits held by the Bank of England of £218 billion (2010-11: £154 billion).
- The public sector therefore had a **total net liability of £1,347 billion** (restated 2010-11: £1,186 billion).

2.17 The net liability of £1,347 billion compares with the equivalent National Accounts, public sector net debt, of £1,106 billion. The difference is explained in Chapter 3.

Chart 2.3: Summary of assets and liabilities in 2012



2.18 The servicing of this liability and the ongoing provision of public services is mainly met by tax revenue receipts. As well as decisions on public spending, the Government has the power to set tax rates to meet its funding requirements. For this reason, the Accounting Officer adopts the going concern basis (valuing assets and liabilities on the basis that the Government will continue its functions) in preparing these financial statements. The nature of Government financing is such that WGA can be expected to show a net liability.

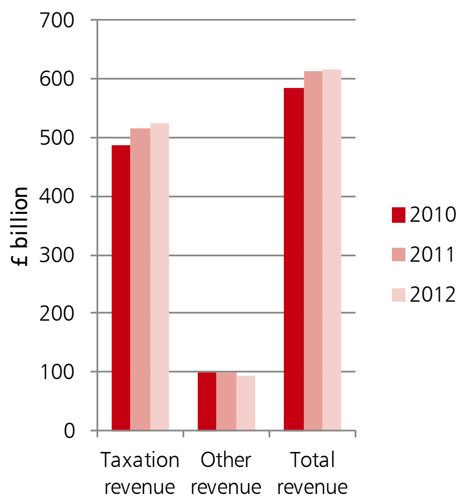
2.19 The figures above show the net position after balances and transactions between public sector bodies have been eliminated. They report the income received from households and businesses outside the public sector and, on the same basis, the expenditure incurred and paid.

The Government's income and expenditure

Revenue

2.20 The primary source of income is taxation, being 85 per cent 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 other Government activities.

Chart 2.4: Revenue 2010 to 2012



Taxation revenue

2.21 **Tax revenue increased by £9 billion** in the year from £515 billion to £524 billion (1.7 per cent). This increase came largely from VAT, reflecting the increase in the VAT rate from 17.5 per cent to 20 per cent on 4 January 2011.

Table 2.1 Taxation revenue – changes on 2010-11

	2011-12 £ bn	2010-11 restated £ bn	Change on 2010-11 %
Income tax, social security	242.7	243.6	(0.4)
VAT	97.8	88.2	11
Local government taxes	54.8	52.8	4
Corporation tax	40.0	45.7	(13)
Hydrocarbon oils duty	26.9	27.2	(1)
Other indirect taxes	26.1	25.6	2
Excise duties	26.7	25.2	6
Bank Levy	1.5	0.7	114
Other direct taxes	7.2	6.4	13
Total taxation revenue	**523.7**	**515.4**	**1.2**

2.22 Income tax was £151.8 billion (2010-11: £158.1 billion), and national insurance £90.9 billion (2010-11: £85.5 billion), together accounting for 46 per cent of all taxes.

2.23 Local government taxes include council tax, which is retained by local authorities, and national non-domestic rates, which are levied on local businesses and returned to central government. Council tax amounted to £30.4 billion (2010-11: £30.2 billion), an increase of 1 per cent and national non-domestic rates to £24.4 billion (2010-11: £22.6 billion), an increase of 8 per cent. Council tax revenue is driven by the number of occupied properties and the annual rate set by authorities. Revenue from non-domestic rates, a fixed payment, regardless of profit, has increased in line with RPI used to calculate the rate.

2.24 Corporation tax of £40.0 billion (2010-11: £45.7 billion) decreased by £5.7 billion (12 per cent) in the year, and accounted for 8 per cent of total tax revenues. The decrease was primarily due to lower accrued revenues from economic activity, but also reflected the lowering of the corporation tax rate from 28 per cent to 26 per cent which took effect on 1 April 2011.

2.25 Hydrocarbon oils duty or fuel duty, a consumption-led tax, was £26.9 billion (2010-11: £27.2 billion), £0.3 billion (1 per cent) lower. This was mainly due to reduced demand due to petrol prices, and changes to fuel duty announced in Budget 2011.

2.26 Excise duties, such as alcohol duty, and tobacco duties were £26.7 billion (2010-11: £25.2 billion), £1.5 billion (6 per cent) higher primarily due to increases in duty rates.

2.27 Other taxes, which account for 7 per cent of total tax revenue, were £34.8 billion (2010-11 £32.7 billion), £2.1 billion (6 per cent) higher. This increase was attributable to a number of factors including a £0.7 billion increase in capital gains tax as the replacement of the lower 18 per cent rate with a flat rate of 28 per cent tax on capital gains was effective for the entire reporting period, having only been in place for part of 2010-11. The Bank Levy raised £0.8 billion more revenue than a year earlier, providing £1.5 billion in receipts (2010-11: £0.7 billion). This was because the levy was in place for the entire 2011-12 period following its introduction in January 2011.

Non-tax revenue

2.28 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 (£22.1 billion (2010-11: £25.4 billion)), which included fare revenue from the London bus and underground transport service (£3.5 billion (2010-11: £3.2 billion)). Revenue streams were earned by public corporations for services (£14.7 billion (2010-11: £17.1 billion)), such as postal services (£9.4 billion (2010-11: £9.0 billion)). The reduction in income from public corporations in the year reflected the sale of the Tote in June 2011.

2.29 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 those employers that are not an entity within WGA.

Expenditure

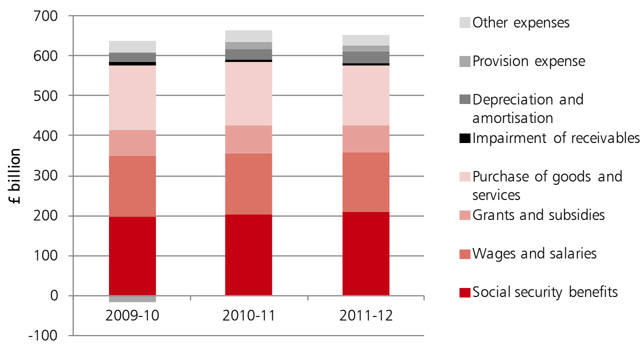
2.30 Direct spend in 2011-12 was £647.8 billion (2010-11 £663.3 billion), £15.5 billion lower than the previous year. Direct spend is monies incurred in the direct delivery of the Government's policies. Other items recognised in the Statement of Revenues and Expenditure result from the revaluation of assets or are actuarially determined. They are outside the direct control of individual entities within WGA and can be volatile in nature.

2.31 Total expenditure in 2011-12 was £715.1 billion (restated 2010-11: £624.9 billion). Whilst this was £90.2 billion (14 per cent) higher than 2010-11, total expenditure in 2011-12 was £36 billion lower than 2010-11 excluding the one-off adjustment arising from the Chancellor's decision to index pension payments from 2010-11 using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

Table 2.2 Expenditure

	2009-10 £bn	2010-11 £bn	2011-12 £bn
Social security benefits	197.1	204.0	209.7
Staff costs (excluding pension scheme costs)	152.0	153.0	148.9
Grants and subsidies	66.2	68.4	61.6
Purchase of goods & services	160.9	159.2	152.0
Impairment of receivables	7.2	5.5	4.8
Depreciation and amortisation	25.1	27.4	27.6
Provision expense	(17.0)	18.3	17.4
Other expenses	28.0	27.5	25.8
Direct expenditure[7]	**619.5**	**663.3**	**647.8**
Other impairments of assets	19.3	47.5	32.0
Pension scheme costs and actuarial revaluations	28.4	(85.9)	35.3
Total expenditure	**667.2**	**624.9**	**715.1**

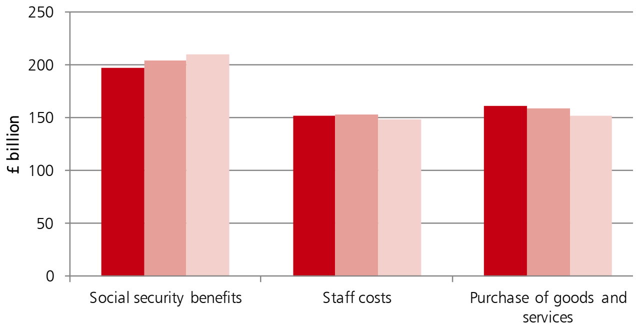
Chart 2.5: Analysis of direct spend



[7] The overall decrease between years may not be directly comparable as further eliminations were carried out in 2011-12, which has reduced both income and expenditure in the year. This primarily affects capital grants and the purchase of goods and services. The total additional eliminations in 2011-12 are estimated to have decreased expenditure by £4.2 billion.

2.32 The most significant elements of expenditure were social security benefits, staff costs and purchase of goods and services.

Chart 2.6: Significant elements of expenditure 2010 to 2012



Excludes the pension indexation adjustment in 2011

Social security benefits

2.33 Expenditure on social benefits increased in the year by £5.7 billion from £204.0 billion to £209.7 billion (3 per cent)[8]. This increase reflected the uprating of benefits, pensions and tax credits in line with inflation, an increase in the number of pensioners and the number of families in work receiving tax credits, and higher rents increasing housing benefit.

2.34 The state pension was the largest benefit at £78.1 billion (2010-11: £74.1 billion), accounting for 37 per cent of all benefits. This benefit increased by £4.0 billion (5 per cent), as a result of more people reaching pensionable age and the uprating of pensions by 4.6 per cent, (higher than the 3.1 per cent for most other benefits).

2.35 Tax credits accounted for 15 per cent of benefits, and were £30.5 billion (2010-11: £28.1 billion), £2.4 billion (9 per cent) higher than the previous year. This was due to inflation uprating the rates of tax credit, the policy decision to increase the value of the child tax credits above average earnings, and the extension of the Working Tax Credit to the over 60s.

2.36 Housing and other local government benefits amounted to £30.0 billion (2010-11: £29.3 billion), £0.7 billion (2 per cent) higher than the previous year and accounted for 14 per cent of social security benefits. The increase in the year was due to higher rents claimed under housing benefits.

[8] In real terms (in 2009-10 prices), based on Office of National Statistics GDP deflators, expenditure increased from £197.1 billion to £199.8 billion, an average increase of 0.7 per cent per annum in real terms.

2.37 Disability Living Allowance was £14.6 billion (2010-11: £13.9 billion), £0.7 billion (5 per cent) higher than the previous year, and accounted for 7 per cent of social security benefits. This increase was due to a number of factors, including the inflation uprating.

Staff costs

2.38 Staff costs represent the net cost to the Government of employing staff in the public sector including those delivering front line services. Staff include permanent employees, temporary staff and contractors. Net costs included salaries and wages. They excluded pension costs and national insurance payments from one part of the public sector to another, as these do not represent a net cost to the public sector. More details of staff costs and numbers are provided in Note 7.

2.39 Wages and salaries decreased by £4.1 billion from £151.8 billion to £147.7 billion, as a result of falling staff numbers and continuing pay restraint.

2.40 The cost of exit packages due to compulsory redundancies and other agreed departures of staff was £2.7 billion, representing a one-off cost to produce substantially higher savings over the longer term.

Purchase of goods and services

2.41 Goods and services were purchased to meet operational requirements. These included: 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; medicines; and administrative costs, such as rent and utilities.

2.42 The total value of goods and services purchased was £152.0 billion (2010-11 £159.2 billion), a £7.2 billion (5 per cent) reduction on the prior year. This reduction reflected fiscal tightening, with, in particular, a tightening of controls and reductions to spend (over such areas as consultants, use of contractors, IT spend and media and marketing spend).

2.43 The value of goods and services purchased by central government was £82.9 billion (2010-11: £82.0 billion), £63.1 billion (2010-11:

£69.0 billion) by local government (which included Transport for London and the majority of schools), and £6.0 billion (2010-11: £8.2 billion) by public corporations.

Grants and subsidies

2.44 The public sector makes grant and subsidy payments to private sector and third sector organisations to deliver public services directly or indirectly. Grants can be given to fund the creation of new assets (capital grants), or to support ongoing services (revenue grants or subsidy payments).

2.45 Total grants and subsidies were £61.6 billion (2010-11: £68.4 billion), of which £12.0 billion (2010-11: £14.3 billion) were capital and £49.6 billion (2010-11: £54.1 billion) were revenue.

2.46 Reductions to revenue grant were made to numerous small schemes across the public sector. These reductions were offset in part by an increase of £2.4 billion in grants to higher education and £0.5 billion to developing countries.

2.47 The UK's net contribution to the European Union's budget was £7.2 billion (2010-11: £8.4 billion), being the amount the UK pays directly to the EU less any subsidies.

Depreciation and impairments

2.48 Depreciation and impairment charges for the year were £64.4 billion (2010-11: £80.4 billion). The charges in the year comprised depreciation and amortisation of tangible and intangible non-current assets of £27.6 billion (2010-11: £27.4 billion), and impairments and revaluations of £36.8 billion (2010-11: £53.0 billion).

2.49 Impairments to receivables were £4.8 billion (2010-11: £5.5 billion). These included £4.2 billion (2010-11: £4.7 billion) relating to tax debts. These impairments were made up of remissions (debts capable of recovery but HMRC decided not to pursue on the grounds of value for money) and write offs (debts that were irrecoverable as there was no practical means of pursuing the liability).

2.50 Impairments included £13.4 billion (2010-11: £41.7 billion) of reductions to the value of non-current assets, such as buildings, that reduced their value below their original value.

2.51 Impairments also included a £14.4 billion reduction in the value of the shares in Royal Bank of Scotland and Lloyds Banking Group as at 31 March 2012.

Net financing cost

2.52 The net financing cost was £88.1 billion (2010-11: £83.2 billion), £4.9 billion (6 per cent) higher than the previous year. Increases in interest on pension scheme liabilities (£64.8 billion (2010-11: £60.8 billion)) and finance costs (£42.3 billion (2010-11: £40.5 billion)) have been partially offset by increases in the expected return on pension scheme assets of £13.8 billion (2010-11: £13.0 billion) and investment revenue of £5.2 billion (2010-11: £5.1 billion).

2.53 Interest costs in respect of Government borrowing and financing increased by £1.1 billion from £35.7 billion to £36.8 billion in the year, owing to higher levels of Government borrowing, partly offset by lower interest rates.

The Government's assets and liabilities

Property, Plant and Equipment

2.54 Property, plant and equipment of £745.1 billion (2010-11 restated: £714.0 billion) included all of the assets owned by the public sector to carry out its functions. It included £348.0 billion (2010-11 restated: £335.1 billion) of land, buildings and dwellings (e.g. schools, hospitals and social housing), £269.2 billion (restated 2010-11: £254.1 billion) of infrastructure (e.g. roads and the London Underground), and £34.9 billion (2010-11: £35.7 billion) of military equipment.

Table 2.3 Property, plant and equipment – changes on 2010-11

	2011-12 £ bn	2010-11 restated £ bn	Change on 2011 %
Infrastructure assets	269.2	254.1	6
Buildings, dwellings and land	348	335.1	4
Assets under construction	43.9	41.6	6
Military equipment	34.9	35.7	(2)
Other	49.1	47.5	3
Net book value	**745.1**	**714.0**	**4**

2.55 Asset disposals in the year had a net book value of £2.3 billion (2010-11: £7.8 billion). This reflects the write-off of military equipment following the Strategic Defence and Security Review and the disposal of life expired plant and machinery.

2.56 **Infrastructure assets** include highways infrastructure assets (HIA) held by local authorities (£54.9 billion (2010-11: £51.8 billion)) and motorways and trunk roads held by the Highways Agency (£107.4 billion (2010-11: £98.7 billion)). There has been an increase in the value of the motorway and trunk road network primarily due to the higher cost of materials.

2.57 Local authorities valued highways infrastructure assets using historical costs rather than the depreciated replacement cost basis (which better reflects the value of the asset) used by central government. The best proxy available for the depreciated replacement cost of local government HIA was the calculated asset value for Local Government "Other Structures" used by the Office for National Statistics from their perpetual inventory model. This estimated the value of the road network at £266 billion (2010: £260 billion) as at 31 December 2011[9]. Therefore, infrastructure assets were likely to be understated by at least £200 billion. As requested 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.

[9] UK National Accounts, The Blue Book, 2012, Table 10.9 'Other Structures'

Private Finance Initiative funded assets

2.58 A number of assets have been financed through Private Finance Initiatives (PFI). This involves the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk relating to the design, construction, maintenance and/or operation of assets from the public to the private sector. In return, the Government pays an annual charge over the lifetime of the contract, which is typically 25-30 years.

2.59 At 31 March 2012 the net book value of PFI assets was £38.7 billion (2010-11: £34.9 billion), and the associated liability for capital repayments was £36.1billion (2010-11: £32.0 billion).

2.60 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 present value of future PFI obligations, including service charges, increased to £149.4 billion (2010-11 £144.6 billion). The increase is largely due to higher future commitments from existing contracts. The total interest payable on these capital commitments is expected to be £42.3 billion (2010-11: £39.0 billion).

Financial sector interventions

2.61 In response to the financial crisis, the previous Government made a number of interventions to support the stability of the financial sector. These included equity investments in banks which are now classified to the public sector, as well as the creation of the Bank of England Asset Purchase Facility Fund and the Asset Protection Scheme.

2.62 Since 2008, the Government has acquired shareholdings in Royal Bank of Scotland Group Plc, Lloyds Banking Group Plc, Northern Rock Plc, Northern Rock (Asset Management) Plc and Bradford & Bingley Plc. Details about the Government's dealings with these financial institutions are provided in Note 36 to the Accounts.

2.63 The equity investments totalled £40.8 billion (restated 2010-11: £59.5 billion) at 31 March 2012. The value of the Government's investments decreased by £18.7 billion primarily reflecting a reduction in the Royal Bank of Scotland and Lloyds Bank Group share prices.

Shares are revalued annually at the balance sheet date, and are therefore subject to fluctuations.

2.64 The Government has provided support to financial institutions in the form of loans and advances, and financial guarantees and indemnities, which, to the extent that the likelihood of them being drawn upon is not remote, are included in the accounts as contingent liabilities as at 31 March 2012. Some of these have expired after 31 March 2012, and these are disclosed in Note 38. Arrangements between bodies within the WGA boundary, such as guarantees and indemnities between HM Treasury and the Bank of England, are not included, as they eliminate on consolidation.

2.65 As at 31 March 2012, the total outstanding support to the financial sector is shown below. Subsequently, the Asset Purchase Scheme and Credit Guarantee Scheme closed in October 2012, extinguishing the contingent liabilities to nil.

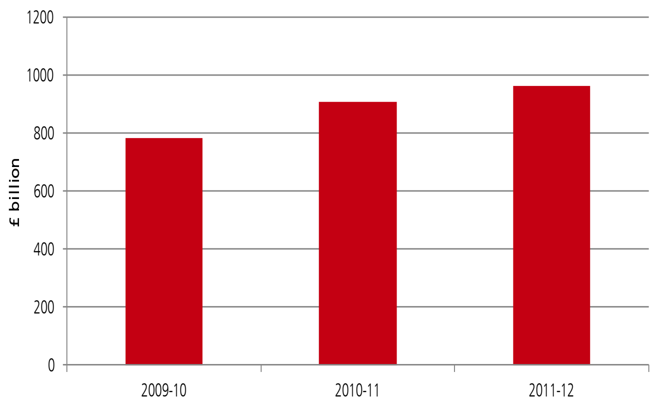
	Note	2010-11 £bn	2011-12 £bn
Equity investments	*18*	59.5	40.8
Loans and advances	*22*	54.9	51.0
Total support to the financial sector impacting the balance sheet		**114.4**	**91.8**
Contingent liabilities	*32*	9.8	9.9
Remote contingent liabilities	*33*		
Asset Purchase Scheme		110.0	54.7
Credit Guarantee Scheme		115.0	24.2
Guarantees to depositors		20.6	14.3

2.66 The financial statements of the public sector banks have not been consolidated in WGA for 2011-12. Northern Rock (Asset Management) plc and Bradford & Bingley plc are to be consolidated into WGA from 2013-14, 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. Were these entities consolidated, the scale of them 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 these public sector banks in the long term and, in due course, they will return to the private sector. In line with this intention, the Government sold Northern Rock plc in January 2012, and in June 2013 the Chancellor announced that the Treasury would actively consider options for sale of Lloyds' shares and investigate the case for moving bad assets out of RBS into a separate entity if it would accelerate the path back to private ownership for the remainder of RBS. In the event that a separate entity is created to hold the bad assets from RBS, it is expected to be treated in the same way as Northern Rock (Asset Management) plc and Bradford & Bingley plc.

Government borrowing and financing

2.67 Government borrowing and financing comprises gilt-edged securities, National Savings and Investments (NS&I) products and Treasury bills. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds that are fixed rate or index-linked to 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. NS&I is one of the largest providers of savings and investments in the UK and provides 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.

Chart 2.7: Government borrowing and financing 2010 to 2012



2.68 As at 31 March 2012, the Government had **current borrowing and financing liabilities** due to be repaid within a year, or that are payable on demand, of £224.2 billion (2010-11: £217.0 billion), comprising National Savings and Investment products (£102.7 billion (2010-11: £98.7 billion)), Treasury bills (£74.3 billion (2010-11: £63.6 billion)) and gilt-edged securities (£47.2 billion (2010-11: £54.7 billion)). In addition, it had **non-current gilt-edged securities** of £741.1 billion (2010-11 restated: £691.0 billion) and NS&I products of £0.2 billion (2010-11 restated: £0.2 billion) that need to be re-paid over longer periods than a year. The increase in borrowing is net of the Bank of England's purchase of UK Government debt through quantitative easing.

Working capital

2.69 Working capital is a measure of current assets less current liabilities and stood at negative £383.7 billion (2010-11 restated: negative £308.5 billion). The deterioration in working capital is driven primarily by an increase in Government borrowing falling due for repayment (£224.2 billion) and growth in deposits held by the Bank of England as a consequence of quantitative easing.

Trade and other receivables

2.70 Current and non-current trade and other receivables are amounts owed to the public sector due to its day to day operations. Trade and other receivables decreased by £3.2 billion in the year to £141.9 billion, which included a reduction in tax related receivables by £2.2 billion. This included tax receivables of £21.6 billion (2010-11: £23.1 billion) which represented all taxpayer liabilities that were established, irrespective of whether due or overdue, for which payments had not been received. It also included accrued tax revenue of £85.2 billion (2010-11: £85.8 billion) which represented taxes and duties relating to the financial year that were not yet due or received from taxpayers. The majority of these amounts were estimated due to the reporting cycle which resulted in tax returns being received after the production of the accounts. By category, this estimate included income tax of £28 billion (2010-11: £27.8 billion), value added tax of £27 billion (2010-11: £25.6 billion), corporation tax of £12 billion (2010-11: £14.4 billion) and national insurance contributions of £11.5 billion (2010-11: £11.4 billion).

2.71 Receivables included a current provision for bad debt of £13.6 billion (2010-11: £14.0 billion). The majority of this related to tax, where the estimate of tax at risk of not being collected was £8.8 billion (2010-11: £10.2 billion), based on historical trends in debt recovery and consideration of future economic conditions.

	2009-10	2010-11	2011-12
Trade and other receivables (net)	139.4	145.1	141.9
Provision for doubtful debts	18.2	18.2	17.1
Provision as a percentage of receivables	13.1%	12.5%	12.1%

Other assets

2.72 Inventories 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 63 per cent (2010-11: 64 per cent) or £7.2 billion (2010-11: £7.7 billion), of all public sector inventories. It received an audit qualification in respect of its inventory, and is part way through a programme to address the audit issues.

2.73 **Gold** of £10.4 billion increased by £1.4 billion in the year due to fair value movements, reflecting volatility of gold prices.

Trade and other payables

2.74 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. Trade and other payable were £154.8 billion, £6.4 billion higher than the previous year. This increase is primarily due to an increase in accruals and deferred income of £3.1 billion and finance lease charges of £4.1 billion.

2.75 As at 31 March 2012, current trade and other payables comprised: trade and other payables for goods and services (£39.6 billion (2010-11: £41.3 billion)); accruals and deferred income (£37.1 billion (2010-11: £33.9 billion)); and amounts owed to taxpayers (£22.9 billion (2010-11: £22.2 billion)). Accruals and deferred income related to goods and services received but not invoiced at the year-end or monies received for services not yet provided. Amounts owed to taxpayers were in respect of tax overpayments, refunds and receipts in advance of the tax period.

2.76 Non-current trade and other payables included amounts payable under PFI contracts (£34.8 billion (2010-11: £31.0 billion)) and amounts owed in line with contractual obligations (£15.4 billion (2010-11: £16.5 billion)).

Financial assets and liabilities

2.77 **Financial assets** comprised £124.0 billion (2010-11 restated: £102.7 billion) of current financial assets and £122.8 billion (2010-11 restated: £120.4 billion) of non current financial assets.

2.78 The increase in **non-current financial assets** of £2.4 billion in the year was primarily due to increases to student loans of £3.5 billion to £31.3 billion, increases to non-UK bank equity investments of £0.6 billion to £16.5 billion, partially offset by a reduction to loans and deposits with banks of £1.7 billion to £57.9 billion. This included a reduction to loans and advances made to financial institutions by HM Treasury of £3.9 billion, reducing them to £51.0 billion.

2.79 The value of **student loans** due to be collected after 1 April 2013, reflected 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 Note 1.22.9.

2.80 The increase in **current financial assets** of £21.3 billion was primarily due to an increase in loans and deposits with banks of £12.4 billion to £62.8 billion, and an increase in debt securities of £9.0 billion to £38.2 billion. Debt securities are held to support Government's cash management activities.

2.81 **Financial liabilities** included current and non-current amounts of £340.2 billion and £33.0 billion respectively. Current financial liabilities increased by £80.8 billion in the year largely because of increased deposits with the Bank of England, as a result of additional liquidity created by quantitative easing. Current financial liabilities included deposits by banks of £265.9 billion (2010-11: £189.3 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 £9.8 billion (2010-11: £10.0 billion).

Pension liability

2.82 Public service pensions form a significant part of the Government's total liabilities, with a **total net pension liability of £1,007.8 billion** as at 31 March 2012 (2010-11 restated: £961.0 billion).

2.83 The Government operates a range of defined benefit funded and unfunded pension schemes for past and present public servants. Schemes are administered by central government departments, devolved administrations, other public entities (such as local government entities) or independent trustees.

2.84 The major public service schemes, with the exception of the local government scheme, are unfunded. For these unfunded schemes, expenditure on pension payments is met from general taxation. The liability will be paid out over time as employees retire and draw their pension. The net pension liability is shown below by type of scheme.

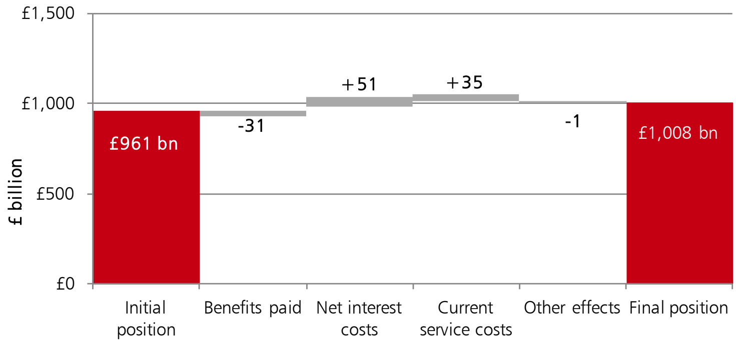
Table 2.4 Net pension liability by type of scheme

	2011-12 £bn	2010-11 £bn	Change %
Unfunded schemes (gross)			
Teachers (UK)	233.3	222.8	5
NHS (UK)	282.6	292.3	(3)
Civil Service	155.1	145.0	7
Armed Forces	105.6	100.6	5
Police	101.6	93.8	8
Fire	21.1	19.8	7
Other unfunded	20.0	19.9	1
	919.3	**894.2**	3
Funded schemes (net)			
Local Government	78.4	57.7	36
Other funded	10.1	9.1	11
	88.5	**66.8**	32
Total net pension liability	**1,007.8**	**961.0**	5

2.85 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. 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.

2.86 The chart below shows an analysis of the change in the net public service pension liability over 2012. An analysis of the liability is provided in Note 27 to the accounts.

Chart 2.8: Change in the net public service pension liability in 2012



2.87 There are a number of key assumptions that are used to calculate public service pension liabilities. These include the rate of increase in salaries and pensions inflation 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.

2.88 The accounting standards require that entities set the discount rate to reflect 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. Note 27 describes in more detail the assumptions made in calculating the liability at 31 March 2012.

Provisions

2.89 As at 31 March 2012, provisions amounted to £113.3 billion (2010-11 restated: £107.0 billion), an increase of £6.3 billion (6 per cent) in the year. As with 2010-11 the most significant provisions were the nuclear decommissioning provision and the provision for clinical negligence.

2.90 The **provision for nuclear decommissioning was £64.3 billion** (2010-11: £60.9 billion) which included the cost of dealing with radioactive waste, nuclear fuels and materials, capital facilities, redundant facilities and contaminated materials. The provision and recoverable balances are 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. The provision increase in the year reflected changes to the estimates of future decommissioning costs.

2.91 The **provision for clinical negligence was £19.4 billion** (2010-11: £17.5 billion) reflecting an actuarially determined assessment of individual incidents that have occurred, where it was more than 50 per cent probable that the claim would be successful and the amount of the claim could be reliably estimated, taking into account likely costs to resolve the claim and historical probability factors. Clinical negligence claims which may succeed, but which are less likely or cannot be reliably estimated, are disclosed as contingent liabilities. The increase in the provision was due to a combination of higher claims volumes and the faster reporting of claims rather than a substantial increase in the incidence of clinical negligence itself.

2.92 The Government also held a number of other provisions totalling £29.6 billion (2010-11 restated: £28.6 billion), which included provisions for taxes subject to challenge, in relation to legal cases, matters relating to medical costs and Government schemes such as the Financial Assistance Scheme.

Contingent liabilities

2.93 Contingent liabilities are associated with events that are considered possible but not sufficiently probable (or unquantifiable) that they should be included in the Statement of Financial Position. WGA includes those contingent liabilities that were discloseable in accordance with accounting standards, and goes further by showing other commitments, even though the likelihood of them occurring is considered to be remote.

2.94 Total quantifiable contingent liabilities discloseable in accordance with accounting standards were £100.8 billion (2010-11 £49.5 billion), an increase of £51.3 billion. This was largely because the UK was liable for £29.7 billion of callable capital in the European Investment Bank (EIB), should the EIB's Board of Directors call upon each Member State to pay its share of the balance of subscribed capital. As at 31 March the likelihood of the capital being called was more than a remote possibility although still not probable. Another £15.0 billion of the increase in contingent liabilities reflected revisions to the estimated potential liability from the Petroleum Revenue tax associated with oil and gas field decommissioning.

2.95 The majority of the Government's quantifiable and remote contingent liabilities remained as a consequence of the guarantees and indemnities provided as part of the financial stability interventions. As detailed in HM Treasury's 2011-12 accounts, they included:

- an agreement to provide contingent capital to the Royal Bank of Scotland (£8.0 billion (2010-11: £8.0 billion));
- an agreement to provide capital to meet regulatory requirements of Northern Rock (Asset Management) Plc (£1.6 billion (2010-11: £1.6 billion));
- financial stability interventions where the likelihood of the liability crystallising was remote (e.g. the Asset Protection Scheme and Credit Guarantee Scheme which closed after the year end), and guarantees and indemnities in relation to Northern Rock Plc and Bradford & Bingley Plc; and
- non-quantifiable contingent liabilities arising from the financial interventions, including indemnities to the directors of Northern Rock Plc, Northern Rock (Asset Management) Plc, Bradford & Bingley Plc, and related companies such as United Kingdom Asset Resolution Plc, a guarantee to the Financial Services Authority that HM Treasury will ensure that Bradford & Bingley Plc will meet their regulatory capital requirements, and compensation schemes established in relation to Northern Rock Plc, Bradford & Bingley Plc and Dunfermline Building Society.

2.96 A number of guarantees and indemnities exist between HM Treasury and the Bank of England. These are not disclosed in Whole of Government Accounts, as both bodies are included in the consolidated financial statements and offset each other.

Future capital and financial commitments

2.97 The Government made capital commitments for future capital expenditure of £38 billion (2010-11: £44 billion, 2009-10: £51 billion). These were made primarily in relation to defence, transport and health assets. The year on year decrease reflected a reduction in defence capital commitments from £23 billion in 2009-10, to £18 billion in 2010-11 and then to £17 billion in 2011-12.

2.98 The Government also had a financial commitment for future payments of £59 billion (2010-11: £66 billion, 2009-10: £68 billion) as a result of other non-cancellable contracts entered into by a range of central and local government bodies. The decrease reflected a drop in transport commitments for future payments (£8 billion from £12 billion in 2010-11) and in future education grants by the Higher Education Funding Council for England (£8 billion from £10 billion in 2010-11).

Events since 31 March 2012

2.99 Since the accounts of the individual entities that form WGA were prepared, there have been a number of events that could have a bearing on the balance sheet position as at 31 March 2012. These events are shown in Note 38 to the Accounts.

3 Comparison to National Accounts

Broader fiscal framework

3.1 WGA sits within a broader set of data which together provides a comprehensive picture of the public finances and fiscal statistics. In summary:

- the independent Office for National Statistics publishes economic and fiscal statistics, consistent with the internationally-agreed National Accounts framework, e.g. deficit measures. These figures are used for fiscal policy and international and historical comparisons;
- each public sector entity publishes audited annual accounts consistent with its agreed accounting framework;
- the National Audit Office, audit bodies in the devolved administrations and private sector audit bodies scrutinise and challenge these accounts, and produce an audit report on each; and
- WGA consolidates these accounts to produce a snapshot of the public sector financial position in a given year. As well as providing a coherent set of financial statements, it offers insights on a consistent basis into the long-term sustainability of the public finances.

3.2 The Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances through its annual Fiscal Sustainability Report, which draws on the aggregates published in WGA.

Comparison to National Accounts

3.3 WGA is a complement to, rather than a substitute for, the financial information the Government and other independent bodies already publish, such as 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 to suit 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.

3.4 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. The ONS article *Comparison between Public Sector Finance measures from the National Accounts and Whole of Government Accounts* (June 2011), 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.

3.5 Two of the key fiscal aggregates based on the National Accounts are the public sector net debt and the current deficit. The nearest equivalents in WGA are net liabilities and net expenditure for the year. The key differences between the 2011-12 WGA and National Accounts[10] measures are explained below.

[10] As per the September 2012 ONS Public Sector Finances release, excluding financial interventions

Reconciliations between the WGA and National Accounts

Public Sector Net Debt

	2011-12 £bn	2010-11 £bn	2009-10 £bn
Net liabilities (WGA)	**1,347**	**1,186**	**1,228**
Net public service pensions liability	(1,008)	(961)	(1,135)
Provisions	(113)	(108)	(102)
PFI contracts	(30)	(27)	(25)
Unamortised premium or discount on gilts	(23)	(15)	(13)
Tangible and intangible fixed assets	793	757	769
UK Asset Resolution (UKAR) net impact on net debt	83	94	59
Payables and receivables	40	46	9
Investments	17	17	11
Other	-	16	27
Public sector net debt (National Accounts)[11]	**1,106**	**1,005**	**828**

Current Deficit

	2011-12 £bn	2010-11 £bn	2009-10 £bn
Net expenditure (WGA)	**185**	**94**	**163**
Public service pensions	(52)	79	(51)
Depreciation and Impairment of assets	(46)	(60)	(30)
Capital grants	(13)	(18)	(16)
Provisions	(5)	(6)	27
Net gains/losses on sale of assets	(1)	(4)	-
Military expenditure not capitalised	6	5	5
UK Asset Resolution (UKAR) net impact on current deficit	(1)	(1)	(1)
Other	17	12	12
Current deficit (National Accounts)[12]	**90**	**101**	**109**

Differences in relation to pensions

3.6 The largest difference between the WGA measures of net liabilities and net expenditure and the National Accounts based 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. By contrast, the National Accounts recognise only the cash payments and receipts associated with these pensions. The public service pension liability is not included in public sector net debt. There are differences of the same kind between WGA net expenditure and the National Accounts current deficit in relation to: interest on pension liabilities of £65 billion (2010-11: £61 billion) which is included in WGA but not National Accounts; expected return on pension scheme assets of £14 billion (2010-11: £13 billion); and past service charges of £1 billion (2010-11: £126 billion credit), where the WGA reflected the change in the indexation of public sector pensions from the RPI to the CPI in 2010-11.

Differences in relation to assets

3.7 Another key difference 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

[11] ONS Statistical Bulletin, Public Sector Finances, May 2013
[12] ONS Statistical Bulletin, Public Sector Finances, May 2013

are included in the WGA measure of net liabilities in accordance with IFRS, but are not included in the National Accounts based measure of public sector net debt.

3.8 While fixed assets are not included in public sector net debt, they are recognised as non-financial assets in the National Accounts. However, there are conceptual differences in the valuation of fixed assets and the measurement of impairment and depreciation. The National Accounts use a Perpetual Inventory Method (PIM) to calculate net capital stock and capital consumption (depreciation), whereas WGA recognises fixed assets and depreciation in accordance with international accounting standards.

3.9 The WGA measure of the expenditure includes depreciation and impairments resulting from an annual review of asset values. The National Accounts measure of the current deficit includes depreciation and certain impairments based on the PIM. The only impairments that are included in the National Accounts current deficit are those impairments caused by normal obsolescence or accidental damage, whereas WGA includes all impairments, no matter what their cause.

Differences in relation to provisions

3.10 WGA measures of net liabilities and net expenditure include provisions and movements in provisions. These take account of liabilities that will be met in the future arising from events that have occurred in the past and 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 the creation of or movements in these but do include the expenditure resulting from provisions in the accounting period that payments are made.

Differences in relation to UK Asset Resolution

3.11 UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) Plc and Bradford & Bingley plc. WGA's assets included shares in UKAR at net asset value for 2011-12. The National Accounts measures of public sector net debt and current deficit included UKAR from 2012-13 with restatements made to previous years' data, but differences arise as National Accounts do not include non-current assets.

Differences in relation to PFI

3.12 WGA takes into account PFI contracts that are not classified to the public sector 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. As a result, the value of PFI contracts included as liabilities in WGA is larger than in PSND. Within WGA, PFI contracts are included as part of current liabilities, and their associated assets are counted in property, plant and equipment. If these PFI schemes were classified to the public sector in the National Accounts, the value of the PFI contract would increase public sector net debt.

Differences in relation to capital-related spend

3.13 WGA treats capital grants as current expenditure, as the investment does not create assets directly for public sector bodies. The National Accounts treat such grants as capital expenditure and therefore they do not form part of the current deficit.

3.14 The profit and loss on the sale of assets is not recognised as current expenditure in the National Accounts but the proceeds are netted off capital expenditure. WGA shows the difference between the proceeds and the net book value after taking account of revaluations as part of the net expenditure.

3.15 National Accounts rules require that purchases of military weapons and the equipment needed to deliver them are scored at the point of purchase and treated as a current expense contributing to the current deficit. WGA treat this equipment as a non-current asset, depreciated over its useful life.

Other differences

3.16 There are a number of other differences between the National Accounts based measures and WGA. The most significant of these relate to the treatment of unamortised premium or discount on gilts and trade payables and receivables. Public sector net debt includes gilts based on their historical cost, whereas WGA follows the accounting standard that requires discounts and premiums to be amortised.

3.17 Trade receivables and trade payables are not included within public sector net debt as this is predominantly a cash-based measure, but are part of net liabilities with WGA.

4 Statement of Accounting Officer's Responsibilities

4.1 Under section 9 of the Government Resources and Accounts Act 2000, HM Treasury is required to prepare for 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 2011-12 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of Government's finances.

4.3 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM, and in particular 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, and specifically with regard to WGA, the 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 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 set out in Managing Public Money[13] published by HM Treasury and include 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 Governance Statement. When signing the Governance Statement, 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 Governance Statement for those bodies.

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

5 Governance Statement

Scope of Accounting Officer's responsibility

5.1 As Accounting Officer, I am responsible for maintaining a governance framework to support the efficient and effective production and audit of the Whole of Government Accounts.

5.2 The WGA governance framework 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 governance frameworks.

5.3 The framework 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 governance framework 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.

5.4 Publication of WGA is managed within HM Treasury's risk management framework, which is set out in the department's annual report and accounts. The Deputy Director for Government Financial Reporting is responsible on a day-to-day basis for managing risk and for ensuring that the activities necessary for the production of the accounts are properly planned, resourced and performed.

5.5 In producing WGA, 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. The major risks identified from the underlying accounts are set out in paragraphs 5.15 to 5.17 below. The key risks in the preparation of the consolidated account for the Whole of Government include:

- inaccuracies in entities' WGA returns, resulting in materially mis-stated balances;
- failure to provide data or delays in the submission of WGA returns; and
- mis-matching and non-elimination of intra-group transaction streams and balances, resulting in materially mis-stated figures.

5.6 To manage the key risks to the WGA consolidation and preparation process, HM Treasury maintains a risk register to assist in identifying and implementing 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.

5.7 The WGA governance framework has been in place for the year ended 31 March 2012 and up to the date of approval of the account, and accords with Treasury guidance, including the Corporate Governance in Central Government: Code of Good Practice, to the extent that it is deemed relevant and practical.

The WGA governance framework

5.8 I receive support and assurance on the management of risks in a number of ways:

- The HM Treasury Group Audit Committee, chaired by a non-executive member, reviews the department's approach to internal control and provides independent advice, with oversight of financial reporting and risk management activities associated with WGA.
- I am further supported in my responsibilities by the Treasury's Internal Audit function and an Advisory Group that provides me with specific advice on developing WGA.
- The external audit is provided by the Comptroller and Auditor General, supported by staff from the National Audit Office who have access to all Treasury papers and attend Treasury's Audit Committee and the WGA Advisory Group.

5.9 In November 2009, an Assurance Committee for WGA was set up. This Committee provided exclusive focus on WGA, better supporting the initial issues relating to publishing the first set of accounts. Following the production of the second set of accounts, and in response to an internal audit report, in September 2012, the Treasury Audit Committee took on the responsibility for assurance of activities relating to WGA, embedding them into the Treasury's usual processes [14]. A WGA Advisory Group was retained from October 2012 to assist the future development of WGA, providing advice on key issues as they affect the presentation, quality and use of the account.

5.10 The Advisory Group has private and public sector members. For the 2011-12 Account, membership was as follows:

- Sue Higgins (Chair), Director General for Finance and Corporate Services at the Department for Communities and Local Government.
- Steve Freer, Chief Executive of The Chartered Institute of Public Finance and Accountancy (CIPFA).
- Mike Hathorn, a partner at Moore Stephens LLP.
- Roger Marshall, a member of the Financial Reporting Council and Chair of its Accounting Council.
- Richard Douglas, the Director General of Policy, Strategy and Finance at the Department of Health and, from 1 April 2011, Head of the Government Finance Profession.
- Simon Ridley, the Director of Local Government Finance at the Department for Communities and Local Government.
- Peter Lauener, Chief Executive of the Education Funding Agency. Peter was appointed to the Advisory Group on 20 December 2012, replacing Sue Owen, Director General of Strategy at the Department of Work and Pensions.
- Mary Hardy, Independent Member of the Treasury Group Audit Committee (from 21 May 2013).

5.11 The WGA Advisory Group meets 3 times per year. It met on 16 October 2012, 4 March 2013 and 21 May 2013. The effectiveness of the Advisory Group is evaluated on an annual basis. The effectiveness of the Treasury Audit Committee is assessed in the HM Treasury Annual Report and Accounts.

Treasury's role in managing financial risk

5.12 In addition to the WGA governance framework, Treasury also has a role in managing the Government's financial risk more widely, although this is outside the responsibility of the WGA Accounting Officer. Financial risk is managed in a number of ways, including:

- **The Managing Public Money framework** – provides departments with guidance and sets out requirements on how to handle public funds properly.
- **Spending Reviews** – the process through which spending is allocated to areas of Government activity including public services, social security, and administration costs, according to the Government's priorities. Spending Reviews set firm and fixed spending budgets over several years for each department.
- **The budget and Estimates process for central government departments** - the Government uses the annual budgeting system to plan and control public expenditure. The Treasury presents Estimates of budgetary plans to Parliament to obtain the statutory authority to consume resources and spend cash. The budgetary system has two main objectives:
    1. To support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the Government's fiscal framework; and
    2. To provide good incentives for departments to manage spending well so as to provide high quality public services that offer value for money for the taxpayer.

[14] Membership of the Treasury Audit Committee is set out in its accounts, which can be found at www.gov.uk.

- The Treasury sets the **financial reporting framework** for Central Government and works with the other relevant authorities such as CIPFA LASAAC for financial reporting across Government and the Financial Reporting Advisory Board, to set best practice accounting standards.
- **Treasury spending teams** provide strategic challenge to, and monitoring of, departments' spending on an ongoing basis.
- **The Managing Taxpayers' Money framework** - The Programme for Government established the intent to strengthen financial discipline and place an obligation on public servants to manage taxpayers' money wisely. To reinforce these commitments, the Treasury has required departments to generate and report on their financial management improvement plans, to publish key data on Government activity; and invited the National Audit Office to continue its programme of departmental financial management reviews.
- **Public Services Transparency Framework** – as part of this new framework, the main government departments outline their information strategies and key indicators. They publish data to show the cost and impact of public services and departmental activities to allow the public to form its own view on whether they are getting value for money.

Review of effectiveness

(a) Addressing significant governance issues in underlying accounts and WGA data

5.13 The NAO has examined the financial management of central government departments for many years and consider it to be improving. However, the NAO caution that further improvements in strategic financial management will be required if the delivery of public services with fewer resources is to be sustained over the longer term.

5.14 The Treasury actively supports improvements in financial management. Recently it initiated the Finance Transformation Programme, which is now being taken forward by the Civil Service Reform Programme. Its focus is on improving the financial management capability of both the finance and non-finance communities. To improve the financial management capability in the Treasury, it carried out an organisational restructuring in 2012 embedding professional finance staff alongside policy colleagues in spending teams and used the WGA data to evaluate departmental plans to tackle long term issues, such as clinical negligence, and to inform policy decisions. More recently, in June 2013, the Treasury launched a review of how to strengthen financial management further within central government, as announced in "Strengthening financial management capability in government". The review will build on recent improvements in spending control and financial management and make recommendations by the end of 2013 about ways to achieve further improvement in these areas.

5.15 The underlying accounts and WGA data submissions show significant governance issues in a small number of entities that have resulted in audit qualifications. These weaknesses are the responsibility of the relevant Accounting Officer (or equivalent) and cannot be managed by the WGA Accounting Officer. Internal control weaknesses that led to qualifications (other than regularity) are also considered for their impact on WGA.

5.16 Those that are material to WGA are:

- The Cabinet Office: Civil Superannuation accounts report the financial results of the Principal Civil Service Pension Scheme and a number of other small public sector schemes. The Comptroller and Auditor General reported that the scope of his opinion was limited in relation to the truth and fairness of the valuation of the pension liability because the Cabinet Office was unable to provide sufficient evidence to assure him the liability of £144 billion was a reasonable estimate based on the Scheme's membership records. The Comptroller and Auditor General gave similar qualifications to his opinion in 2010-11. The Cabinet Office is working with MyCSP Ltd, the new mutual arrangement for administering the Principal Civil Service Pension Scheme, and employers to develop and implement a Records Improvement Action Plan.

- The Ministry of Defence identified several significant internal control issues, including concerns in respect of the affordability of the defence programme and reductions in manpower. Weaknesses regarding inventory and stock management and control that were previously identified by NAO remain, and improvements have been made.

  The audit opinion on the 2011-12 accounts, like the 2010-11 accounts, was limited in scope in relation to weaknesses in inventory control. 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.

- Both HM Revenue and Customs (HMRC) and the Department for Work and Pension (DWP) identified several significant internal control issues, notably related to levels of error and fraud.

  The 2011-12 accounts of both departments received a qualified opinion on regularity in relation to these matters. HMRC estimated that in 2010-11 error and fraud resulted in overpayments of between £2.1 billion and £2.5 billion (2009-10: between £1.8 billion and £2.1 billion) and underpayments of between £0.2 billion and £0.3 billion (2009-10: between £0.3 billion and £0.6 billion)[15].

  DWP estimated in 2011-12 that error and fraud resulted in overpayments of benefits of £3.2 billion (2010-11: £3.3 billion) and underpayments of benefits of £1.3 billion (2010-11: £1.3 billion).

- Without qualifying his opinion on the 2011-12 Department of Health Accounts, the Comptroller and Auditor General disclosed an Emphasis of Matter relating to the department's application of the International Accounting Standard 8 exemption to the provision of robust prior year comparative information for the restatement of the department's consolidated account for the Clear Line of Sight project (CLOS)[16]. From a WGA perspective, the comparatives were resolved on consolidation.

5.17 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.

(b) Addressing significant governance issues in the WGA consolidation process

5.18 In 2011-12, HM Treasury took a number of steps to strengthen its internal controls over the consolidation process:

- strengthening controls over data collection by improving data validation checks during the completion of data collection packs;
- improved analytical review processes to ensure the quality and robustness of final balances;
- improved the feedback given to entities regarding counter-party mismatches; and
- improved data collection procedures and processes, enabling users to complete their data collection packs more easily, speeding up consolidation. This included the pre-population of the data collection pack with opening balances.

5.19 Further improvements will be made as experience of producing WGA grows. These will focus on consolidation processes within the WGA team and on the control framework for data collection. Plans are being developed to increase the speed of account production.

5.20 From 2012-13, HM Treasury will use a new data collection pack as part of its migration to a new IT consolidation system to collect financial data from WGA entities and prepare the consolidated account. The new data collection arrangements have been designed to support further analysis of expenditure in the future and address some of the recommendations made by the Comptroller and Auditor General, including improved authorisation processes for submitting data and improved reporting functionality.

[15] Further information is set out in the 2010-11 and 2011-12 accounts of HMRC.
[16] The Clear Line of Sight Project aligned the reporting of budgets, Estimates and accounts in Central Government from 2011-12.

The focus for 2012-13 will be on ensuring that data collection is not compromised by the use of the new pack and system.

5.21 I have assessed the WGA compliance with the Corporate Governance in Central Government Departments Code of Good Practice. I believe that we comply with the provisions of the Code that are relevant to my responsibilities to prepare WGA.

5.22 I am satisfied that effective remedial action is being taken to address the control issues identified above. However, some improvements may take several years to implement fully. In part, this is because 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.

(c) Assurance in making this judgement

5.23 Whilst there are improvements that can be made, the governance framework 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, and we are taking steps to reduce the extent of this in future years.

Information and data handling

5.24 In preparing WGA, HM Treasury does not collect any personal data from WGA entities. WGA data collected from WGA entities are held on HM Treasury's Combined Online Information System (COINS) database. Data is published on http://www.data.gov.uk as part of a scheduled release of COINS data.

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 necessary steps to make myself aware of any relevant audit information and to establish that the National Audit Office is aware of that information.

Sharon White
Accounting Officer
12 July 2013

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 2011-12 Government Financial Reporting Manual. 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 around 3,000 entities would result in an unwieldy and lengthy document that would detract from the overall accounts. This chapter summarises the remuneration arrangements of the main public sector workforces, sets out the Government's policy on pay, and provides links to organisations where information on individual arrangements are available.

Civil service pay policy

6.2 Pay policy for civil servants below the Senior Civil Service is delegated to departments, within overall parameters set by HM Treasury. Each year, the Treasury publishes pay guidance which sets out these parameters[17], and it is then for departments to agree their individual settlement with the trade unions, within those parameters. These arrangements also cover many non-departmental public bodies where staff are not technically civil servants.

Pay review bodies

6.3 For much of the public sector, pay awards are set by the Government after receiving advice from the independent Pay Review Bodies. Each year the Review Bodies take evidence from interested parties, including government departments and trade unions, carry out their own independent research, and then formulate recommendations on the remuneration of their particular workforce. The Government then decides whether to accept, reject or stage the pay awards recommended by the Review Bodies.

6.4 The Pay Review Bodies are:

- NHS Pay Review Body – covering all NHS staff, excluding doctors, dentists and very senior managers;
- Doctors' and Dentists' Review Body – covering 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;
- School Teachers' Review Body – covering school teachers in England and Wales;
- Armed Forces' Pay Review Body – covering members of the Naval, Military and Air Forces of the Crown up to and including the rank of Brigadier (one star) or equivalent;
- Prison Service Pay Review Body – covering 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; and
- Senior Salaries Review Body – covering senior civil servants, members of the judiciary, and senior officers in the armed forces.

6.5 Pay, for those working in NHS Foundation Trusts and academies, is a matter for those organisations. However, in practice, the majority of these organisations choose to follow the Pay Review Body recommendation. Further information on the Pay Review Body process is available on the website of the Office of Manpower Economics, the Secretariat to the Review Bodies[18].

[17] http://www.hm-treasury.gov.uk/d/civil_service_pay2012_13.pdf
[18] www.ome.uk.com

The devolved administrations

6.6 Where civil servants work for the devolved administrations, pay is a matter for these administrations. Reports on pay related matters affecting the devolved bodies may 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. Where civil servants work in UK departments, but are based in the devolved countries, and in instances such as the armed forces, pay is a matter for the UK Government.

Local government

6.7 Pay for local government workers is a matter for local government to determine. In practice, 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 a national pay scale, but it is for individual authorities to decide where to place employees on that scale or indeed whether to opt out completely. Separate NJCs negotiate pay for Fire and Rescue Service staff.

Police authorities

6.8 Police pay is a matter for individual police authorities in England and Wales[19] and in Scotland. There are also national forums that negotiate agreements on pay and conditions that police authorities may choose to opt into. In Northern Ireland, police pay is a matter for the Chief Constable and the Northern Ireland Policing Board, subject to the approval of the Northern Ireland Department of Finance and Personnel. There are also Police Advisory Boards and the Police Negotiating Board which negotiate hours of duty, leave, pay and allowances, pensions and other matters for police officers across the UK.

Health sector

6.9 Pay for those working for NHS Trusts and NHS Foundation Trusts is a matter for those individual entities. Details can be found in the annual 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 Governors*'. 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

6.10 The Office for National Statistics (ONS) publishes statistical details of pay in the public sector[20]. These statistics are drawn from pay information provided independently by each entity in accordance with ONS requirements. 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[21].

6.11 Details of local government pay in England and Wales are available from the Local Government Association, which publishes an annual Local Government Earnings Survey on its website[22]. 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'

[19] abolished and replaced by Police and Crime Commissioners on 15 November 2012
[20] www.ons.gov.uk
[21] http://www.cabinetoffice.gov.uk/resource-library/non-departmental-public-bodies-high-earners-data-release
[22] www.local.gov.uk

available on its website[23]. Details of remuneration by local authority are available in their individual accounts and on www.data.gov.uk.

6.12 Details of total public sector wages costs are provided in Note 7 to these accounts. These set out staff costs and employee numbers within central government, local government, health sector, non-departmental public bodies, and public corporations in England, Wales, Northern Ireland and Scotland.

6.13 Median earnings across the public sector for the financial year 2011-12 are shown below. During 2011-12, most central government civil servants were subject to a pay freeze; however employees earning under £21,000 received a pay increase of at least £250.

	Median earnings 2011-12 £	Median earnings 2010-11 £
Central Government Civil Service[24]	23,900	22,850
Local Government[25]	19,086	18,956
Public Sector[26]	23,508	22,902
Private Sector[27]	20,617	20,575

6.14 The number of central government civil servants earning full time equivalent (FTE) salaries above £100,000 is shown below. It covers only home civil service employees in central government and excludes the Northern Ireland civil service and employees of non-departmental public bodies.

FTE salary levels	Number of civil servants 2011-12	Number of civil servants 2010-11
Greater than £100,000	755	817
Greater than £150,000	97	112
Greater than £200,000	9	18

Source: Annual Civil Service Employment Survey

6.15 Within local government, 46,400 staff (4 per cent of the workforce, on a FTE basis) earned over £42,000 per annum[28]. These numbers exclude teachers and chief officers.

6.16 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[29].

[23] https://www.gov.uk/government/organisations/department-for-communities-and-local-government
[24] ONS Statistical Bulletin, Civil Service Statistics, 2012 (www.ons.gov.uk)
[25] Extract from table 2 of 'Earnings survey: summary report 2011-12' (http://www.lga.gov.uk)
[26] Table 17a from Annual Survey of Hours and Earnings 2012 Provisional, ONS (www.ons.gov.uk)
[27] Annual Survey of Hours and Earnings 2012 Provisional, ONS (www.ons.gov.uk)
[28] 'Local Government earnings survey: summary report 2011-12' (http://www.lga.gov.uk)
[29] https://www.gov.uk/government/publications/senior-officials-high-earners-salaries
https://www.gov.uk/government/publications/non-departmental-public-bodies-high-earners-data-release

7 Whole of Government Accounts

Consolidated Statement of Revenue and Expenditure

For the year ended 31 March 2012

	Note	2012 £bn	2011 £bn
Taxation revenue from direct taxes	*3*	(291.4)	(296.4)
Taxation revenue from indirect taxes	*3*	(177.5)	(166.2)
Taxation revenue from local taxes	*3*	(54.8)	(52.8)
Revenue from sales of goods and services	*4*	(41.8)	(49.8)
Other revenue	*5*	(51.1)	(48.8)
Total revenue		**(616.6)**	**(614.0)**
Social security benefits	*6*	209.7	204.0
Staff costs	*7*	183.2	193.1
Pension past service costs and indexation adjustment	*7*	1.0	(126.0)
Purchase of goods and services	*8*	152.0	159.2
Cost of grants and subsidies	*9*	61.6	68.4
Depreciation and impairment charges	*10*	64.4	80.4
Provision expense	*25*	17.4	18.3
Other expenditure	*11*	25.8	27.5
Total expenditure		**715.1**	**624.9**
Net expenditure before financing costs		**98.5**	**10.9**
Investment revenue	*12*	(5.2)	(5.1)
Finance costs	*13*	42.3	40.5
Interest on pension scheme liabilities	*27*	64.8	60.8
Expected return on funding pension schemes' assets	*27*	(13.8)	(13.0)
Net financing costs		**88.1**	**83.2**
Revaluation of financial assets and liabilities		(1.6)	(3.3)
Net loss on disposal of assets		0.3	3.6
Net expenditure for the year		**185.3**	**94.4**

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Note	2012 £bn	2011 £bn
Net expenditure for the year	*SoRE*	**185.3**	**94.4**
Other comprehensive income			
Net gain on revaluation of property, plant and equipment	*SoCTE*	(19.8)	(21.2)
Net loss on revaluation of available for sale financial assets	*SoCTE*	2.5	2.1
Actuarial gain on pension liabilities	*SoCTE*	(1.4)	(99.9)
Net other comprehensive income		**(18.7)**	**(119.0)**
Total comprehensive expenditure/(income)		**166.6**	**(24.6)**

The Statement of Comprehensive Income sets out the net expenditure as well as the effects of asset revaluation gains and actuarial gains associated with the pension liability. These gains and losses are currently recognised in reserves in the Statement of Changes in Taxpayers Equity. If realised in the future, they will impact on the net expenditure shown in the Statement of Revenue and Expenditure.

Consolidated Statement of Financial Position

As at 31 March 2012

	Note	2012 £bn	2011 Restated £bn
Non-current assets			
Property, plant and equipment	*14*	745.1	714.0
Investment property	*15*	12.6	12.4
Intangible assets	*16*	35.0	34.8
Trade and other receivables	*17*	15.9	15.1
Equity investment in the public sector banks	*18*	40.8	59.5
Other financial assets	*22*	122.8	120.4
Total non-current assets		**972.2**	**956.2**
Current assets			
Inventories	*20*	11.4	12.0
Trade and other receivables	*17*	126.0	130.0
Cash and cash equivalents	*21*	21.5	22.5
Gold holdings		10.4	9.0
Assets held for sale	*19*	2.1	1.9
Other financial assets	*22*	124.0	102.7
Total current assets		**295.4**	**278.1**
Total assets		**1,267.6**	**1,234.3**
Current liabilities			
Trade and other payables	*23*	(101.3)	(98.6)
Government borrowing and financing	*24*	(224.2)	(217.0)
Provisions for liabilities and charges	*25*	(13.4)	(11.6)
Other financial liabilities	*26*	(340.2)	(259.4)
Total current liabilities		**(679.1)**	**(586.6)**
Net current liabilities		**(383.7)**	**(308.5)**
Total assets less current liabilities		**588.5**	**647.7**

Non-current liabilities			
Trade and other payables	*23*	(53.5)	(49.8)
Government borrowing and financing	*24*	(741.3)	(691.2)
Provisions for liabilities and charges	*25*	(99.9)	(95.4)
Net public service pension liability	*27*	(1,007.8)	(961.0)
Other financial liabilities	*26*	(33.0)	(36.0)
Total non-current liabilities		**(1,935.5)**	**(1,833.4)**
Net liabilities		**(1,347.0)**	**(1,185.7)**
Financed by Taxpayers' Equity:			
Liabilities to be funded by future revenues			
General reserve	*SoCTE*	1,596.6	1,422.7
Revaluation reserve	*SoCTE*	(239.4)	(231.4)
Other reserves	*SoCTE*	(10.2)	(5.6)
Total liabilities to be funded by future revenues		**1,347.0**	**1,185.7**

The financial statements and supporting notes on pages 37 to 147 and annexes on pages 197 to 226 were approved by Sharon White as the Accounting Officer for Whole of Government Accounts on 12 July 2013.

Sharon White
Accounting Officer
12 July 2013

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2012

	Note	General reserve £bn	Revaluation reserve £bn	Other reserves £bn	Total £bn
Changes in taxpayers' equity					
At 1 April 2010		1,426.9	(214.9)	15.9	1,227.9
Net expenditure for the year ended 31 March 2011 (before restatement)	*SoRE*	94.4	-	-	94.4
Net gain on revaluation of property, plant and equipment		-	(21.3)	0.1	(21.2)
Net loss on revaluation of available for sale financial assets		-	2.1	-	2.1
Actuarial loss on pension liabilities	*27.6*	(99.9)	-	-	(99.9)
Receipt of donated and government granted assets		(0.6)	-	(0.3)	(0.9)
Other movements on reserves		(14.4)	5.2	0.2	(9.0)
Transfers between reserves		(4.5)	7.1	(2.6)	-
Balance at 31 March 2011		**1,401.9**	**(221.8)**	**13.3**	**1,193.4**
Restatements		20.8	(9.6)	(18.9)	(7.7)
Balance at 1 April 2011 (restated)		**1,422.7**	**(231.4)**	**(5.6)**	**1,185.7**
Net expenditure for the year ended 31 March 2012	*SoRE*	185.3	-	-	185.3
Net gain on revaluation of property, plant and equipment		-	(19.8)	-	(19.8)
Net loss on revaluation of available for sale financial assets		-	2.5	-	2.5
Actuarial gain on pension liabilities	*27.6*	(1.4)	-	-	(1.4)
Receipt of donated and government granted assets		0.1	-	-	0.1
Other movements on reserves		(9.6)	3.8	0.4	(5.4)
Transfers between reserves		(0.5)	5.5	(5.0)	-
Balance at 31 March 2012		**1,596.6**	**(239.4)**	**(10.2)**	**1,347.0**

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

Consolidated Cash Flow Statement

For the year ended 31 March 2012

	Note	2012 £bn	2011 Restated £bn
Cash flows from operating activities			
Net expenditure before financing costs	*SoRE*	98.5	10.9
Adjusted for non-cash transactions		(77.5)	(95.4)
Adjusted for non-cash pension transactions		2.8	123.1
Increase/(decrease) in trade and other receivables		(8.0)	0.9
Increase in inventories		0.3	0.8
Increase in trade and other payables		(6.4)	(3.7)
Use of provisions	*25*	11.7	12.4
Net cash outflow from operating activities		**21.4**	**49.0**
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		53.7	50.5
Proceeds from disposal of non-financial assets		(2.1)	(4.6)
Payments to acquire financial assets		71.2	46.6
Proceeds from disposal of financial assets		(49.8)	(71.7)
Net loans to students		7.3	6.4
Net cash outflow from capital expenditure and financial investment		**80.3**	**27.2**
Net cash outflow before financing activities		**101.7**	**76.2**
Cash flows from financing activities			
Investment revenue	*12*	(5.2)	(5.1)
Finance costs (excluding finance leases and PFI contracts)	*13*	39.0	37.7
Finance charges in respect of finance leases and PFI contracts	*13*	3.3	2.8
Increase in gilt edged stock		(57.3)	(126.4)
Decrease in other non-trade receivables		(1.3)	(0.7)
Other financial liabilities - net cash (inflows)/ outflows		(79.2)	12.7
Net cash inflow from financing activities		**(100.7)**	**(79.0)**
Net increase/ (decrease) in cash and cash equivalents	*21*	**(1.0)**	**2.8**
Cash and cash equivalents at the beginning of the period	*21*	**22.5**	**19.7**
Cash and cash equivalents at the end of the period	*21*	**21.5**	22.5

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 2011-12 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. Chapter 14 of the 2011-12 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 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:

- 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 Prior period restatements

Material adjustments applicable to prior periods arising from either changes in accounting policy, changes in the WGA boundary or from restatements in the underlying accounts from correcting, restating or reclassifying are accounted for as prior year adjustments. A restated 2010-11 Statement of Financial Position with details of material restatements is provided in Note 39.

1.3 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. All the banks classified to the public sector, except for the Bank of England (which has been fully consolidated), 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. Entities excluded from consolidation are listed in Annex 2. In addition, minor entities have not been included in WGA if they meet certain criteria. The minor entities that have been excluded and key financial numbers are listed in Annex 3. The critical judgements involved in establishing the WGA boundary are outlined in Note 1.22.1.

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.

1.4 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 than 31 March has been adjusted for any transactions or events that occurred after their financial year end and 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. Otherwise, transfers of functions between government bodies have no effect on the presentation of the financial statements.

1.5 Basis of consolidation

The assets, liabilities, revenue and expenditure 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.

1.6 Going concern

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

1.7 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.

1.8 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 this case, an average rate for the 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.

1.9 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 1.22.

1.10 Disclosures

In line with the 2011-12 FReM, a disaggregated analysis is set out by 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.

1.11 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. Revenue received for a specific activity to be delivered in future years is deferred.

1.11.1 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. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

Revenues are deemed to accrue evenly over the period for which they are due. Taxes and duties are accounted for on an accruals basis, except for stamp duty and National Insurance Classes 1A, 1B and 3. These are accounted for on a cash basis. All repayments are accounted for on an accruals basis with the exception of repayments of capital gains tax, inheritance tax, petroleum revenue tax and stamp duty.

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.

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.

The 'tax gap', defined as the difference between all the tax theoretically due in HMRC's view and the tax actually 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. Under this definition the tax gap revenue loss equates to the shortfall resulting from non-payment, fraud, error, and artificial avoidance schemes.

1.11.2 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.

1.11.3 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.

1.12 Expenditure

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

1.12.1 Social security benefits

Included in social security benefits are statutory entitlements (most of which are included in the Social Security Contributions and Benefits Act 1992), payable to private individuals and households. Social security benefits are accounted for as expenditure in the period to which they relate.

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. Overpayments are recovered from future tax credit awards or through repayments by claimants.

The state pension is included within social security benefit expenditure.

1.12.2 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. They will be included in the cost base of the relevant asset and therefore do not appear in the Statement of Revenue and Expenditure. Average staff numbers are expected to include staff engaged on capital projects.

Staff costs include public service pension scheme costs and exclude pension indexation conversion which, for 2010-11, is disclosed separately as a non-recurring event.

Public service pension scheme costs include current service costs and past service costs. Current service costs are the increase in the present value of the scheme liabilities included in WGA arising from current members' service in the current period. Past service costs are increases or 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.

1.12.3 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.

1.12.4 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, unless it meets the criteria set out under IAS 38 '*Intangible Assets*', in which case it is capitalised.

1.12.5 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.

Where output tax is charged and 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 in the Statement of Financial Position.

1.12.6 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. Owing to 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.

1.13 Non-current assets

1.13.1 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 as appropriate to their circumstances and disclosed in the accounting policy note in their accounts. Central government departments typically have a capitalisation threshold of £5,000, other than the Ministry for Defence which has a capitalisation threshold of £25,000.

Strategic goods held for use in national emergencies are counted as non-current assets within property, plant and equipment. These inventories are maintained at fixed 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 included in 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 interim internal reviews.

Gains on revaluation are taken to the revaluation reserve. Losses on revaluation are debited to the revaluation reserve if gains have been previously recorded, and otherwise to the Statement of Revenue and Expenditure. On sale of the asset, any remaining balance in the revaluation reserve is released to the Statement of Revenue and Expenditure.

1.13.2 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 road network infrastructure asset consists of carriageways, structures, land and communication equipment that form a single integrated network. The network infrastructure is intended to be maintained at a specific level of service potential by continual replacement and refurbishment. The assets are specialised and therefore are valued at gross replacement cost in accordance with the FReM before applying depreciation. The gross replacement cost is calculated as if providing a replacement asset, on a 'green-field' site, constructed to modern build standards and then depreciated to take account of the condition of the network.

External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using recent schemes actual cost and physical assets records to provide unit rates for all elements and components of the network. Between full valuations, the values are adjusted using indices. These are applied to the valuation of the network to ensure the final valuation is at current replacement cost. The valuation of the network is based upon a non recoverable VAT rate of 20 per cent which reflects a consistent long-term approach to valuing the network. Certain large structures are valued at historical prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost. Road surfaces are subject to an annual condition survey.

Local Authority Infrastructure

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

Infrastructure assets include highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical cost basis for those assets, compared to the depreciated replacement cost basis used by all other government entities as set out above. Local authorities are working towards a valuation on a depreciated replacement cost basis for inclusion in the 2012-13 Whole of Government Accounts.

Transport for London (TfL) Infrastructure

Transport for London (TfL) infrastructure consists of roads, tunnels, viaducts, bridges, stations, track, signalling, bus stations and stands, properties attached to infrastructure that are not separable from infrastructure, and properties attached to infrastructure that are used to facilitate the service provision but are limited in use by operational constraints. These are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items was determined by reference to a previous GAAP revaluation as deemed cost at 1 April 2009 when TfL first adopted IFRS.

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.

1.13.3 Assets under construction

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

1.13.4 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 is then 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 1.13.1, is capitalised as an intangible asset.

1.13.5 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 value. Heritage assets include historic buildings, archaeological sites, monuments, statues, the National Archives, military and scientific equipment of historic 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 heritage assets that 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. Non-operational heritage assets acquired before 1 April 2000 (2001 for NDPBs) are generally not capitalised. All non-operational heritage assets acquired since 1 April 2001 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. They are, however, subject to impairment reviews where damage or deterioration is reported.

1.13.6 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, historic 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).

1.13.7 Donated assets

The category 'Donated assets' covers two types of assets: those that have been donated and those 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 and subject to impairment review on the same basis as purchased assets. They are included in 'Furniture, Fittings and Other' in the property, plant and equipment note (Note 14).

Income to the value of the donated assets is recognised in the year of donation except where the donation is subject to conditions. Where the donation is subject to condition, income is deferred to the year in which the conditions are met.

1.13.8 Capital grants and contributions

Grants and similar financing for capital items, to the extent that they have not been eliminated on consolidation, are recognised immediately in the Statement of Revenue and Expenditure once there is reasonable assurance that all conditions relating to those grants have been met.

1.13.9 Investment properties

An asset is recognised as an investment property when the property (land or buildings) is held for 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.

1.13.10 Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Software that is embedded in computer-controlled equipment that cannot operate without that specific software and is an integral part of the related hardware, treated as property, plant and equipment.

Intangible assets are measured on initial recognition at cost. The capitalisation threshold for expenditure on intangible assets is determined by each WGA entity. Following initial recognition, where an active market exists, intangible assets are carried at fair value at the Statement of Financial Position date. Where no active market exists, published indices may be used to assess the depreciated replacement cost as a proxy for fair value. The useful lives of intangible assets are assessed to be either finite or indefinite and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method are reviewed at least at each financial year end.

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 three and ten years.

1.13.11 Assets held for sale

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

1.13.12 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.

Land, assets under construction, 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, mainly 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.

The depreciation period varies for each WGA entity. Generally, assets are depreciated over the following timescales:

Asset group	Depreciation period
Buildings	up to 50 years or estimated useful economic life
Dwellings	in line with local authorities' Major Repairs allowance value
Military equipment	varies according to estimated useful economic life
Plant and machinery	5-15 years
Transport equipment	5-10 years
IT hardware, software and equipment	3-10 years
Furniture and fittings	5-10 years

1.13.13 Infrastructure assets depreciation

Strategic Road Network

Network infrastructure 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. Freehold land, the sub-pavement layer of long-life pavements, and earthworks are considered to have an indefinite life and are not depreciated. Road surfaces are subject to an annual condition survey and any movement in the condition is taken to the Statement of Revenue Expenditure as a depreciation charge or improvement credit.

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. 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 to 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 reporting date.

1.14 Current assets

1.14.1 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.

1.14.2 Cash and cash equivalents

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

1.14.3 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 the end of the reporting period. 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.

1.15 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the effective interest rate at the reporting date. The value of receivables is shown after a provision for irrecoverable debts. The provision is based on objective evidence that not all amounts will be able to be recovered, through a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the provision, for examples increases in bad debts, are recognised in the Statement of Revenue and Expenditure.

1.16 Leases

Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases in accordance with IAS 17 '*Leases*'.

Where a WGA entity is the lessor under an operating lease, assets subject to operating leases are included in the Statement of Financial Position according to the nature of the assets. Rental income from operating leases, excluding charges for services such as insurance and maintenance, are recognised on a straight-line basis over the period of the lease, even if the payments are not received on this basis (e.g. due to lease incentives). However, this basis may be modified if there is another systematic and rational basis which is more representative of the time pattern in which the benefits derived from the leased asset are diminished. 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 a WGA entity is the lessee under an operating lease, rentals payable, net of benefits received or receivable (e.g. cash incentives for a lessee to sign a lease), are charged to revenue on a straight-line basis over the term of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the benefits received.

Finance leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessee are classified as finance leases in accordance with IAS 17 '*Leases*'. Where the risks and rewards of ownership of a leased asset are substantially borne by a WGA entity, the asset is recognised on the Statement of Financial Position 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.

Where a WGA entity is the lessor under a finance lease, amounts due from the lessees are recorded in the Statement of Financial Position as a receivable at the amount of the net investment in the lease. The lease payments receivable are apportioned between repayment of the receivable and finance income. The finance income is credited to revenue and calculated so as to give a constant periodic rate of return from the net investment.

1.17 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 fixed assets, 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 payments are recorded as an operating cost. Where the balance is borne by the Government, 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 the residual interest is included within Assets under Construction.

1.18 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. Obligations are reviewed on a regular basis and provisions are updated accordingly.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of a provision is discounted to the present value of the expenditures expected to be required to settle the obligation. The discount rate does not reflect risks for which future cash flow estimates have been adjusted, in line with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Accordingly, the rate is based on the yield on UK index-linked gilts which are considered to be the best proxy for a risk free rate. The year on year changes to the discount rate are charged through the Statement of Revenue and Expenditure.

Where some or all of the expenditure required to settle a provision is expected to be recovered from a third party the recoverable amount is treated as a non-current or current asset. Provision charges in the Statement of Revenue and Expenditure are shown net of changes in the amount recoverable from third parties. Provision changes are accounted for in the year in which they arise.

1.19 Pension costs and public service pension liability

The pension liability 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 paid to the general public. As they are not employee benefits for public sector staff, they are not included in the public service pension liability. State pensions are contributory benefits paid in accordance with Government policy and are expensed as incurred (Note 6). 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 the Statement of Financial Position on a net basis taking account of scheme assets and scheme liabilities. Scheme assets are carried at fair value as at the end of the reporting period. 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 using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes use a real discount rate, while local government schemes 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.

1.20 Financial instruments

1.20.1 Financial assets

Financial assets are classified into the following four categories:

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

b) Held-to-maturity investments;

c) Loans and receivables; and

d) 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:

a) 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 in this category to align it with a related liability if this results in more relevant information. 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.

b) 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, for example fixed term deposits. After initial recognition, held-to-maturity financial assets are held at amortised cost using the effective interest method, less any impairment.

c) 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 the case of student loans, reflecting impairments).

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

d) 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 reserves 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 reserves is recognised in the Statement of Revenue and Expenditure. In accordance with the FReM, public bodies that are held as available-for-sale financial assets are carried at historical cost less any impairment recognised. However, investments in certain financial institutions, where there are clear indicators as to market value or viable fair value alternatives, are carried at fair value, consistent with IFRS with the FReM adaption. These investments include Northern Rock plc, Northern Rock (Asset Management) plc, Bradford & Bingley plc, UK Financial Investments Limited and UK Asset Resolution.

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 investments	Typically accounted for at fair value through profit and loss.
Equity investments in non-public entities where there is no observable market	Estimated as the net asset value per the published accounts of the investee entities.
Equity investments in the public sector banks	Accounted for at fair value as available for sale assets.
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.

1.20.2 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 at amortised cost.
Trade and other payables	Accounted for at amortised cost.
Deposits by banks, comprising sale and repurchase agreements	Accounted for at amortised cost.
IMF Special Drawing Rights allocation	Accounted for at fair value.
Financial guarantees	Accounted for at fair value on recognition and subsequently at the higher of amortised cost or the best estimate of the probable expenditure required to settle financial obligations at the reporting period end.

1.20.3 Fair value

Accounting standard IFRS 7, as applied by the FReM, defines three classifications of fair value measurement, using a fair value hierarchy. The hierarchy reflects the significance of the inputs used in making fair value measurement of financial instruments:

- Level 1 – valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes equity investments in UK financial institutions.
- Level 2 – determined using valuation techniques based on observable inputs other than quoted prices used for level 1. These include quoted prices in active markets for similar, but not identical, instruments. These assets include B shares in RBS.
- Level 3 – valued using techniques that are not based on observable market data inputs, such as adjusting values based on historical data on credit losses.

1.20.4 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 example the impairment of a loan as a result of subsequent events.

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 due to an event occurring after the initial impairment, the loss is reversed through the Statement of Revenue and Expenditure to the extent that the impaired carrying amount would not exceed the original amortised cost.

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 reserves 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.

1.20.5 Student loans

Student loans are held at amortised cost and accounted for in accordance with IAS 39 '*Financial Instruments: Recognition and Measurement*'. They are recognised when loans are issued to students. For a maintenance loan, no obligations fall due at the Statement of Financial Position date, but for a tuition fee loan, an asset is recognised when there is an obligation to pay the tuition fee on behalf of the student. The asset is amortised and impaired in the same way as if it were 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 HM Revenue and Customs (HMRC). Repayments made via the SLC are recognised when it has received the cash and updated the borrower record. Repayments collected via the tax system are recognised based on HMRC estimates of what will fall due to the Department for the financial year.

The valuation of the student loans requires management to make judgements, estimates and assumptions. These are disclosed in 1.22.9.

1.20.6 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 '*Financial Instruments: Recognition and Measurement*', 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 resulting holding of SDRs is recognised as a financial asset. In accordance with IAS 39, the SDR allocation and 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.

1.20.7 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 improved credit terms, 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.

1.20.8 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. 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.

1.20.9 Hedging

Entities apply hedge accounting after considering the costs and benefits of such an approach, including: whether an economic hedge exists and the effectiveness of that hedge; whether the hedge accounting qualifications can be met; and the extent to which it improves the relevance of reported results.

At the time a financial instrument is designated as a hedge, the relationship between the hedging instruments and the hedged items is formally documented, including a description of the risk management objectives, strategy in undertaking the hedge transaction, and methods that will be used to assess the effectiveness of the hedging relationship. Formal assessments are made at the inception of the hedge, and on an ongoing basis, as to whether the hedging derivatives are '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 made. Hedges can be designated as a fair value hedge or cash flow hedge. For fair value hedges, changes in value 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 reserves and any gain or loss relating to the ineffective portion is recognised immediately in the Statement of Revenue and Expenditure. Amounts accumulated in reserves 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 reserves at that time remains in equity. It is accounted for 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 reserves is immediately transferred to the Statement of Revenue and Expenditure.

1.21 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.

A contingent liability is a possible obligation arising either from past events (whose existence will be confirmed only by uncertain future events) or a present obligation arising from past events (that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably measured). A contingent asset is a possible asset whose existence will be confirmed only by the 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.

Central government departments are required to report to Parliament contingent liabilities for which the risk of crystallisation is remote. These are disclosed in Note 33. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' 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 '*Financial Instruments: Recognition and Measurement*' for financial instruments. 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 representing the expenditure required to settle the obligation.

1.22 Critical accounting estimates and judgements

1.22.1 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”. When complying with the GRAA, HM Treasury makes a judgement as to whether to consolidate an entity, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics (ONS). 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 that 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.

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:

- Northern Rock (Asset Management) plc and Bradford & Bingley plc will be consolidated into WGA from 2013-14, as they will 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 making it difficult to determine trends. Furthermore, there is no intention for the Government to retain the assets and liabilities of these banks in the long term and, in due course, they will return to the private sector. This intention was reiterated in June 2013 by the Chancellor when he announced that the Treasury would actively consider options for sale of Lloyds' shares and investigate the case for moving bad assets out of RBS into a separate entity if it would accelerate the path back to private ownership for the remainder of RBS. In the event that a separate entity is created to hold the bad assets from RBS, it is expected to be treated in the same way as Northern Rock (Asset Management) Plc and Bradford & Bingley Plc. Finally, it would also be costly to carry out the consolidation (mostly because of differing year-ends), which is poor value for money for the taxpayer, given the expected temporary nature of their ownership.

Minor entities that satisfy the GRAA definition but are not consolidated in underlying accounts 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. These bodies are listed in Annex 3.

1.22.2 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 must be reported. HM Treasury reviews the £1 million threshold annually.

1.22.3 Consolidation judgements: revenue from sale of 3G licences

In 2000, the Government sold five licences by 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*', the revenue was recognised 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.

1.22.4 Estimating taxation revenue

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 overall uncertainty is expected to be around £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 uncertainty has, however, led to the Comptroller and Auditor General to make an Emphasis of Matter statement in his Audit Opinion on HMRC's 2011-12 Trust Statement.

1.22.5 Key assumptions in determining the pension liability

The pension liability of £1,008 billion (2010-11: £961 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 and employee turnover rates, and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes typically use a real discount rate of 2.8 per cent (2010-11: 2.9 per cent), based on yields of high quality corporate bonds, determined by managers of the individual pension fund considering advice from the Government Actuary. Local government schemes use a nominal rate determined by independent actuaries, typically varying between 4.5 and 5.5 per cent. Unlike in central government pension schemes, the assumptions used for the local government, police, and firefighters pension schemes vary for each fund. The discount rate is based on the administering authority's judgement as to the rate required under accounting standards. Other key assumptions that determine pension liability includes salary inflation, pension growth and general inflation. These are set on the advice of each scheme's actuary and represent the actuary's best estimates of the specific future conditions each scheme will face.

	Central Government[1]		Local Government[2]	
	2011-12	2010-11	2011-12	2010-11
	%	%	%	%
Rate of increase in salaries[3]	4.3	4.9	1.0 - 5.1	1.0-5.4
Rate of increase of pensions in payment[4]	-	-	2.2 - 5.8	2.4-7.1
Discount rate – real	2.8	2.9	-	-
Discount rate - nominal	-	-	4.5 - 5.5	5.4-5.6
Inflation assumption	2.0	2.6	2.3 - 3.6	2.4-3.9

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 increase in salaries is shown inclusive of the inflation assumption.
4. Rate of increase 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 liability is the discount rate, net of price inflation. The discount rate is the actuary's best estimate. The inflation assumption reflects the long-term assumption for the Consumer Prices Index (CPI) used in Treasury forecasting. At the 2010 budget, the OBR forecasted that CPI would be 2% in the medium-term. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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.

1.22.6 Provision for nuclear decommissioning

The financial statements include a provision for the Government's obligations in respect of nuclear liabilities of £64.3 billion (2010-11: £60.9 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 (NDA).

NDA's provision for nuclear decommissioning represents the best estimate of the costs of delivering its objective of decommissioning the plant and equipment on designated nuclear licensed sites and returning them to pre-agreed end states in accordance with the agency's published strategy. This programme of work will take until 2137. The estimates are necessarily based on assumptions of the processes and methods likely to be used to discharge the obligations, reflecting a combination of the latest technical knowledge available, the requirements of the existing regulatory regime, Government policy and commercial agreements. Given the very long timescale involved, and the complexity of the plants and material being handled, considerable uncertainty remains in the cost estimate particularly in the later years (although this is in part mitigated by the impact of discounting for the purposes of provision calculation). As part of the preparation of the financial statements, the principal assumptions behind and sensitivities around the cost estimates were updated and reviewed by the NDA executive and estimates were updated to reflect changed circumstances and more recent knowledge. However, it is recognised that 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 2011-12 accounts. Further details of the possible range of outcomes around a central best estimate of provision are available in NDA's 2011-12 accounts[30].

1.22.7 Impairment losses on loans to financial institutions

The Government has made loans and advances of £51.0 billion (2010-11: £54.9 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 1.20.1. 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. HM Treasury considers whether objective evidence indicates that one or more events, occurring after the loan or advance was made, have an effect on estimated future cash flows. This objective evidence includes estimates from administrators on the level and timings of repayments, (for example, reports from the administrators of Heritable Bank, Icesave, Kaupthing Singer & Friedlander, London Scottish Bank and Dunfermline), negotiations with banks or other governments, and business plans provided by banks under public ownership (Northern Rock (Asset Management) Plc, Bradford & Bingley Plc).

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 42 to 100 per cent. As an indicator of the sensitivity within this estimate, the current impairment charge of £0.9 million (2010-11: £26 million) on statutory debt would

[30] http://www.nda.gov.uk

increase by approximately £100 million (2010-11: £197 million), if the recoverability of the loans were 10 percentage points lower than that estimated by the administrators as at 31 March 2012.

Impairments are also recognised to reflect interest free loans that have been provided to Bradford & Bingley Plc, Heritable Bank, Icesave, Kaupthing Singer & Friedlander, London Scottish Bank and Dunfermline to fund repayment of retail deposits above £50,000 (above £35,000 for Bradford & Bingley). The impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows, discounted at the loan's 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. Consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

1.22.8 Impairment losses on equity investments in public sector banks

As at 31 March 2012, equity investments in public sector banks totalled £40.8 billion (2010-11 restated: £59.5 billion). This is net of impairment losses charged to the Statement of Revenue and Expenditure of £14.4 billion (2010-11: £0.5 billion). In determining whether an impairment loss has been incurred in respect of these investments, an assessment is made as to whether there has been a significant or sustained decline in its fair value below its original cost price. The result of performing the assessment on individual tranches of shares is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

1.22.9 Student loans

The Government has made loans to students which are valued on the Statement of Financial Position at £33.1billion (2010-11: £29.6 billion).

Student loans are held at amortised cost. This involves the gross value of the loans issued being discounted to net present value using the effective interest rate. For student loans, this is RPI plus the Government's long term cost of borrowing, 2.2 per cent. The value of student loans issued is also reduced by the estimated cost of further policy write offs. This reflects the fact that not all of the loans issued will be recoverable due to death, disability or the age of the student. The Government considers that the carrying value is 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.

The valuation does require management to make critical accounting judgements, estimates and assumptions. The key assumptions that impact on the value of the loan book are: the discount rate used, graduate earnings, and the base rate cap. The base rate cap is where student loans are subsidised as students are only charged interest equivalent to the rate of inflation, or Bank of England base rate plus 1 per cent, whichever is the lower.

During 2011-12, an impairment of £0.6 billion was made to the carrying value of student loans to reflect the fact that the cash flows have been permanently impaired due to the base rate cap continuing to be effective. An impairment of £0.5 billion was made to the carrying amount of income contingent loans to reflect the change in the modelling of future cash flows, using new long-term forecasts published by the Office of Budget Responsibility in 2011. In addition, there was a movement in policy write-off impairment of £0.7 billion, comprising the increase in the year less loans written off in the year. The estimates underpinning these impairments were based on a forecasting model (the Student Loan Repayment model) which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimates the likely repayments of student loans. There were a number of other changes in assumptions and modelling which in total led to an impairment of £0.4 billion.

The assumptions used are formally reviewed each year and the amounts provided reflect the Government's current estimate as at 31 March 2012. The key assumptions and modelling used to calculate the student loan balance are detailed in the 2011-12 accounts of the Department for Business, Innovation and Skills.

1.23 Accounting standards passed but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2011, that came into effect on 1 April 2011 or earlier. A number of new accounting standards, amendments to standards and interpretations are not yet effective for most of the public sector for the year ended 31 March 2012. They have not been applied in preparing these financial statements. The following are the significant standards and amendments that may need to be adopted in future WGAs:

- IFRS 9 '*Financial Instruments*' (effective from 1 January 2015) has not been adopted by the EU but will be applicable if it is adopted at a later date. IFRS 9 is being introduced to replace IAS 39 '*Financial Instruments: Recognition and Measurement*'. The available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9. All equity investments within the scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income. In the event that IFRS 9 is adopted by the EU, it will have an impact on these financial statements in future.
- IFRS 10 '*Consolidated Financial Statements*' and IFRS 12 '*Disclosure of Interests in Other Entities*' (both effective from 1 January 2014) have been adopted by the EU. IFRS 10 introduces a new definition of control that may result in new consolidations, subject to paragraph 1.22.1 above. IFRS 12 may require more disclosure of non-consolidated structured entities, subject to FReM application.
- IFRS 13 '*Fair Value Measurement*' (effective from 1 January 2013) has been adopted by the EU. IFRS 13 defines fair value and provides guidance on fair value measurement techniques and disclosure requirements. In the event that IFRS 9 and IFRS 13 are adopted by the EU, these will have an impact on these financial statements in future, in particular property, plant and equipment. The FRAB agreed not to adopt this statement for 2013-14, so the earliest date for adoption is 2014-15.
- IAS 19 '*Post employment benefits*' (effective 1 January 2013) has not been EU adopted but may be applicable if it is adopted at a later date. It introduces a number of changes on recognition, presentation and disclosure, and modifies accounting for termination benefits. It may affect the accounts if it is adopted by the FReM after further consultation.

Note 2. Segmental reporting

The segmental analysis used is central government, local government, financial public corporations and non-financial public corporations, consistent with the sub-sector classification by the ONS. The tables below show the gross amounts reported for each sector and the consolidation adjustments to eliminate transactions and balances between WGA entities.

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.

Non-financial public corporations

Entities are included in this sector where:

- they are classified as a market entity – an entity that derives more than 50 per cent 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.

Financial public corporations

Entities in this sector are similar to non-financial public corporations as described above, but also engage in financial activities and financial transactions on the market. The financial public corporations sector comprises the Bank of England and the Bank of England Asset Purchase Facility Fund Limited.

Consolidation adjustments

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 and does not include national insurance contributions made by public sector employers. The largest consolidation adjustments relate to grants payable from central government to local government, and to the purchase and sales of goods and services between WGA entities. Removing these transactions result in consolidated adjustments to income and expenditure, and to assets and liabilities.

Segmental reporting analysis 2011-12

	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2011-12 £bn
Taxation revenue	(560.9)	(49.1)	(3.3)	-	89.6	(523.7)
Other revenue	(143.4)	(157.3)	(20.0)	(0.2)	228.0	(92.9)
Total operating revenues	**(704.3)**	**(206.4)**	**(23.3)**	**(0.2)**	**317.6**	**(616.6)**
Social security benefits	183.6	29.5	0.6	-	(4.0)	209.7
Staff costs	122.9	74.9	8.8	0.1	(23.5)	183.2
Pension past service costs	0.2	0.8	-	-	-	1.0
Other expenses	555.0	109.4	10.7	0.2	(354.1)	321.2
Net expenditure/(revenue) before financing costs	**157.4**	**8.2**	**(3.2)**	**0.1**	**(64.0)**	**98.5**
Net financing cost	71.5	13.7	0.6	2.2	0.1	88.1
Other income	(1.7)	7.2	(0.2)	0.1	(6.7)	(1.3)
Net expenditure/(revenue) for the year	**227.2**	**29.1**	**(2.8)**	**2.4**	**(70.6)**	**185.3**
						-
Property, plant and equipment	388.6	300.6	55.7	0.2	-	745.1
Other non-current assets	433.6	18.2	3.3	5.6	(233.6)	227.1
Current assets	341.4	42.9	9.0	353.8	(451.7)	295.4
Total assets	**1,163.6**	**361.7**	**68.0**	**359.6**	**(685.3)**	**1,267.6**
Current government borrowing and financing	(224.2)	-	-	-	-	(224.2)
Other current liabilities	(303.3)	(34.6)	(7.7)	(343.2)	233.9	(454.9)
Non-current government borrowing and financing	(741.5)	-	-	-	0.2	(741.3)
Net pension liability	(801.3)	(203.0)	(3.8)	0.3	-	(1,007.8)
Other non-current liabilities	(210.8)	(97.6)	(8.3)	(290.5)	420.8	(186.4)
Total liabilities	**(2,281.1)**	**(335.2)**	**(19.8)**	**(633.4)**	**654.9**	**(2,614.6)**
Net assets/(liabilities)	**(1,117.5)**	**26.5**	**48.2**	**(273.8)**	**(30.4)**	**(1,347.0)**

Segmental reporting analysis 2010-11 restated

	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2010-11 £bn
Taxation revenue	(551.4)	(49.8)	-	-	85.8	(515.4)
Other revenue	(200.5)	(157.2)	(26.4)	(0.2)	285.7	(98.6)
Total operating revenues	**(751.9)**	**(207.0)**	**(26.4)**	**(0.2)**	**371.5**	**(614.0)**
Social security benefits	176.9	28.8	0.6	-	(2.3)	204.0
Staff costs	122.8	81.7	10.4	0.2	(22.0)	193.1
Pension past service costs and indexation adjustment	(93.8)	(32.1)	(0.1)	-	-	(126.0)
Other expenses	618.3	123.9	15.3	0.1	(403.8)	353.8
Net expenditure/(revenue) before financing costs	**72.3**	**(4.7)**	**(0.2)**	**0.1**	**(56.6)**	**10.9**
Net financing cost	68.7	13.8	0.6	-	0.1	83.2
Other income	(2.6)	3.3	(0.5)	0.1	-	0.3
Net expenditure/(revenue) for the year	**138.4**	**12.4**	**(0.1)**	**0.2**	**(56.5)**	**94.4**
						-
Property, plant and equipment	360.1	297.7	56.0	0.2	-	714.0
Other non-current assets	554.7	18.5	3.8	5.4	(340.2)	242.2
Current assets	312.5	40.9	9.9	230.8	(316.0)	278.1
Total assets	**1,227.3**	**357.1**	**69.7**	**236.4**	**(656.2)**	**1,234.3**
Current government borrowing and financing	(217.0)	-	-	-	-	(217.0)
Other current liabilities	(390.2)	(33.7)	(8.1)	(224.2)	286.6	(369.6)
Non-current government borrowing and financing	(691.8)	-	-	-	0.6	(691.2)
Net pension liability	(782.7)	(172.2)	(6.1)	-	-	(961.0)
Other non-current liabilities	(197.2)	(88.0)	(9.6)	(203.8)	317.4	(181.2)
Total liabilities	**(2,278.9)**	**(293.9)**	**(23.8)**	**(428.0)**	**604.6**	**(2,420.0)**
Net assets/(liabilities) restated	**(1,051.6)**	**63.2**	**45.9**	**(191.6)**	**(51.6)**	**(1,185.7)**

Note 3. Taxation revenue

	2011-12 £bn	2010-11 £bn
Income tax	151.8	158.1
Social security and National Health Service contributions	90.9	85.5
Corporation tax	40.0	45.7
Capital gains tax	4.4	3.7
Inheritance tax	2.8	2.7
Bank levy	1.5	0.7
Taxation revenue from direct taxes	**291.4**	**296.4**
Value added tax	97.8	88.2
Hydrocarbon oils duty	26.9	27.2
Excise duties	26.7	25.2
Stamp duties	8.7	9.0
TV licence fee income	3.2	3.2
Lottery income	1.8	1.7
Other indirect taxes	12.4	11.7
Taxation revenue from indirect taxes	**177.5**	**166.2**
Council tax	30.4	30.2
National non-domestic rates	24.4	22.6
Taxation revenue from local taxes	**54.8**	**52.8**
Total taxation revenue	**523.7**	**515.4**

The above figures are shown net of transactions between WGA entities. Taxes on income and indirect taxes were collected by HM Revenue and Customs. Further information is available in its 2011-12 accounts which can be found on its website[31]. Local taxes were collected by local authorities and details are available in their accounts.

Income tax did not include tax credits as these were categorised as an expense and included within benefits in Note 6.

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

Other indirect taxes included petroleum revenue tax of £2.0 billion (2010-11: £1.6 billion), as well as betting and gaming duties, air passenger duty, insurance premium tax, landfill tax, climate change levy, aggregates levy, and regulatory fees.

The majority of tax revenues were estimated by HM Revenue and Customs using a statistical based model as outlined in the accounting policy notes 1.11.1 and 1.22.4. In his Audit Certificate on the 2011-12 Trust Statement of Tax Revenues and Expenditure, the Comptroller and Auditor General included an Emphasis of Matter paragraph. This described the uncertainty in the estimates of accrued tax revenue receivable and accrued tax revenue payable. As described in Note 1.22.4, HM Revenue and Customs consider that the overall uncertainty is expected to be some £4 billion in either direction,

[31] www.hmrc.gov.uk

equivalent to less than one per cent of the total revenue reported in the Statement of Revenue and Expenditure. Further information is set out in the 2011-12 accounts of HM Revenue and Customs.

Note 4. Revenue from sales of goods and services

	2011-12 £bn	2010-11 £bn
Local government	22.1	25.4
Public corporations	14.7	17.1
Central government	5.0	7.3
Revenue from sales of goods and services	**41.8**	**49.8**

The £22.1 billion (2010-11: £25.4 billion) of revenue received by local authorities arose from fees in respect of 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 (£3.5 billion (2010-11: £3.2 billion)).

Significant revenue streams earned by public corporations from the sale of goods and services included revenue from postal services received by Royal Mail (£9.4 billion (2010-11: £9.0 billion)), revenue from staked amounts received by the Horserace Totalisator Board (£0.7 billion (2010-11: £2.9 billion)), revenues earned by the broadcasting public corporations, primarily from advertising and sales of goods and commercial rights (£1.4 billion (2010-11: £1.8 billion)), and £1.1 billion (2010-11: £1.1 billion) received by Scottish Water for the supply of waste and water services.

Significant revenue earned by central government entities from the sale of goods and services included £1.1 billion (2010-11: £1.0 billion) received by the Nuclear Decommissioning Authority in relation to waste management and electricity generation contracts. Central government revenue also includes £1.4 billion (2010-11: £1.5 billion) of revenue earned by entities within the National Health Service.

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

Note 5. Other revenue

	2011-12 £bn	2010-11 £bn
Fees, levies and charges	9.4	10.2
Rental revenue from local government housing	7.5	7.0
EU Income	5.0	4.9
Pension scheme employee contribution income	5.4	5.5
Pension scheme employer contribution income	2.3	2.2
Private sector contributions to local services	2.9	4.0
Licence income	0.2	0.3
Charitable Income	3.6	0.2
Miscellaneous operating revenue	14.8	14.5
Other revenue	**51.1**	**48.8**

Fees and charges usually reflected the full cost of services being provided. Levies related to licences for operating and using public goods, and are charged by statutory regulators or to support industry specific research foundations. Levies were usually set to recover associated costs, such as costs of supervision by a regulator.

EU income was funding received by WGA entities from the EU for projects supported wholly or partially by the EU. Much of this funding was passed onto third parties, including agricultural subsidies payments to farmers.

Charitable income largely related to private donations to academies.

Pension scheme employer and employee contribution income was the contribution income recognised in the underlying accounts of pension schemes, predominantly the NHS Pension Scheme, Teachers' Pension Scheme, and the Principal Civil Service Pension Scheme. The majority of employer contribution income was 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 (2010-11: £13.6 billion). The remaining balance related to employers that participate in these schemes, but were outside the WGA boundary. Examples included GPs and charity hospices that contributed to the NHS pension scheme; higher and further education institutions, and independent teaching establishments that contributed 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 contributed to the Principal Civil Service Pension Scheme.

Miscellaneous operating income included various types of income across a wide range of public sector entities. The largest components included £1.3 billion (2010-11: £1.0 billion) recognised by the Department for Transport from train operating companies in relation to franchise agreements, and £0.4 billion (2010-11: £0.4 billion) income for issuing coinage and the surplus revenue from the Crown Estate.

Miscellaneous operating income also included income received by entities within the National Health Service for education, training, research and development. Further details can be found in the 2011-12 Department of Health accounts[32].

Note 6. Social security benefits

	2011-12 £bn	2010-11 £bn
State retirement pension	78.1	74.1
Local government housing and other benefits	30.0	29.3
Tax credits	30.5	28.1
Disability living allowance	14.6	13.9
Child benefit	12.2	12.1
Jobseeker's allowance	8.7	6.9
State pension credit	8.4	8.3
Income support	7.4	8.3
Attendance allowance	5.3	5.2
Incapacity benefit	5.2	5.8
Carer's allowance	1.8	1.6
Other benefits	7.5	10.4
Total cost of benefits	**209.7**	**204.0**

[32] https://www.gov.uk/government/organisations/department-of-health

Social security benefits are statutory entitlements (most of which are included in the Social Security Contributions and Benefits Act 1992), 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.

Jobseeker's allowance incorporates elements of income support and incapacity benefits from 2011-12 reflecting reform of the benefits system.

The majority of social security benefits are paid by the Department for Work and Pensions. In Northern Ireland, these payments, together with the payment of housing benefit, are the responsibility of the Department for Social Development. The 2011-12 accounts of both these departments received qualified regularity opinions from their external auditor in respect of error and fraud in benefit payments. For 2011-12, the Department for Work and Pensions estimated that fraud and error within state pension expenditure resulted in overpayments of £0.1 billion and underpayments of £0.15 billion. For other benefits, the department estimated that fraud and error resulted in overpayments of £3.1 billion and underpayments of £1.15 billion. Similarly, the Department for Social Development estimated that in respect to non-state pension related benefits, fraud and error resulted in total overpayments of £0.05 billion and underpayments due to official error of £0.01 billion. Further information is available in the 2011-12 accounts of each department, which are available on the websites[33].

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 2011-12 HM Revenue and Customs accounts in respect of error and fraud in tax credits, as the Department had no estimate of the total levels of potential fraud in 2011-12 at that time. Subsequently, it estimated that in 2011-12 error and fraud resulted in overpayments to which the claimants were not entitled of between £2.1 billion and £2.5 billion (2010-11: between £2.1 billion and £2.5 billion) and underpayments of between £0.2 billion and £0.3 billion (2010-11: between £0.2 billion and £0.3 billion). Further information is set out in the 2010-11 and 2011-12 accounts of HM Revenue and Customs, which are available on the website[34].

Note 7. Staff costs and numbers

Note 7.1 Staff Costs

Staff costs comprise:

	Permanently employed staff	Others	2011-12 £bn	2010-11 £bn
Salaries and wages	140.0	7.7	147.7	151.8
Social security costs	10.6	0.1	10.7	10.7
Staff pension costs	13.9	0.1	14.0	12.5
Pension scheme costs: current service costs	34.6	-	34.6	40.4
Pension scheme costs: losses on settlements and curtailments	(0.3)	-	(0.3)	(0.3)
Total staff costs (pre-eliminations)	**198.8**	**7.9**	**206.7**	**215.1**
Less intra-government balances	(23.4)	(0.1)	(23.5)	(22.0)
Total consolidated staff costs	**175.4**	**7.8**	**183.2**	**193.1**

[33] https://www.gov.uk/government/organisations/department-for-work-pensions, www.dwp.gov.uk and www.dsdni.gov.uk
[34] www.hmrc.gov.uk

This note has been prepared to show the full cost of the public sector workforce before items internal to the public sector, which are disclosed as 'intra-government balances' are removed. Intra-government balances included national insurance contributions which would otherwise form part of tax revenue of £10.6 billion (2010-11: £10.6 billion) (see Note 3) and employers' pension contributions of £12.9 billion (2010-11: £11.4 billion) (see Note 5).

'Others' included the cost of Ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers and special advisers was £5.4 million and £8.1 million respectively in 2011-12. 'Staff pension costs' consisted mainly of employer contributions to pension schemes. 'Pension scheme costs' included public sector pension scheme expenses such as current service cost, enhancements, gains/losses on settlements and curtailments and expenses for the transfer in of new members. These are detailed in Note 27. Past service costs are provided below.

Note 7.2 Pension past service costs and indexation adjustment

	Permanently employed staff	Others	2011-12 £bn	2010-11 £bn
Past service costs including pension indexation adjustment	1.0	-	1.0	(126.0)

'Past service costs' were increases/decreases in the present value of the scheme liabilities related to past employee service resulting from the introduction, change, or improvement to retirement benefits in the current year. In the Budget Statement of 22 June 2010 the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The change from RPI to CPI for the purposes of up-rating index-linked features of post employment benefits has been recognised as a reduction to the cost of government of past service. This was a one off adjustment in 2010-11.

Note 7.3 Average Number of Persons Employed

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

	Permanently employed staff	Others	2011-12 Total	2010-11 Total
Central government	2,303,272	117,882	2,421,154[1]	2,316,023
Local government	1,955,973	84,873	2,040,846	2,135,666
Non-financial public corporations	241,232	13,954	255,186	287,752
Financial public corporations	1,955	-	1,955	1,845
Total	**4,502,432**	**216,709**	**4,719,141**	**4,741,286**

1. 2,252,659 excluding staff working in academies.

Average staff numbers included staff engaged on capital projects.

The central government total included 1,304,099 (2010-11: 1,315,292) FTE staff working in the health sector and about 168,000 staff working in academies, some of whom were previously included in local government staff numbers while others academy staff were previously in schools that were not included in local authority accounts.

'Others' included 116 Ministers and 110 special advisers working in central government.

Note 7.4 Civil Service and other compensation schemes - exit packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	3,215	5,226	8,441	0.1
£10,000 - £50,000	22,680	59,162	81,842	1.2
£50,000 - £100,000[1]	2,097	12,364	14,461	0.9
>£100,000	735	2,755	3,490	0.5
Total	**28,727**	**79,507**	**108,234**	**2.7**

1. Local government packages of £40,000-50,000 are included in the band £50,000-100,000 as the local authority specific accounting requirements have different bands.

The majority of these payments are made within the terms and conditions of exit schemes under the relevant remuneration framework. Details of the remuneration frameworks for the main public sector workforces are set out in the Remuneration Report.

Note 8. Expenditure on purchases of goods and services

	2011-12 £bn	2010-11 £bn
Central government	82.9	82.0
Local government	63.1	69.0
Public corporations	6.0	8.2
Expenditure on purchases of goods and services	**152.0**	**159.2**

Central government included entities in the National Health Service, which spent £46.0 billion (2010-11: £43.9 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 did not include expenditure paid to other WGA entities.

Note 9. Grants and subsidies

	2011-12 £bn	2010-11 £bn
Grants in relation to education paid by the Young Peoples Learning Agency (now the Education Funding Agency), the Skills Funding Agency, and higher education funding councils	23.6	21.2
UK contribution to the Budget of the European Communities	7.2	8.4
EU grants and subsidies to the private sector to spend on EU approved projects, mainly to support agriculture and reduce regional economic disparities	4.6	4.5
Department for International Development grants to developing countries for eliminating poverty	5.3	4.8
Department for Transport grants to the private sector, mainly for capital investment in railways	4.7	4.8
Homes & Communities Agency funding to the private sector, mainly for capital investment in social housing	2.2	2.8
Other revenue grants and subsidies	10.8	15.3
Other grants for capital expenditure	3.2	6.6
Total cost of grants and subsidies	**61.6**	**68.4**

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 Community was the amount the UK pays directly to the EU less any subsidies. EU grants and subsidies were 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 were made up as follows:

	2011-12 £bn	2010-11 £bn
Depreciation of property, plant and equipment	23.9	23.8
Impairments and revaluations of non financial assets	13.4	41.7
Impairments of financial assets	18.6	5.8
Impairments of receivables	4.8	5.5
Amortisation of intangible fixed assets	3.7	3.6
Total depreciation and impairment charges	**64.4**	**80.4**

Impairments of non-financial assets were distributed across the public sector. It included impairments recognised by the Ministry of Defence of £1.6 billion (2010-11: £7.0 billion). Ministry of Defence assets were impaired for a variety of reasons, for example, loss, damage, unforeseen obsolescence, abandonment of assets under construction and those associated with disposals. Other significant impairments included £1.2 billion (2010-11: £24.4 billion), which was due in part to a change to the adjustment factor in the prescribed calculation for assessing the social value of local authority housing, which was a key factor to changes in valuation in 2010-11. Any potential loss through impairment would only be realised if the assets were sold at their social value rather than the actual market value of the properties.

Impairments of receivables included £4.2 billion (2010-11: £4.7 billion) in relation to tax revenue losses, of which £1.9 billion (2010-11: £1.9 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.

Impairments of financial assets included £14.4 billion relating to the Government's holdings of shares in the Royal Bank of Scotland and the Lloyds Banking Group. Previous losses on the RBS shares that had been recognised through the available-for-sale reserve have been transferred to impairments.

Note 11. Other expenditure

Other expenditure totalled £25.8 billion (restated 2010-11: £27.5 billion) and was spread across Government with no individually significant items. It included the following:

	2011-12 £bn	2010-11 £bn
Research and development expenditure	2.7	3.0
Rentals under operating leases	2.2	2.8
Auditors' remuneration and expenses	0.1	0.1

Other expenditure comprised £18.3 billion (2010-11: £17.5 billion) paid by central government, £5.0 billion (2010-11: £5.7 billion) paid by local government, and £2.5 billion (2010-11: £4.3 billion) paid by public corporations.

Auditors' remuneration and expenses included 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

	2011-12 £bn	2010-11 £bn
Interest revenue from student loans	1.9	1.6
Interest revenue from other sources	3.2	3.1
Dividend revenue	0.1	0.4
Total investment revenue	**5.2**	**5.1**

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

Note 13. Finance costs

	2011-12 £bn	2010-11 £bn
Interest costs in respect of Government borrowing and financing	36.8	35.7
Finance charges in respect of finance leases & PFI contracts	3.3	2.8
Other finance costs	2.2	2.0
Total finance costs	**42.3**	**40.5**

Interest costs on Government borrowing and financing comprised interest on gilts, National Savings and Investment products, and Treasury bills.

Details of the obligations under finance leases are disclosed in Note 29.2 to the Accounts. Details of the obligations under PFI contracts are disclosed in Note 30 to the Accounts.

Other finance costs included interest costs across the public sector, including interest on borrowings and on a variety of other financial liabilities such as currency swaps and transport investments.

Note 14. Property, plant and equipment

Note 14.1 Net Book Value of Property, plant and equipment at 31 March 2012 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2011-12 Total £bn
Cost or valuation:								
At 1 April 2011 (restated)	300.9	240.3	91.4	45.0	41.6	72.1	95.1	886.4
Additions	4.4	15.1	2.9	2.8	19.6	0.6	4.7	50.1
Revaluations and Impairments	12.7	(4.3)	(0.7)	0.8	0.1	1.0	0.7	10.3
Reclassifications	4.1	2.6	(0.5)	(0.4)	(17.1)	2.9	3.2	(0.2)
Disposals	(0.3)	(0.7)	(0.3)	(0.8)	(0.3)	(3.4)	(4.3)	(10.1)
At 31 March 2012	**321.8**	**253.0**	**92.8**	**47.4**	**43.9**	**73.2**	**99.4**	**931.5**
Depreciation:								
At 1 April 2011 (restated)	(46.8)	(35.8)	(5.8)	-	-	(36.4)	(47.6)	(172.4)
Charged in year	(3.6)	(7.7)	(1.9)	-	-	(4.0)	(6.7)	(23.9)
Revaluations and Impairments	(2.3)	2.4	0.9	-	-	(0.6)	(0.3)	0.1
Reclassifications	(0.1)	0.2	1.0	-	-	0.3	0.6	2.0
Disposals	0.2	1.5	-	-	-	2.4	3.7	7.8
Depreciation at 31 March 2012	**(52.6)**	**(39.4)**	**(5.8)**	**0.0**	**0.0**	**(38.3)**	**(50.3)**	**(186.4)**
Net Book Value at 31 March 2012	**269.2**	**213.6**	**87.0**	**47.4**	**43.9**	**34.9**	**49.1**	**745.1**

'Infrastructure assets' include highways infrastructure assets held by the Highways Agency of £107.4 billion (2010-11: £98.7 billion), and by local authorities of £54.9 billion (2010-11: £51.8 billion). Local authorities prepare their accounts on a historical cost basis for these assets, compared to the depreciated replacement cost basis used by all other government entities. They are working towards calculating a valuation on a depreciated replacement cost basis for inclusion in the 2012-13 WGA. 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 2011 National Accounts estimated the value of the road network at £266 billion (2010-11: £260 billion) as at 31 December 2011[35]. On this basis, infrastructure assets are likely to be understated because of this treatment by at least £200 billion.

'Infrastructure assets' also include £12.7 billion of revaluations and impairments. These mainly comprise revaluations to the National Trunk Road Network for the Department for Transport (£10.6 billion), Scottish Government (£0.6 billion) and Welsh Assembly Government (£0.5 billion). Each financial year the Department for Transport applies an indexation factor to the valuation of the network infrastructure assets to reflect the impact of current prices. In addition, 'infrastructure assets' include assets held 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.

'Dwellings' include impairments of £1.2 billion (2010-11: £20.4 billion included local authorities' social housing impairments) and revaluation increases of £0.5 billion (2010-11: £6.9 billion), resulting in a net movement of £0.7 billion. The revaluation in year includes downwards revaluations (£2.0 billion) to local authority dwellings, where a number of local authorities have revalued or transferred their housing stock to housing associations. This is offset by a revaluation increase of £2.5 billion which was reported by the Ministry of Defence, primarily due to a £1.8 billion increase in the value of leased housing.

'Military Equipment' includes disposals of £3.4 billion (2010-11: £5.9 billion) which reflects asset write-offs within the Ministry of Defence.

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

'Reclassifications' include assets reclassified between 'Assets under Construction' to other types of assets, transfers to and from intangible assets and transfers to and from operating expenditure or reserves.

[35] UK National Accounts, The Blue Book, 2012, Table 10.9 'Other Structures'

'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	2011-12 Total £bn
Cost or valuation:					
At 1 April 2011 (restated)	44.8	22.4	11.8	16.1	95.1
Additions	2.7	0.4	0.9	0.7	4.7
Revaluations and impairments	0.1	0.2	-	0.4	0.7
Reclassifications	0.8	0.8	0.6	1.0	3.2
Disposals	(1.6)	(1.2)	(1.0)	(0.5)	(4.3)
At 31 March 2012	**46.8**	**22.6**	**12.3**	**17.7**	**99.4**
Depreciation:					
At 1 April 2011 (restated)	(27.2)	(11.0)	(6.6)	(2.8)	(47.6)
Charged in year	(3.7)	(1.2)	(1.5)	(0.3)	(6.7)
Revaluations and impairments	(0.1)	(0.1)	(0.1)	-	(0.3)
Reclassifications	0.4	-	0.1	0.1	0.6
Disposals	1.3	1.2	1.0	0.2	3.7
Depreciation at 31 March 2012	**(29.3)**	**(11.1)**	**(7.1)**	**(2.8)**	**(50.3)**
Net Book Value at 31 March 2012	**17.5**	**11.5**	**5.2**	**14.9**	**49.1**

'Plant and machinery' includes 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. Local authorities have now fully adopted the requirements of FRS 30 Heritage Assets, resulting in a restatement of £4.0 billion.

Note 14.2 Net Book Value of Property, plant and equipment at 31 March 2011 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2010-11 Total £bn
Cost or valuation:								
At 1 April 2010	276.7	236.1	116.6	43.7	43.8	72.6	90.9	880.4
Additions	4.7	11.4	3.4	0.5	21.4	0.7	5.1	47.2
Revaluations and Impairments	15.8	(3.8)	(27.3)	(1.1)	(1.7)	(0.8)	0.5	(18.4)
Reclassifications	4.2	5.3	-	0.4	(21.6)	5.5	4.0	(2.2)
Disposals	(0.5)	(5.0)	(1.3)	(1.1)	(0.3)	(5.9)	(9.4)	(23.5)
At 31 March 2011	300.9	244.0	91.4	42.4	41.6	72.1	91.1	883.5
Restatements	-	(3.7)	-	2.6	-	-	4.0	2.9
At 31 March 2011 (restated)	**300.9**	**240.3**	**91.4**	**45.0**	**41.6**	**72.1**	**95.1**	**886.4**
Depreciation:								
At 1 April 2010	(42.4)	(34.0)	(5.2)	-	-	(36.6)	(49.4)	(167.6)
Charged in year	(3.0)	(7.2)	(2.0)	-	-	(5.2)	(6.3)	(23.7)
Revaluations and Impairments	(2.0)	1.5	0.6	-	-	0.5	(0.6)	-
Reclassifications	0.4	0.7	0.6	-	-	0.5	(0.1)	2.1
Disposals	0.2	2.1	0.2	-	-	4.4	8.8	15.7
Depreciation at 31 March 2011	(46.8)	(36.9)	(5.8)	-	-	(36.4)	(47.6)	(173.5)
Restatements	-	1.1	-	-	-	-	-	1.1
At 31 March 2011 (restated)	**(46.8)**	**(35.8)**	**(5.8)**	**-**	**-**	**(36.4)**	**(47.6)**	**(172.4)**
Net Book Value at 31 March 2011 (restated)	**254.1**	**204.5**	**85.6**	**45.0**	**41.6**	**35.7**	**47.5**	**714.0**

'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	2010-11 Total £bn
Cost or valuation:					
At 1 April 2010	47.0	20.5	11.9	11.5	90.9
Additions	2.9	0.2	1.1	0.9	5.1
Revaluations and Impairments	-	0.7	(0.1)	(0.1)	0.5
Reclassifications	1.3	2.5	(0.1)	0.3	4.0
Disposals	(6.4)	(1.5)	(1.0)	(0.5)	(9.4)
At 31 March 2011	44.8	22.4	11.8	12.1	91.1
Restatements	-	-	-	4.0	4.0
At 31 March 2011 (restated)	**44.8**	**22.4**	**11.8**	**16.1**	**95.1**
Depreciation:					
At 1 April 2010	(29.9)	(10.4)	(6.2)	(2.9)	(49.4)
Charged in year	(3.6)	(1.0)	(1.4)	(0.3)	(6.3)
Revaluations and Impairments	(0.1)	(0.5)	-	-	(0.6)
Reclassifications	0.1	(0.4)	0.1	0.1	(0.1)
Disposals	6.3	1.3	0.9	0.3	8.8
At 31 March 2011	(27.2)	(11.0)	(6.6)	(2.8)	(47.6)
Restatements	-	-	-	-	-
At 31 March 2011 (restated)	**(27.2)**	**(11.0)**	**(6.6)**	**(2.8)**	**(47.6)**
Net Book Value at 31 March 2011 (restated)	**17.6**	**11.4**	**5.2**	**13.3**	**47.5**

Note 14.3 Asset financing 2011-12

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2011-12 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	262.4	185.0	81.9	43.6	43.6	34.9	44.4	695.8
Finance leased	-	3.3	3.5	1.9	-	-	1.6	10.3
On balance sheet PFI	6.7	25.3	1.6	1.9	0.1	-	3.1	38.7
PFI reversionary interest	0.1	-	-	-	0.2	-	-	0.3
Net book value	**269.2**	**213.6**	**87.0**	**47.4**	**43.9**	**34.9**	**49.1**	**745.1**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2011-12 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.5	10.7	3.3	14.9	44.4
Finance leased	1.1	0.3	0.2	-	1.6
On balance sheet PFI	0.9	0.5	1.7	-	3.1
Net book value	**17.5**	**11.5**	**5.2**	**14.9**	**49.1**

Note 14.4 Asset financing 2010-11

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2010-11 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	248.1	179.7	82.5	38.5	41.4	35.7	38.9	664.8
Finance leased	-	4.3	1.8	2.1	-	-	1.7	9.9
On balance sheet PFI	5.8	23.1	1.3	1.8	-	-	2.9	34.9
PFI reversionary interest	0.2	-	-	-	0.2	-	-	0.4
Net book value	**254.1**	**207.1**	**85.6**	**42.4**	**41.6**	**35.7**	**43.5**	**710.0**
Net book value (restated)	**254.1**	**204.5**	**85.6**	**45.0**	**41.6**	**35.7**	**47.5**	**714.0**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2010-11 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.9	10.4	3.3	9.3	38.9
Finance leased	0.7	0.8	0.2	-	1.7
On balance sheet PFI	1.0	0.2	1.7	-	2.9
Net book value	**17.6**	**11.4**	**5.2**	**9.3**	**43.5**
Net book value (restated)	**17.6**	**11.4**	**5.2**	**13.3**	**47.5**

Note 14.5 Impairments 2011-12

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2011-12 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(2.1)	(4.1)	(1.1)	(0.6)	(0.3)	(0.3)	(0.4)	(8.9)
Net impairment costs transferred to Revaluation Reserve	-	(0.6)	(0.1)	(0.3)	-	-	(0.1)	(1.1)
Total	**(2.1)**	**(4.7)**	**(1.2)**	**(0.9)**	**(0.3)**	**(0.3)**	**(0.5)**	**(10.0)**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2011-12 Total
	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(0.2)	-	-	(0.2)	(0.4)
Net impairment costs transferred to Revaluation Reserve	-	-	-	(0.1)	(0.1)
Total	**(0.2)**	**-**	**-**	**(0.3)**	**(0.5)**

Note 15. Investment properties

	2011-12 £bn	2010-11 £bn
As at 1 April	**12.4**	**12.0**
Additions	0.4	0.2
Revaluations and impairments	0.1	0.4
Disposals	(0.3)	(0.2)
As at 31 March	**12.6**	**12.4**

Investment properties comprised mainly of land and buildings held by local authorities. They provided 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 were owned rather than finance leased.

Note 16. Intangible assets

Note 16.1 Intangible assets 2011-12

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	2011-12 Total £bn
Cost or valuation:							
At 1 April 2011	29.1	9.7	8.2	4.2	1.0	0.9	53.1
Additions	0.9	0.9	0.9	0.1	0.3	0.1	3.2
Revaluations and Impairments	0.5	-	0.3	-	-	(0.1)	0.7
Reclassifications	0.1	(0.1)	(0.3)	0.4	(0.2)	(0.2)	(0.3)
Disposals	(0.5)	(0.1)	(0.9)	(0.1)	(0.1)	-	(1.7)
At 31 March 2012	**30.1**	**10.4**	**8.2**	**4.6**	**1.0**	**0.7**	**55.0**
Amortisation:							
At 1 April 2011	(6.9)	(3.8)	(4.4)	(2.2)	(0.5)	(0.5)	(18.3)
Charged in year	(1.3)	(0.5)	(1.2)	(0.5)	(0.2)	-	(3.7)
Revaluations and Impairments	(0.2)	(0.1)	0.1	-	-	-	(0.2)
Reclassifications	-	(0.1)	0.1	0.2	-	0.1	0.3
Disposals	0.5	0.3	0.9	0.1	0.1	-	1.9
At 31 March 2012	**(7.9)**	**(4.2)**	**(4.5)**	**(2.4)**	**(0.6)**	**(0.4)**	**(20.0)**
Net book value at 31 March 2012	**22.2**	**6.2**	**3.7**	**2.2**	**0.4**	**0.3**	**35.0**

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 included the Typhoon Airframe (net book value: £6.8 billion (2010-11: £6.7 billion)), the Type 45 Destroyer (£1.9 billion (2010-11: £1.9 billion)).

Development expenditure is capitalised as an intangible asset in accordance with the accounting policy on research and development as described in Note 1.12.4. The Ministry of Defence made up a large majority of development expenditure (net book value: £5.6 billion (2010-11: £5.3 billion)). This consisted of development expenditure on equipment which is not restricted to military use, such as expenditure on the Merlin helicopter (£1.7 billion (2010-11: £1.7 billion)).

Note 16.2 Intangible assets 2010-11

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	2010-11 restated Total £bn
Cost or valuation:							
At 1 April 2010	30.0	10.6	7.4	3.8	1.0	0.9	53.7
Additions	0.9	0.8	0.9	0.1	0.1	0.3	3.1
Revaluations and Impairments	(3.3)	0.3	-	-	-	(0.3)	(3.3)
Reclassifications	1.8	(1.9)	0.5	0.4	(0.1)	-	0.7
Disposals	(1.3)	(0.1)	(0.6)	(0.1)	-	-	(2.1)
At 31 March 2011	28.1	9.7	8.2	4.2	1.0	0.9	52.1
Restatements	1.0	-	-	-	-	-	1.0
At 31 March 2011 (restated)	**29.1**	**9.7**	**8.2**	**4.2**	**1.0**	**0.9**	**53.1**
					-		
Amortisation:							
At 1 April 2010	(7.6)	(3.3)	(3.7)	(1.8)	(0.5)	(0.5)	(17.4)
Charged in year	(1.4)	(0.4)	(1.2)	(0.5)	(0.1)	-	(3.6)
Revaluations and Impairments	1.3	(0.1)	-	-	-	-	1.2
Reclassifications	-	-	(0.1)	-	0.1	-	-
Disposals	1.3	-	0.6	0.1	-	-	2.0
At 31 March 2011	(6.4)	(3.8)	(4.4)	(2.2)	(0.5)	(0.5)	(17.8)
Restatement	(0.5)	-	-	-	-	-	(0.5)
At 31 March 2011 (restated)	**(6.9)**	**(3.8)**	**(4.4)**	**(2.2)**	**(0.5)**	**(0.5)**	**(18.3)**
Net book value at 31 March 2011	**22.2**	**5.9**	**3.8**	**2.0**	**0.5**	**0.4**	**34.8**

Note 17. Trade and other receivables

	2011-12 £bn	2010-11 restated £bn
Amounts falling due within one year:		
Accrued tax revenue	85.2	85.8
Taxation and duties due	21.6	23.1
Trade receivables	8.6	9.8
Other receivables	13.5	17.2
Prepayments and other accrued revenue	10.6	8.7
PFI prepayments	0.1	0.1
Sub-total	**139.6**	**144.7**
Provision for irrecoverable debts	(13.6)	(14.0)
Current trade and other receivables		**130.7**
Restatements		(0.7)
Total current trade and other receivables (restated)	**126.0**	**130.0**
Amounts falling due after more than one year:		
Taxation and duties due	4.4	4.5
Trade receivables	0.7	0.8
Other receivables	13.0	13.2
Prepayments and accrued revenue	1.1	1.1
PFI prepayments	0.2	0.2
Sub-total	**19.4**	**19.8**
Provision for irrecoverable debts	(3.5)	(4.7)
Total non-current trade and other receivables	**15.9**	**15.1**
Total trade and other receivables at 31 March (restated)	**141.9**	**145.1**

Provision for irrecoverable debts

	Current £bn	Non-current £bn	Total £bn
Balance at 1 April 2010	**(16.3)**	**(1.9)**	**(18.2)**
Net decrease/(increase) in provision	2.3	(2.8)	(0.5)
Balance at 31 March 2011	**(14.0)**	**(4.7)**	**(18.7)**
Restatements	0.4	0.1	0.5
Balance at 1 April 2011 (restated)	**(13.6)**	**(4.6)**	**(18.2)**
Net decrease in provision	-	1.1	1.1
Balance at 31 March 2012	**(13.6)**	**(3.5)**	**(17.1)**

Accrued tax revenue comprised accrued Income Tax (£28.0 billion (2010-11: £27.8 billion)), VAT (£27.0 billion (2010-11: £25.6 billon)), Corporation Tax (£12.0 billion (2010-11: £14.4 billion)), National Insurance Contributions (£11.5 billion (2010-11: £11.4 billion)) and other taxes, duties and levies (£6.7 billion (2010-11: £6.6 billion)). These have been estimated by HMRC using statistical modelling, as described in Note 1.11.1. Due to the cycle of tax calculations, these amounts were not due to be notified to the taxpayer until 2012-13 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 comprised balances held by central government departments, including welfare benefit overpayments that have not yet been recovered and unpaid fines.

The largest components within provisions for irrecoverable debt were estimates of £8.8 billion (2010-11: £10.2 billion) made to reflect the risk of non-payment of tax and £1.7 billion (2010-11: £1.8 billion) in relation to welfare benefit balances, with most of the remaining provisions reflected in local government accounts.

Note 18. Equity investments in the public sector banks

The Government had investments in the Royal Bank of Scotland Group Plc, Lloyds Banking Group Plc and UK Asset Resolution Ltd which is the holding company for Bradford and Bingley plc and Northern Rock (Asset Management) plc.

Note 18.1 Equity investments in the public sector banks 2011-12

	2010-11 restated £bn	Additions/ disposals £bn	Fair value adjustments £bn	Impairments £bn	2011-12 £bn
Royal Bank of Scotland Group plc	39.3	-	(1.0)	(11.4)	26.9
Lloyds Banking Group plc	16.0	-	(3.7)	(3.0)	9.3
UK Asset Resolution Ltd	3.0	-	1.6	-	4.6
Northern Rock plc	1.2	(1.2)	-	-	-
Total investment	**59.5**	**(1.2)**	**(3.1)**	**(14.4)**	**40.8**

Shares in Royal Bank of Scotland Group plc and Lloyds Banking Group plc have been revalued based on the closing share price at 31 March 2012. Fair value and impairment calculations were completed separately for each tranche of shares purchased. Previous losses on the RBS shares that had been recognised through the available-for-sale reserve have been transferred to impairments.

UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) plc and Bradford & Bingley plc. Shares in UKAR were previously recognised at their historic cost (£1,000 of share capital), but in 2011-12 they were recognised at net asset value. The 2010-11 comparative figures have been restated to £3.0 billion in order to reflect this. Fair value adjustments in year reflected the change in value of net assets held by the company.

The Government disposed of its ordinary shares in Northern Rock plc to Virgin Money on 1 January 2012. From that date, Northern Rock plc was no longer within the public sector.

Further information is available from HM Treasury's 2011-12 Accounts.

As a consequence of these equity holdings and, where relevant, the related financial interventions, there were a number of related transactions with public sector banks. These included: loans to banks, guarantees and contingent liabilities (see Notes 22, 32 and 33). The overall relationship with each bank, key events in 2011-12, and their financial results in summary can be found in Note 37.

Note 18.2 Equity investments in the public sector banks 2010-11

	2009-10 restated £bn	Additions/ disposals £bn	Fair value adjustments £bn	Impairments £bn	2010-11 restated £bn
Royal Bank of Scotland Group plc	42.4	-	(3.1)	-	39.3
Lloyds Banking Group plc	17.3	-	(1.0)	(0.3)	16.0
UK Asset Resolution Ltd[1]	-	-	3.0	-	3.0
Northern Rock plc	1.4	-	-	(0.2)	1.2
Total investment	**61.1**	**-**	**(1.1)**	**(0.5)**	**59.5**

[1]UK Asset Resolution Ltd is included above as the holding company of Northern Rock (Asset Management) plc and Bradford & Bingley plc.

Note 19. Assets held for sale

	Property, plant & equipment £bn	Other non-financial assets £bn	2011-12 Total £bn	2010-11 Total £bn
Value as at 1 April	1.8	0.1	1.9	1.7
Reclassifications	1.8	-	1.8	0.9
Disposals	(1.2)	(0.1)	(1.3)	(0.6)
Impairments	(0.2)	-	(0.2)	(0.2)
Revaluations	(0.1)	-	(0.1)	0.1
Balance at 31 March	**2.1**	**-**	**2.1**	**1.9**

The majority of assets held for sale comprised land and buildings. Of the £2.1 billion (2010-11: £1.9 billion) total balance, local authorities held £1.4 billion (2010-11: £0.8 billion) of assets and health bodies held about £0.2 billion (2010-11: £0.2 billion). The remainder were principally held by the Department of Energy and Climate Change and the Ministry of Defence.

Note 20. Inventories

Note 20.1 Inventories 2011-12

	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	2011-12 Total £bn
As at 1 April 2011	9.0	0.4	1.4	1.2	12.0
Additions	4.3	1.7	3.9	0.1	10.0
Disposals	(4.0)	(0.5)	(5.0)	(0.2)	(9.7)
Write-offs	(1.1)	-	-	(0.1)	(1.2)
Revaluation	0.2	-	-	0.1	0.3
Reclassification	-	(1.2)	1.0	0.2	-
As at 31 March 2012	**8.4**	**0.4**	**1.3**	**1.3**	**11.4**

Note 20.2 Inventories 2010-11

	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	2010-11 restated Total £bn
As at 1 April 2010	8.9	1.8	1.0	0.3	12.0
Additions	6.9	0.3	1.6	-	8.8
Disposals	(6.0)	(0.3)	(1.5)	(0.1)	(7.9)
Write-offs	(1.0)	(0.2)	(0.1)	-	(1.3)
Revaluation	0.7	(0.1)	-	-	0.6
Reclassification	(0.1)	-	-	(0.1)	(0.2)
As at 31 March 2011	9.4	1.5	1.0	0.1	12.0
Restatements	(0.4)	(1.1)	0.4	1.1	-
As at 31 March 2011 (rest	**9.0**	**0.4**	**1.4**	**1.2**	**12.0**

There were a number of movements between categories due to the alignment of accounting policies of central government departments and their consolidated bodies in 2012.

Raw materials and consumables

Included in the raw materials and consumables balance was an amount of £7.2 billion (2010-11: £7.7 billion) held for defence purposes. This covered a wide range of material and equipment such as munitions with a limited life. The remaining balances were held by central government entities (£0.7 billion (2010-11: £0.4 billion)), entities within local government (£0.3 billion (2010-11: £0.3 billion)), and public corporations (£0.1billion (2010-11: £0.2 billion)).

Of the total amount of raw materials and consumables written off during the course of the year, £1.1 billion (2010-11: £1.0 billion) was in respect of defence inventories, resulting mainly from an annual review of inventory provisions in accordance with inventory plans.

The Comptroller and Auditor General limited the scope of his opinion in relation to £3.0 billion (2010-11: £5.2 billion) of inventories held for defence purposes, 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 2011-12 accounts.

Land, buildings and other work in progress

The balance of £0.4 billion (2010-11 restated: £0.4 billion) was held across a number of central government entities, local government and public corporations.

Goods for resale and finished goods

This included medical supplies and vaccines held by health bodies and the Department of Health of £0.5 billion. Goods for resale and finished goods also included £0.4 billion (2010-11: £0.5 billion) held by the BBC and Channel Four primarily for completed programmes and rights to broadcast acquired programmes and films. The remaining balances were held by a number of entities in central government, and public corporations and local government £0.5 billion (2010-11: £0.3 billion).

Land & buildings for resale & finished land & buildings

This included £1.1 billion (2010-11 restated: £1.1 billion) of land and buildings held by the Department for Communities and Local Government and the Homes and Communities Agency.

Note 21. Cash and cash equivalents

	2011-12 £bn	2010-11 £bn
Balance as at 1 April	**22.5**	**19.7**
Net change in cash and cash equivalent balances	(1.0)	2.8
Balance as at 31 March	**21.5**	**22.5**
The following balances at 31 March were held at:		
Cash at bank	6.3	6.9
Short term deposits	15.2	15.6
Balance as at 31 March	**21.5**	**22.5**

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

Note 22. Other financial assets

Note 22.1 Other financial assets 2011-12

Other financial assets include the following:

	Loans and deposits with banks £bn	Debt securities £bn	Student loans £bn	IMF Special Drawing Rights £bn	Equity investments £bn	Other £bn	2011-12 Total £bn
Current							
As at 1 April 2011	50.4	29.2	1.8	9.2	0.7	11.4	102.7
Movements in year	11.1	9.0	-	0.1	-	2.1	22.3
Reclassification	1.3	-	-	-	-	(2.3)	(1.0)
As at 31 March 2012	**62.8**	**38.2**	**1.8**	**9.3**	**0.7**	**11.2**	**124.0**
Non Current							
As at 1 April 2011	59.6	-	27.8	10.6	15.9	6.5	120.4
Movements in year	(1.5)	-	3.6	(0.2)	0.6	0.2	2.7
Reclassification	(0.2)	-	(0.1)	-	-	-	(0.3)
As at 31 March 2012	**57.9**	**-**	**31.3**	**10.4**	**16.5**	**6.7**	**122.8**
Total	**120.7**	**38.2**	**33.1**	**19.7**	**17.2**	**17.9**	**246.8**

Other financial assets comprise the following types of financial instruments as at 31 March 2012:

	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through SoRE £bn	Held for trading at fair value £bn	Total 2011-12 £bn
Current						
Loans and deposits	62.3	0.5	-	-	-	62.8
Debt securities	-	-	-	-	38.2	38.2
Student Loans	1.8	-	-	-	-	1.8
IMF special drawing rights	-	-	-	-	9.3	9.3
Equity investments	-	-	0.2	0.4	0.1	0.7
Other	1.0	0.1	0.5	2.3	7.3	11.2
Total Current	**65.1**	**0.6**	**0.7**	**2.7**	**54.9**	**124.0**
Non-Current					-	
Loans and deposits	57.9	-	-	-	-	57.9
Student Loans	31.3	-	-	-	-	31.3
IMF Quota subscription	10.4	-	-	-	-	10.4
Equity investments	-	-	13.9	2.4	0.2	16.5
Other	0.3	-	1.3	5.0	0.1	6.7
Total Non-Current	**99.9**	**-**	**15.2**	**7.4**	**0.3**	**122.8**
Total	**165.0**	**0.6**	**15.9**	**10.1**	**55.2**	**246.8**

[1] 'Loans and deposits' include the loans made to the financial institutions by HM Treasury.
[2] 'Equity investments' do not include investments in the public sector banks which are shown separately in Note 18.

Loans and deposits with banks

Loans and deposits with banks included £51.0 billion (2010-11: £54.9 billion) of loans and advances to banks and other financial services entities by HM Treasury, including £17.9 billion (2010-11: £18.8 billion) representing payments made by the Financial Services Compensation Scheme to pay depositors in failed financial institutions. These payments are recoverable from the failed financial institutions and the Financial Services Compensation Scheme's levy payers. The £51.0 billion also included loans and advances made to Northern Rock (Asset Management) plc (£19.8 billion (2010-11: £21.6 billion)), Bradford and Bingley plc (£10.3 billion (2010-11: £10.7 billion)) and the Depositors' and Investors' Guarantee Fund (£1.4 billion (2010-11: £2.0 billion)). In addition, there was a bilateral loan to Ireland of £1.2 billion (2010-11: nil). Further details are available in the 2011-12 accounts of HM Treasury.

£39.7 billion (2010-11: £18.9 billion) of funds were advanced to banks (or bank subsidiaries) and central clearing counterparties under reverse repurchase agreements where securities were held as collateral and returned when the funds are repaid. Reverse sale and repurchase agreements were valued daily, and, depending on whether the value of the collateral rose or fell, collateral were returned to the provider of collateral, or additional securities requested from the provider of collateral. Further details are available in the 2011-12 accounts of the Exchange Equalisation Account and Debt Management Account.

Loans and deposits with banks also included deposits made by local government to commercial institutions of £13.6 billion (2010-11: £14.4 billion).

Debt securities

£32.6 billion (2010-11: £29.2 billion) of debt securities issued by public bodies, primarily foreign governments, were held by the Exchange Equalisation Account (EEA). EEA investments needed 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 carried 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 2011-12 accounts of the EEA.

Student loans

Student loans were valued at the gross value of the loans issued discounted to net present value and reduced by an estimate of the future cost of policy write offs. Further detail on the valuation of student loans is available in the 2011-12 accounts of BIS[36] and the devolved administrations.

IMF Special Drawing Rights

Non-current International Monetary Fund (IMF) Special Drawing Rights (SDRs) comprised the UK's Quota Subscription to the IMF. On becoming a member of IMF in 1944, 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 comprised 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 were classified as 'held for trading' and measured at fair value.

Equity investments

Equity investments included investments in the European Investment Bank (£5.7 billion (2010-11: £5.8 billion)), and investments in international financial institutions held by the Department for International Development (£3.3 billion (2010-11: £3.1 billion)). The equity investment in the public sector banks is shown separately in Note 18.

Other securities

Other investments included the Bank of England's holdings of foreign government securities, foreign currency securities and equity investments of £4.7 billion (2010-11: £4.8 billion). Further details regarding these securities are available in the 2011-12 accounts of the Bank[37].

Other investments included securities held for trading by the Debt Management Office of £5.9 billion (2010-11: £3.3 billion) as part of its lending and borrowing cash management operations. Further details are available in the 2011-12 accounts of the Debt Management Office[38].

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[36] https://www.gov.uk/government/organisations/department-for-business-innovation-skills
[37] http://www.bankofengland.co.uk/Pages/home.aspx
[38] http://www.dmo.gov.uk/

Note 22.2 Other financial assets 2010-11

	Loans and deposits with banks £bn	Debt securities £bn	Student loans £bn	IMF Special Drawing Rights £bn	Equity investments £bn	Other £bn	2010-11 restated Total £bn
Current							
As at 1 April 2010	83.0	23.9	1.5	9.2	0.4	10.0	128.0
Movements in year	(33.0)	5.3	0.3	-	0.1	1.0	(26.3)
Reclassification	0.4	-	-	-	0.2	0.4	1.0
As at 31 March 2011	**50.4**	**29.2**	**1.8**	**9.2**	**0.7**	**11.4**	**102.7**
Non Current							-
As at 1 April 2010	61.9	-	26.1	10.8	14.6	5.8	119.2
Movements in year	(1.6)	-	1.7	(0.2)	1.5	0.9	2.3
Reclassification	(0.5)	-	-	-	(0.2)	(0.2)	(0.9)
As at 31 March 2011	59.8	-	27.8	10.6	15.9	6.5	120.6
Restatements	(0.2)	-	-	-	-	-	(0.2)
As at 31 March 2011 (restated)	**59.6**	**-**	**27.8**	**10.6**	**15.9**	**6.5**	**120.4**
Total (restated)	**110.0**	**29.2**	**29.6**	**19.8**	**16.6**	**17.9**	**223.1**

Other financial assets comprised the following types of financial instruments as at 31 March 2011:

	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	2010-11 £bn	2010-11 restated £bn
Current						
Loans and deposits	50.2	0.2	-	-	50.4	50.4
Debt securities	-	-	-	29.2	29.2	29.2
Student loans	1.8	-	-	-	1.8	1.8
IMF Special Drawing Right	-	-	-	9.2	9.2	9.2
Equity investments	-	-	0.4	0.3	0.7	0.7
Other	-	0.3	5.7	5.4	11.4	11.4
Total Current	**52.0**	**0.5**	**6.1**	**44.1**	**102.7**	**102.7**
Non-Current						
Loans and deposits	59.7	0.1	-	-	59.8	59.6
Student loans	27.8	-	-	-	27.8	27.8
IMF Quota Subscription	10.6	-	-	-	10.6	10.6
Equity investments	-	0.1	13.9	1.9	15.9	15.9
Other	-	0.2	6.3	-	6.5	6.5
Total Non-Current	**98.1**	**0.4**	**20.2**	**1.9**	**120.6**	**120.4**
Total	**150.1**	**0.9**	**26.3**	**46.0**	**223.3**	**223.1**

Note 23. Trade and other payables

	2011-12 £bn	2010-11 restated £bn
Amounts falling due within one year:		
Accruals and deferred income	37.1	33.9
Refunds of taxation and duties payable	22.9	22.2
Trade payables	17.1	18.1
Other payables	22.5	23.2
Imputed finance lease element of on-balance sheet PFI contracts	1.3	1.0
Obligations under finance leases and hire purchase contracts	0.4	0.6
Bank and other borrowings[1]	-	5.2
Current trade and other payables		**104.2**
Restatements[1]		(5.6)
Current trade and other payables (restated)	**101.3**	**98.6**
Amounts falling due after more than one year:		
Imputed finance lease element of on-balance sheet PFI contracts	34.8	31.0
Trade payables	0.4	0.4
Other payables	10.1	10.1
Obligations under finance leases and hire purchase contracts	4.9	6.0
Accruals and deferred income	3.3	3.4
Bank and other borrowings[1]	-	26.8
Non-current trade and other payables		**77.7**
Restatements[1]		(27.9)
Non-current trade and other payables (restated)	**53.5**	**49.8**
Total trade and other payables at 31 March (restated)	**154.8**	**148.4**

[1]Bank and other borrowings are included in 'Other financial liabilities' in 2012 and result in restatements for 2010-11.

Trade and other payables were held across a wide range of public sector entities and relate to day-to-day business delivery costs. The two most significant payables were £6.8 billion (2010-11: £7.3 billion) being UK's liability to the IMF and £4.1 billion (2010-11: £4.1 billion) financing of the construction of High Speed One (formerly the Channel Tunnel Rail Link). Further details are available in the 2011-12 accounts of the National Loans Fund and the Department for Transport respectively[39].

[39] http://www.official-documents.gov.uk/document/hc1213/hc04/0447/0447.pdf, https://www.gov.uk/government/organisations/department-for-transport

Note 24. Government financing and borrowing

	2011-12 £bn	2010-11 Restated £bn
Amounts falling due within one year:		
Gilt edged securities	47.2	54.7
National Savings & Investment products	102.7	98.7
Treasury bills	74.3	63.6
	224.2	**217.0**
Amounts falling due after more than one year:		
Gilt edged securities	741.1	691.0
National Savings & Investment products	0.2	0.2
	741.3	**691.2**
Total at 31 March 2012	**965.5**	**908.2**

Government financing and borrowing disclosed above comprises government-issued debt instruments that are offered to the public. These include gilt-edged securities or gilts, National Savings & Investment (NS&I) products and treasury bills.

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 2011-12 Debt and Reserves Management Report and the 2011-12 accounts of the National Loans Fund.

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 NS&I's 2011-12 accounts, can be found on the NS&I website[40].

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 2011-12 Debt and Reserves Management Report.

[40] http://www.nsandi.com

Note 25. Provisions for liabilities and charges

	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total restated £bn
At 1 April 2010	**56.7**	**15.7**	**29.8**	**102.2**
Provisions arising during the year	5.3	3.8	14.8	23.9
Provisions utilised during the year	(2.0)	(1.1)	(9.1)	(12.2)
Borrowing costs	1.1	-	0.5	1.6
Provisions not required written back	(0.2)	(0.9)	(5.1)	(6.2)
Transfers in-year	-	-	(1.2)	(1.2)
At 31 March 2011	**60.9**	**17.5**	**29.7**	**108.1**
Restatements	-	-	(1.1)	(1.1)
At 1 April 2011 (restated)	**60.9**	**17.5**	**28.6**	**107.0**
Provisions arising during the year	4.8	5.0	11.4	21.2
Provisions utilised during the year	(2.2)	(1.6)	(7.9)	(11.7)
Borrowing costs	1.3	-	0.6	1.9
Provisions not required written back	(0.5)	(1.5)	(2.8)	(4.8)
Transfers in-year	-	-	(0.3)	(0.3)
At 31 March 2012	**64.3**	**19.4**	**29.6**	**113.3**

Expected timing of discounted cash flows:	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
Within one year	2.5	2.5	8.4	13.4
Between 1 and 5 years	10.7	5.0	11.7	27.4
Thereafter	51.1	11.9	9.5	72.5
Total future payments	**64.3**	**19.4**	**29.6**	**113.3**
Current provisions	**2.5**	**2.5**	**8.4**	**13.4**
Non-current provisions	**61.8**	**16.9**	**21.2**	**99.9**

Provision for nuclear decommissioning

The majority of this provision was recognised by the Nuclear Decommissioning Authority. Its provision represented the best estimate of delivering its objectives of decommissioning the plant and equipment on each designated nuclear licensed site and returning the sites to pre-agreed end states in accordance with its published strategy. This programme of work will take until 2137 to complete. The estimates were necessarily based on assumptions of the processes and methods needed to discharge its obligations, and reflected the latest technical knowledge available. The Government's obligations are reviewed on a continual basis and provisions are updated accordingly. The provision and recoverable balances were expressed at current price levels and discounted at 2.2 per cent (2010-11: 2.2 per cent), to take account of the time value of money for the very long timescales over which work will be carried out. Certain expenditure required to discharge nuclear provisions was recoverable from third parties under commercial agreements. The amount recoverable at 31 March 2012 was £4.8 billion (2010-11: £4.7 billion).

Changes in the cost estimates of discharging the provision (representing increases or decreases in future decommissioning costs, less under or overspend of decommissioning delivered in year) were charged to the adjustments to provisions in the Statement of Revenue and Expenditure. The increase in the provision included an estimated £1.9 billion (2010-11: £2.1 billion) relating to changes in price levels.

The provision for nuclear decommissioning 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 2011-12 accounts of the Nuclear Decommissioning Authority.

Provision for clinical negligence

These financial statements included provisions made for future costs where health service entities were the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence. Clinical negligence claims which may succeed, but which are less likely or cannot be reliably estimated, were accounted for as contingent liabilities and disclosed in Note 32.

Known reported claims were 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 claims were valued using actuarial models to predict likely values. The clinical negligence provision included in this account therefore reflected an actuarially determined assessment of incidents that have occurred, including those yet to be reported, where the amount of the claim couled be reliably estimated. The amount provided was calculated on a percentage expected probability basis. The probability of a claim having to be settled was assessed between 10% and 94% and applied to the gross value to give the probable cost of each claim, discounted to take into account the likely time of settlement. Expenditure was likely to be incurred over a period of more than 20 years.

In 2011-12, the Department for Health reported that the value of known provisions increased by £2.0 billion since 2010-11 mainly as a result of an increase in the volume of claims of approximately 6 per cent. Following a review of these new claims, it appears that this increase was primarily due to faster reporting patterns rather than a systematic increase in the incidence of reports of clinical negligence.

Other provisions

Other provisions included £3.9 billion (2010-11: £2.7 billion) relating to the Financial Assistance Scheme (FAS) and £2.1 billion (2010-11: £4.4 billion) relating to taxpayers' legal claims against Her Majesty's Revenue & Customs. 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. Details are available in the 2011-12 accounts of the Department for Work and Pensions.

On 20 October 2010, the Government announced, as part of the Spending Review, that an amount in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme. A provision for this amount has been created to cover the payments over the life of the scheme. By the end of 2011-12, approximately 230,000 payments had been made to eligible policy holders totalling £0.2 billion.

Other provisions included a wide range of provisions across all parts of the public sector. These included provisions in relation to: injury benefits, medical costs, criminal injuries compensation, legal costs, compulsory purchases, claims in respect of structural damage and diminution of value of properties affected by transport schemes, and compensation payments for termination of employment.

Note 26. Other financial liabilities

Note 26.1 Other financial liabilities 2011-12

Other financial liabilities include the following:

	Deposits by banks £bn	Banknotes issued in circulation £bn	Bank and other borrowings £bn	IMF SDR allocatio n £bn	Financial guarantee s £bn	Other £bn	2011-12 Total £bn
Current							
At 1 April 2011	189.3	52.2	5.2	10.0	0.0	2.7	259.4
Movements in year	76.6	2.7	2.1	(0.2)	0.1	(0.5)	80.8
At 31 March 2012	**265.9**	**54.9**	**7.3**	**9.8**	**0.1**	**2.2**	**340.2**
						-	
Non-current						-	
At 1 April 2011	-	-	26.8	-	5.2	4.0	36.0
Movements in year	-	-	(2.1)	-	(1.1)	0.2	(3.0)
At 31 March 2012	-	-	**24.7**	-	**4.1**	**4.2**	**33.0**
Total	**265.9**	**54.9**	**32.0**	**9.8**	**4.2**	**6.4**	**373.2**

Other financial liabilities comprise the following types of financial instruments as at 31 March 2012:

	Carried at amortised cost £bn	Designated at fair value £bn	Held for trading at fair value £bn	2011-12 Total £bn
Current				
Deposits by banks	247.1	13.7	5.1	265.9
Banknotes issued in circulation	54.9	-	-	54.9
IMF SDR allocation	-	-	9.8	9.8
Bank and other borrowings	7.3	-	-	7.3
Financial guarantees	-	0.1	-	0.1
Other	-	1.7	0.5	2.2
Total Current	**309.3**	**15.5**	**15.4**	**340.2**
Non-Current				
Bank and other borrowings	24.7	-	-	24.7
Financial guarantees	4.1	-	-	4.1
Other	0.1	3.9	0.2	4.2
Total Non-Current	**28.9**	**3.9**	**0.2**	**33.0**
Total	**338.2**	**19.4**	**15.6**	**373.2**

Deposits by banks

Deposits by banks and other financial institutions included £217.6 billion (2010-11: £154.3 billion) held by the Bank of England and other deposits repayable on demand of £22.6 billion (2010-11: £13.7 billion). The increase reflected the fact that since March 2009 the Bank of England purchased assets under its policy of quantitative easing, and these purchases were financed by increased current account balances held in the Bank of England by commercial banks and other financial institutions.

Deposits by banks included sales and repurchase agreements, where an entity sells securities and receives a deposit, with the understanding that it will buy the securities back at a specified time and price. The largest balance was made up of deposits by banks under sales and repurchase agreements of £20.0 billion (2010-11: £11.0 billion) entered into by the Debt Management Office (DMO) as part of its cash management operations, reflecting the Government's daily cash flows. During 2011-12, 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 included sale and repurchase agreements of £3.9 billion (2010-11: £3.2 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 2011-12 accounts of the DMO and the EEA.

Banknotes issued in circulation

Banknotes are issued by the Bank of England Issue department. The Bank is responsible for maintaining confidence in the currency, by meeting demand with good-quality banknotes that the public can readily exchange. The average value of notes in circulation over the year ended 29 February 2012 was £54.4 billion (2010-11: £48.3 billion). Further details are in the 2011-12 accounts of the Bank of England.

Bank and other borrowings

Bank and other borrowings included balances held by entities across central and local government. It included £1.4 billion (2010-11: £1.5 billion) of bank overdrafts held by local authorities. Local authorities have wide powers to borrow which are enshrined in statute. Their ability to borrow is controlled under a regulatory framework 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. Both have been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

IMF special drawing rights allocation

International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation comprised a liability to the IMF (£9.8 billion (2010-11: £10.0 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. The UK's SDR allocation was recognised as a liability and the resultant holding of SDRs by the UK was recognised as an asset. Further details are available in the 2011-12 accounts of the EEA.

The IMF SDR allocation is held by EEA and managed on a homogeneous basis, rather than on an individual 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*'.

Financial guarantees

The Government's financial guarantees included those provided by the Department for Transport to Network Rail (£3.3 billion (2010-11: £3.2 billion)), totalling £16.6 billion spread over the financial years 2009-10 to 2013-14. Financial guarantees were also issued to certain depositors in Bradford and

Bingley plc (£0.4 billion (2010-11: £0.5 billion)) and Northern Rock (Asset Management) plc (£0.1billion (2010-11: £0.1 billion)), and various institutions under the Credit Guarantee Scheme (£0.1billion (2010-11: £0.9 billion)). These valuations are held in accordance with IAS 39 and IAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'* with the remaining value of the guarantees held as contingent liabilities and disclosed in Notes 32 and 33. As well as guarantees, the Government provided indemnities as described in Notes 32 and 33.

Other

Other financial liabilities included £5.1 billion (2010-11: £5.0 billion) of foreign currency bonds issued by the Bank of England.

Note 26.2 Other financial liabilities 2010-11

Other financial liabilities include the following:

	Deposits by banks £bn	Banknotes issued in circulation £bn	Bank and other borrowings £bn	IMF SDR allocation £bn	Financial guarantees £bn	Other £bn	2010-11 restated Total £bn
Current							
At 1 April 2010	206.3	50.2	-	10.1	0.1	3.4	270.1
Movements in year	(17.0)	2.0	-	(0.1)	(0.1)	(0.7)	(15.9)
At 31 March 2011	**189.3**	**52.2**	**-**	**10.0**	**-**	**2.7**	**254.2**
Restatements[1]	-	-	5.2	-	-	-	5.2
At 31 March 2011	189.3	52.2	5.2	10.0	-	2.7	259.4
Non-current							
At 1 April 2010	-	-	-	-	6.0	5.5	11.5
Movements in year	-	-	-	-	(0.8)	(1.5)	(2.3)
At 31 March 2011	**-**	**-**	**-**	**-**	**5.2**	**4.0**	**9.2**
Restatements[1]	-	-	26.8	-	-	-	26.8
At 31 March 2011	-	-	26.8	-	5.2	4.0	36.0
Total (restated)	**189.3**	**52.2**	**32.0**	**10.0**	**5.2**	**6.7**	**295.4**

[1] Bank and other borrowings were included in trade and other payables in 2011.

Other financial liabilities comprise the following types of financial instruments as at 31 March 2011:

	Carried at amortised cost £bn	Designated at fair value £bn	Held for trading at fair value £bn	2010-11 Total £bn	2010-11 restated Total £bn
Current					
Deposits by banks	184.6	-	4.7	189.3	189.3
Banknotes in circulation	52.2	-	-	52.2	52.2
IMF SDR allocation	-	-	10.0	10.0	10.0
Bank and other borrowings[1]	-	-	-	-	5.2
Other	-	2.2	0.5	2.7	2.7
Total current	**236.8**	**2.2**	**15.2**	**254.2**	**259.4**
Non-current					
Bank and other borrowings[1]	-	-	-	-	26.8
Financial guarantees	5.0	-	0.2	5.2	5.2
Other	0.2	3.8	-	4.0	4.0
Total non-current	**5.2**	**3.8**	**0.2**	**9.2**	**36.0**
Total	**242.0**	**6.0**	**15.4**	**263.4**	**295.4**

1. Bank and other borrowings are carried at amortised cost.

Note 27. Net public service pension liability

The Government operates a range of defined benefit pension schemes for public servants. The arrangements for individual schemes varied 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 was met from employer and employee contributions with any shortfall financed by the Exchequer.

27.1 Pension scheme liability

Total net pension scheme liability at 31 March 2012

	Unfunded schemes £bn	Funded schemes £bn	Total £bn	2010-11 restated Total £bn
Gross liability	919.3	304.5	1,223.8	1,169.2
Gross assets	-	(216.0)	(216.0)	(208.2)
Net liability	**919.3**	**88.5**	**1,007.8**	**961.0**

Analysis of movement in the total net pension scheme liability

	Note	Unfunded (gross) £bn	Funded (net) £bn	2011-12 Total £bn	Unfunded (gross) £bn	Funded (net) £bn	2010-11 restated Total £bn
Liability at 1 April		894.2	66.8	961.0	1,019.0	115.7	1,134.7
Current Service Costs	*27.5*	28.2	6.4	34.6	33.1	7.3	40.4
Past service costs, including indexation adjustment	*27.5*	0.8	0.2	1.0	(104.6)	(21.4)	(126.0)
Settlements/curtailments	*27.5*	-	(0.3)	(0.3)	-	(0.3)	(0.3)
Interest on scheme liabilities	*27.5*	49.9	14.9	64.8	44.6	16.2	60.8
Expected return on scheme assets	*27.5*		(13.8)	(13.8)	-	(13.0)	(13.0)
Contribution by scheme participants			(8.6)	(8.6)	-	(8.0)	(8.0)
Actuarial gains	*27.6*	(22.8)	21.4	(1.4)	(69.9)	(30.0)	(99.9)
Benefits paid		(31.0)		(31.0)	(28.9)	-	(28.9)
Transfers in/out			1.5	1.5	-	(0.3)	(0.3)
Liability at 31 March					893.3	66.2	959.5
Restatement					0.9	0.6	1.5
Liability at 31 March (restated)		**919.3**	**88.5**	**1,007.8**	**894.2**	**66.8**	**961.0**

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, such as teachers in private schools and GPs. 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.

'Current service costs' were the increase in the present value of the scheme liabilities arising from current members' service in the current period. They were determined by the individual scheme actuaries and were calculated using the discount rate at the start of the year, i.e. as at 31 March 2011. The rate increased from 1.8 per cent as at 31 March 2010 to 2.9 per cent as at 31 March 2011, which led to a decrease in costs compared to the previous year.

'Past service costs' were 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' was 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 was 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 gains and losses' reflected changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities. An actuarial gain of £1.4 billion (2010-11: gain of £99.9 billion reflecting the RPI to CPI change in the inflation assumption) was recognised. This was due to a change in the discount rate used by central government schemes and changes in other assumptions, such as mortality rates and projected salary increases. Further detail is set out in Note 27.6 below.

Note 1.22.5 sets out the key assumptions in determining the pension liability.

The unfunded pension liability included the Principal Civil Service Pension Scheme (PCSPS). The Cabinet Office Civil Superannuation 2011-12 Accounts reported the financial results of the PCSPS and a number of other small public sector pension schemes. These accounts were qualified by the Comptroller & Auditor General in respect of the pension liability on the basis that the Scheme's membership records presented to him at the time of signing the accounts provided insufficient evidence to support the pension liability.

27.2 Unfunded schemes

The significant unfunded schemes were the Principal Civil Service Pension Scheme, NHS Pension Schemes, Armed Forces Pension Scheme and Teachers Pensions Scheme. The significant local government pension schemes were the Police Pension Scheme and the Firefighters Pension Scheme. These were unfunded, defined benefit, occupational pension schemes, the majority of which were contributory. Employer entities, such as government departments, NHS entities, local authorities (including police and fire authorities) and education institutions, recognised 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 was a charge on the scheme. In respect of the defined contribution schemes, employing entities recognised 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 were set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

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

The administration of the Police Pensions Scheme and the Firefighters Pension Scheme was the responsibility of the separate police and fire authorities and regional local authorities that provided a police or fire service. Each individual employer authority that contributed to these schemes recognised their proportion of the liabilities in their Statement of Accounts. The scheme liability in WGA was 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.

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) was the largest funded scheme. The LGPS (England and Wales) consisted of around 91 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 contributed to these funds recognised their proportion of the scheme liabilities in their Statement of Accounts. The 'local government funded schemes' balance disclosed in Note 27.4 below included the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

An analysis of the in-year movement in funded pension schemes' gross obligations and gross assets is provided below.

Analysis of movement in the funded pension schemes' gross obligations

	Note	2011-12 restated £bn
Gross liability at 1 April		**275.0**
Current Service Costs	*27.1*	6.4
Past service costs	*27.1*	0.2
Interest on scheme liabilities	*27.1*	14.9
Contribution by scheme participants		2.5
Actuarial (gains)/losses		15.3
Benefits paid		(10.2)
Settlements/curtailments		(1.1)
Transfers in/out		1.5
Gross liability at 31 March		**304.5**

Analysis of movement in the funded pension schemes' gross assets

	Note	2011-12 £bn
Gross assets at 1 April		**(208.2)**
Expected rate of return on scheme assets	*27.5*	(13.8)
Actuarial gains and losses	*27.6*	6.1
Contributions by employers and scheme participants		(11.1)
Benefits paid		10.2
Assets distributed on settlements	*27.5*	0.8
Gross assets at 31 March		**(216.0)**

Of the 625 (2010-11: 605) bodies that participated in funded schemes, 11 (2010-11: 21) have reported a net pension asset, which collectively amounted to £1.2 billion (2010-11: £0.8 billion). The funded pension schemes held a range of assets including gilts as part of their investment portfolio. Gilts held by these pension schemes have not been eliminated during the consolidation process outlined in Note 1.5.

The 'Contributions by employer (funded pension schemes)' balance reflected 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 exceeded the current service costs for those schemes.

'Benefits paid' on funded schemes impacted on both the gross liability and the scheme assets and so have a mainly neutral impact on the net liability.

Analysis of funded pension scheme assets

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

	2011-12 Value £bn	2010-11 Value £bn	2011-12 Expected rate of return %	2010-11 Expected rate of return %
Equities	103.5	103.9	5.3 - 8.4	6.4 - 8.5
Bonds	25.5	23.4	2.35 - 7.9	2.41 - 6.9
Other	22.3	19.9	0.5 - 9.4	0.5 - 10.1
Total market value	**151.3**	**147.2**		

The assets in central government and public corporation funded schemes and the associated expected long-term rates of return were:

	2011-12 Value £bn	2011-12 Expected rate of return %
Equities	16.4	4.5 - 8.1
Bonds	35.7	2.5 - 7.1
Other	7.4	0.5 - 9.5
Not categorised	5.2	
Total market value	**64.7**	

The 'Other' balance consisted 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 lead to to a broad range for the rate of return on assets at the WGA level. The lowest return reflected the expected return on cash, while alternative assets can achieve much higher returns.

The 'not categorised' balance included pension scheme assets held by certain departments that were unable to calculate a meaningful expected rate of return due to the volatility of market conditions in the view of their actuaries. The largest balances were held by the Department for Transport (£3.2 billion), Department for Business, Innovation and Skills (£1.0 billion) and the Ministry of Defence (£0.2 billion). Further details can be found in the individual accounts of these bodies[41].

[41] https://www.gov.uk/government/organisations/department-for-transport, https://www.gov.uk/government/organisations/department-for-business-innovation-skills, https://www.gov.uk/government/organisations/ministry-of-defence

27.4 Analysis of the pension liability by type of scheme

	2011-12 £bn	2010-11 Restated £bn	2011-12 Percentage of liability %	2010-11 Percentage of liability %
Unfunded schemes (gross)				
Teachers (UK)	233.3	222.8	23	23
NHS (UK)	282.6	292.3	28	30
Civil Service	155.1	145.0	15	15
Armed Forces	105.6	100.6	11	11
Police	101.6	93.8	10	10
Fire	21.1	19.8	2	2
Other unfunded	20.0	19.9	2	2
	919.3	**894.2**	**91**	**93**
Funded schemes (net)				
Local Government	78.4	57.7	8	6
Other funded	10.1	9.1	1	1
	88.5	**66.8**	**9**	**7**
Total	**1007.8**	**961.0**	**100%**	**100%**

The 'Police' and 'Fire' balances included 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 had staff in the Police and Fire Pension Schemes, and recognised their proportion of the scheme liabilities in their Statement of Financial Position, which is included in the 'Other unfunded' balance above.

Local authorities accounted for £7.9 billion (2010-11: £7.2 billion) of the 'Other unfunded' balance, which predominantly related to the Police and Fire Pension Schemes.

The 'Other unfunded' balance also included amounts accounted for by the United Kingdom Atomic Energy Authority Pension Scheme (£5.2 billion (2010-11: £5.1 billion)), the Research Councils Pension Scheme (£3.2 billion (2010-11: £3.0 billion)), the Judicial Pension Scheme (£2.2 billion (2010-11: £2.2 billion)), and the Department for International Development Overseas Superannuation (£1.1 billion (2010-11: £1.1 billion)). The 'Other funded' balance included net pension liabilities for Royal Mail (£2.9 billion (2010-11: £4.5 billion)), BBC £1.3 billion (2010-11: £0.9 billion)), the National Probation Service (£1.2 billion (2010-11: £0.8 billion)), the Department for Environment, Food and Rural Affairs and the Environment Agency closed and active funds (£0.9 billion (2010-11: £0.8 billion)), and Railways Pensions accounted for by Department for Transport (£1.6 billion (2010-11: £1.0 billion)).

The 'local government funded schemes' balance included the portion of the pension liability of the Local Government Pension Scheme ("LGPS") that was reported in the financial accounts of the individual local authority and academy employers. This represented the majority of the pension liability of LGPS and excluded 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.

27.5 Amounts recognised in the Statement of Revenue and Expenditure

	2011-12 £bn	2010-11 £bn
Current service cost	34.6	40.4
Past service cost including pension indexation adjustment	1.0	(126.0)
Losses on settlements and curtailments	(0.3)	(0.3)
Interest on pension scheme liabilities	64.8	60.8
Expected return on funding pension schemes' assets	(13.8)	(13.0)

27.6 Amounts recognised in the Statement of Changes in Taxpayers' Equity

	2011-12 £bn	2010-11 £bn
Actual return less expected return on scheme assets	5.2	(0.8)
Experience gains and losses arising on liabilities	(16.7)	(30.4)
Changes in assumptions underlying the value of liabilities	10.1	(68.7)
Actuarial gain on pension liabilities	**(1.4)**	**(99.9)**

'Actual return less expected return on scheme assets' comprise differences in actual returns between actual events as they have occurred and the assumptions that were made at the time of a previous valuation.

'Experience gains and losses arising on liabilities' reflect the extent to which events over the reporting period have not coincided with the actuarial assumptions made for the last assessment, for example increases in salaries or changes in mortality rates. These assumptions are inherently uncertain and therefore can show significant movements from year to year.

'Changes in underlying assumptions' are driven by a range of factors such as mortality rates and salary increases, and the discount rate for central government schemes which went from 2.9 per cent in 2010-11 to 2.8 per cent in 2011-12. 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). HM Treasury advises funded schemes in central government of the discount rate to be used in valuing public sector pension liabilities. The Treasury's methodology is reviewed by the Government Actuary's Department for relevance and reasonableness.

Note 28. Capital commitments

Capital commitments comprise future commitments to capital expenditure that are contracted for but not provided for in the financial statements. Capital commitments for the acquisition of property, plant and equipment and intangible assets for which no provision has been made in these financial statements amounted to £37.7 billion (2010-11: £44.0 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. Details of significant capital commitments are provided below, and the remainder are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

Entity	Description of contracted capital commitment	2011-12 Commitment £bn	2010-11 Commitment £bn
Ministry of Defence	Commitments in relation to property, plant and equipment were £14.4 billion (2010-11: £16.6 billion) and for intangible fixed assets £2.2 billion (2010-11: £1.5 billion).	16.6	18.1
Transport for London	Contracts placed for London Underground projects.	4.2	4.8
Entities within the National Health Service and the	The largest proportion of this capital commitment is in relation to contracts entered into by NHS Connecting for Health for the delivery of the National Programme	2.2	3.3

Department of Health Group	for IT[42].		
Birmingham City Council	Various contracts for the construction or enhancements of property, plant, furniture and equipment	1.2	1.4
Scottish Government	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	1.1	1.6
Olympic Delivery Authority	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	0.2	0.7
Department for Transport	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	0.2	0.4

Note 29. Commitments under leases

29.1 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	2011-12Total £bn
Obligations under operating leases comprised:				
Total payments within 1 year	0.1	2.2	0.7	3.0
Total payments between 1 and 5 years	0.2	5.8	1.3	7.3
Total payments thereafter	0.8	9.3	0.5	10.6
Total future minimum lease payments under operating leases	**1.1**	**17.3**	**2.5**	**20.9**

	Land £bn	Buildings £bn	Other leases £bn	2010-11 Total £bn
Obligations under operating leases comprised:				
Total payments within 1 year	0.3	1.7	1.0	3.0
Total payments between 1 and 5 years	0.9	5.1	1.4	7.4
Total payments thereafter	1.8	9.0	0.7	11.5
Total future minimum lease payments under operating leases	**3.0**	**15.8**	**3.1**	**21.9**
Restatements	(1.6)	1.6		-
Total future minimum lease payments under operating leases (restated)	**1.4**	**17.4**	**3.1**	**21.9**

The split between land and buildings has been restated due to improved data.

Current year operating lease costs are disclosed in Note 11 to the Accounts.

[42] Cancelled after 31 March 2012

29.2 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.

In respect of finance leases as at 31 March 2012:

	Land £bn	Buildings £bn	Other leases £bn	2011-12 Total £bn
Obligations under finance leases comprised:				
Total payments within 1 year	0.1	0.3	0.4	0.8
Total payments between 1 and 5 years	0.2	1.1	0.9	2.2
Total payments thereafter	8.9	12.6	0.6	22.1
Total	**9.2**	**14.0**	**1.9**	**25.1**
Less interest element	(8.3)	(11.1)	(0.4)	(19.8)
Total future minimum lease payments under finance leases	**0.9**	**2.9**	**1.5**	**5.3**

In respect of finance leases as at 31 March 2011:

	Land £bn	Buildings £bn	Other leases £bn	2010-11 Total £bn
Obligations under finance leases comprised:				
Total payments within 1 year	0.1	0.3	0.7	1.1
Total payments between 1 and 5 years	0.2	1.1	1.8	3.1
Total payments thereafter	9.1	12.9	1.6	23.6
Total	9.4	14.3	4.1	27.8
Less interest element	(8.5)	(10.9)	(1.8)	(21.2)
Total future minimum lease payments under finance leases	**0.9**	**3.4**	**2.3**	**6.6**

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.

Note 30. Commitments under PFI contracts

PFI assets were 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 asset at the end of the contract. Where WGA entities had entered PFI contracts but did 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[43]. The website currently includes data provided by central government departments as at March 2012.

Note 30.1 PFI contracts recognised on the Statement of Financial Position

The net book value of PFI assets included in the Statement of Financial Position was £38.7 billion (2010-11: £34.9 billion) as at 31 March 2012. 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 £36.1 billion (2010-11: £32.0 billion).

[43] https://www.gov.uk/government/publications/pfi-projects-data

The substance of these contracts is that the government has a number of finance leases which comprise two elements: imputed finance lease charges and service charges. Details of these charges are in the note below.

Obligations for future periods arise in the following periods:	**2011-12 £bn**	**2010-11 restated £bn**
No later than one year	4.0	3.7
Later than one year and not later than five years	15.8	14.6
Later than five years	60.5	55.8
Gross present value of future obligations	**80.3**	**74.1**
Less interest charges allocated to future periods	(42.3)	(39.0)
Net present value of future obligations	**38.0**	**35.1**
Plus: service charges due in future periods	111.4	109.5
Total future obligations	**149.4**	**144.6**

Future obligations arising "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 £38.0 billion (2010-11: £35.1 billion), excluding service charges, was different from the liability recognised on the Statement of Financial Position of £36.1 billion (2010-11: £32.0 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 in their accounts as the related PFI asset had not yet been commissioned.

The gross present value obligations by segment were:

	2011-12 Value £bn	**2010-11 Value £bn**
Central government departments and entities within the NHS	44.2	40.0
Local authorities	34.7	32.8
Public corporations	1.4	1.3
Total	**80.3**	**74.1**

Details on PFI contracts are available in the individual accounts of WGA entities.

Major PFI liabilities that have been recognised for the first time in 2011-12 included public transport assets (£0.5 billion).

A summary of the PFI contracts recognised on the Statement of Financial Position with a capital value (excluding interest) greater than £0.5 billion is provided below.

Entity	Description of PFI contract	Contract start date	Contract end date
Greater Manchester Waste Authority	PFI contract for the construction maintenance and operation of 43 new waste disposal facilities in the Greater Manchester area.	Apr-2009	Mar-2034
Department for Transport	Maintain and operate the M25 Orbital route, and widen most of the remaining 3 lane sections to 4 lanes.	Dec-2008	Nov-2038
Department for Work and Pensions	Maintenance and management of the departmental estate.	Apr-1998	Mar-2018
Department of Health	Redevelopment, maintenance and operation of the cardiac and cancer facilities at Barts and the London NHS Trust	Mar-2010	Apr-2048
Department of Health	Provision of acute hospital facilities and maintenance and operation of University Hospitals Birmingham NHS Foundation Trust.	Jun-2006	Aug-2046
Department of Health	Construction, maintenance and operation of new Saint Mary's Hospital in Greater Manchester.	May-2009	Apr-2047
Ministry of Defence	PFI to provide and maintain air-to-air refuelling and passenger air transport capabilities.	Mar-2008	Mar-2035
Ministry of Defence	Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-2003	Aug-2022
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 and maintenance of Colchester Garrison to provide accommodation and associated services.	Feb-2004	Feb 2039
Nottingham City Council	PFI for the construction, maintenance and running of two new tram lines.	Dec-2011	March-2034

Note 30.2 PFI contracts not recognised on the Statement of Financial Position

During the 2011-12 financial year, a number of WGA entities had PFI contracts which were not recognised on the Statement of Financial Position because 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 FReM allows 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 2011-12 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 2019. The future service charges payable to Airwave are estimated to be £1.7 billion (2010-11: £1.9 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 2011-12 accounts of the National Policing Improvement Agency, which can be found on their website[44].

Note 31. Other financial commitments

Some WGA entities entered into other non-cancellable contracts that were 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 £59.4 billion (restated 2010-11: £65.8 billion) and consisted of £47.1 billion (restated 2010-11: £53.9 billion) for central government, £6.9 billion (restated 2010-11: £5.6 billion) for local government and £5.4 billion (2010-11: £6.3 billion) for public corporations.

Details of significant commitments are provided below, and all other financial commitments were individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

Entity	Description of commitment	2011-12 Commitment £bn	2010-11 Commitment £bn
Department for Transport	Amounts payable to Network Rail in accordance with a Deed of Grant and to train operating companies under rail franchise agreements	8.0	11.8
Higher Education Funding Council for England	Grant commitments for the period April to July 2012 and subsequent academic years	7.5	10.3
HM Treasury	Undrawn working capital facility provided to Bradford & Bingley plc and Northern Rock (Asset Management) plc	6.0	5.5
	Bilateral loan to Ireland	2.0	3.2
Department of Health Group	Service contracts entered into by NHS Informatics for the delivery of a NHS National Programme for Information Technology, to be fulfilled over the next five years, as well as commitments relating to adult personal social services, the purchase of childhood and adult vaccines and pan flu, independent sector treatment centres, and research and development.	5.1	4.7
British Broadcasting Corporation	Fixed payments for long term outsourcing arrangements	2.5	3.3
	Programme acquisitions and rights	1.1	1.1
Young Persons Learning Agency and Skills Funding Agency	Grants payable to colleges and schools for further education participation, school sixth form and academies' funding and capital project support. Responsibility for on-going commitments transferred to the Education Funding Agency	5.0	4.0

[44] www.npia.police.uk

	from April 2012.		
Hertfordshire County Council	Commitments in respect of a range of services, such as health, community and environmental services, social and home care, and highways.	2.7	1.1
Scottish Government	Amounts payable to Network Rail and First Scotrail in accordance with Deeds Of Grant and rail franchise agreements	1.6	2.3
Engineering and Physical Sciences Research Council	Research and training grants	1.8	2.0
CDC Group (formerly Commonwealth Development Corporation)	Subscriptions to debentures, loans and shares	1.3	1.4
Ministry of Justice	Commitments in respect to a number of non-cancellable contracts for contracted out services	1.8	1.4
Department for Work and Pensions	Commitments in respect of contracts for IT services	1.3	0.5
Home Office	Service contracts entered into by the UK Border Agency and the Identity and Passport Service	1.0	0.7

Note 32. Contingent assets and liabilities disclosed under IAS 37

32.1 Quantifiable contingent assets

A number of WGA entities had quantifiable contingent assets discloseable under IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*', which totalled £0.4 billion (2010-11: £0.8 billion). The contingent assets were individually not material to WGA. Details of those contingent assets are available in the individual accounts of WGA entities.

32.2 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:

	2011-12 £bn	2010-11 £bn
Financial stability interventions	9.9	9.8
Export guarantees and insurance policies	9.9	9.7
Clinical negligence	8.4	7.9
Taxes subject to challenge	14.5	9.7
Supporting international organisations	32.6	0.7
Loss of tax revenue from oil and gas field decommissioning	20.0	5.0
Other	5.5	6.7
Total quantifiable contingent liabilities	**100.8**	**49.5**

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	**2011-12 Potential liabilities £bn**	**2010-11 Potential liabilities £bn**
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 regulatory authorities. 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.	8.0	8.0
Financial stability intervention: Northern Rock	HM Treasury has confirmed to the regulatory authorities 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.	1.6	1.6
	In addition, HM Treasury has provided certain warranties and a tax indemnity under the terms of the sale of Northern Rock plc.	0.3	0.3
Export guarantees and insurance policies	The Export Credits Guarantee Department supported exports and investments through issuing and renewing guarantees and insurance policies. 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.	9.9	9.7
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 a large degree of uncertainty as to the Department's liability and amounts involved. Other health bodies account for a further £0.2 billion of clinical negligence contingent liabilities.	8.5	7.9
HMRC legal and other disputes	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. Contingent liabilities are cases where it is probable that HMRC will be required to settle an obligation but it is not able to estimate the amount reliably, or where it is possible that HMRC will be required to settle the obligation.	14.5	9.7

	Quantifiable contingent liabilities	2011-12 Potential liabilities £bn	2010-11 Potential liabilities £bn
Loss of tax revenue from oil field decommissioning	The estimated contingent liability for the loss of tax revenue due to oil field decommissioning. This figure is based on an estimate of total decommissioning costs over the period 2011 to 2040 that may be carried back and set-off against taxable profit over the life of the oil and gas fields.	20.0	5.0
Crossrail funding and delivering	To support the delivery of the Crossrail project, the Department for Transport has provided indemnities to parties carrying risks that they would otherwise be unable to bear.	2.3	2.6
Supporting International organisations	The Department for International Development has reported contingent liabilities in respect of contributions it expects to pay to international organisations that have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.	2.8	0.7
European Investment Bank (EIB) – callable capital subscription	The EIB financial statements at 31 December 2011 show the UK is liable for £29.7 billion of callable capital to the EIB. Under Article 5 of the EIB Statute, the Board of Directors may call upon each Member State to pay its share of the balance of the subscribed capital should the Bank have to meet its obligations. In 2010-11 this item was disclosed outside the scope of IAS 37 at £31.6 billion, in 2011-12 it has been deemed as reportable under IAS 37 quantifiable contingent liabilities, due to the increased likelihood of Member States being asked to contribute more capital.	29.7	-

32.3 Non-quantifiable contingent liabilities

The Government had entered into a number of contingent liabilities where the size of the liability could 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 that individually are not significant to WGA. Details of these 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 plc, United Kingdom Financial Investments Limited, Infrastructure Finance Unit Limited, and United Kingdom Asset Resolution Limited, to their appointed directors 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 regulatory authorities its intention to take appropriate steps, should it prove necessary, to ensure that Bradford & Bingley plc will stay above the minimum regulatory capital requirements.

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 was payable. Any affected party had to write to request the valuer to reconsider his assessments, and could refer any revised assessments to the Upper Tribunal (formerly 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 have disputed the Northern Rock assessment in court. 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. The Treasury is also 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 in connection with or arising from their membership. Maximum potential liabilities under these interventions are considered unquantifiable.

Contingent liabilities for reinsurance arising from acts of terrorism

Pool Re and Pool Re (Nuclear) arrange for reinsurance of industrial and commercial property damage and consequent business interruption arising from terrorist attacks in Great Britain. HM Treasury carries the contingent liability for these risks. These arrangements are set out in the Reinsurance (Acts of Terrorism) Act 1993. Maximum potential liabilities under this arrangement are considered unquantifiable.

Civil nuclear liabilities

The Department for Business, Innovation and Skills has a range of civil nuclear liabilities arising from both the United Kingdom Atomic Energy Authority and British Nuclear Fuels Limited and obligations under international nuclear agreements and treaties.

Financial Assistance Scheme

The Financial Assistance Scheme (FAS) was set up 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). Regulations came into force on 2 April 2010 to 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. The provision, recognised by the Department for Work and Pensions, has increased by £273 million for liabilities associated with assets transferred in 2011-12.

Contingent liabilities arising from rail franchising agreements

The Government has provided guarantees to promote investment in the rail sector, through passenger rail franchising agreements and agreements for individual station enhancement projects. 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 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, necessary steps shall be taken to ensure that the land is left in a suitable condition in accordance with the scheme.

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 33. Remote contingent liabilities reported to Parliament

Under accounting standards, Government departments disclose contingent liabilities under requirements that are more stringent than those applicable to commercial entities. Departments disclose contingent liabilities for which the risk of crystallisation is greater than remote but not probable. They also disclose contingent liabilities where the risk of crystallisation is remote, and which have been reported to Parliament in accordance with HM Treasury guidance set out in Managing Public Money. This is on the basis that guarantees, indemnities and letters of comfort expose the taxpayer to financial risk. The contingent liabilities reported to Parliament are not contingent liabilities as defined by IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

Remote contingent liabilities are measured initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability.

33.1 Remote quantifiable contingent liabilities reported to Parliament

The full potential costs of the Government's remote contingent liabilities are as follows:

	1 April 2011 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2012 £bn
Guarantees	185.0	8.9	-	(127.9)	**66.0**
Indemnities	141.5	11.0	-	(62.2)	**90.3**
Letters of comfort	4.0	-	-	-	**4.0**
Total	**330.5**	**19.9**	**-**	**(190.1)**	**160.3**

The figure in the table above for 'Obligation expired in year' includes £31.6 billion for the European Investment Bank, which is represented in 2011-12 by a £29.7 billion quantifiable contingent liability in Note 32.

	1 April 2010 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2011 £bn	Restated 31 March 2011 £bn
Guarantees[1]	245.9	4.2	-	(18.0)	**232.1**	**185.0**
Indemnities	184.0	7.8	-	(50.3)	**141.5**	**141.5**
Letters of comfort	4.1	-	-	(0.1)	**4.0**	**4.0**
TOTAL	**434.0**	**12.0**	**-**	**(68.4)**	**377.6**	**330.5**

[1] The Government's guarantee in relation to notes in circulation is included as a financial liability on the Statement of Financial Position and disclosed in Note 26, Other Financial Liabilities – Banknotes issued in Circulation.

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. Other remote quantifiable contingent liabilities are not individually material to WGA. Details of those liabilities are available in the individual accounts of WGA entities.

	Remote quantifiable contingent liabilities: Guarantees	**2011-12 Potential liabilities £bn**	**2010-11 Potential liabilities restated £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.	24.2	115.0
European Investment Bank (EIB) – callable capital subscription	The EIB financial statements at 31 December 2011 show the UK is liable for £31.6 billion of callable capital to the EIB. Under Article 5 of the EIB Statute, the Board of Directors may call upon each Member State to pay its share of the balance of the subscribed capital should the Bank have to meet its obligations. In 2010-11 this item was disclosed outside the scope of IAS 37, in 2011-12 it has now been deemed as reportable under IAS 37 quantifiable contingent liabilities; due to the likelihood of Member States being asked to contribute increasing. See quantifiable contingent liabilities in Note 32.2.	-	31.6
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. Maximum potential liabilities under this intervention were estimated to be £3.2 billion as at 31 March 2012 (2011: £5.2 billion). On 1 January 2010 Government put in place arrangements to guarantee certain retail and wholesale	14.3	20.6

	Remote quantifiable contingent liabilities: Guarantees	2011-12 Potential liabilities £bn	2010-11 Potential liabilities restated £bn
	deposits transferred to Northern Rock plc pursuant to the restructuring of the bank. These guarantees were terminated in May 2010 and November 2010 respectively, from which point deposits are no longer guaranteed with the exception of fixed term retail deposits existing at 24 February 2010 and fixed term wholesale deposits existing at 1 January 2010, which are guaranteed to maturity. Maximum potential liabilities under this intervention are estimated to be £0.5 billion (2011: £0.8 billion). Government also announced replacement guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and wholesale deposits held in accounts with Northern Rock (Asset Management) plc existing immediately after the transfer became effective on 1 January 2010. Maximum potential liabilities under this intervention are estimated to be £10.6 billion as at 31 March 2012(2011: £14.6 billion).		
International Financial Institutions	Contingent liabilities in respect of callable capital on investments in International Financial Institutions at 31 March 2012.	12.1	9.7
Coins that are returned from circulation	Contingent liabilities representing Government's potential obligations in respect of coins returned from circulation.	4.0	4.0
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 figures for 2011-12 and 2010-11 are quoted at the prevailing exchange rate value at the relevant reporting year end date.	6.3	4.0

	Remote quantifiable contingent liabilities: Indemnities and letters of comfort	2011-12 Potential liabilities £bn	2010-11 Potential liabilities £bn
Asset Protection Scheme	On 22 December 2009, the Royal Bank of Scotland (RBS) acceded to the Asset Protection Scheme, insuring an asset pool of £282 billion, with the first £60 billion of losses within the pool to be borne by RBS and 90 per cent of losses thereafter to be met by HM Treasury. The value of assets covered by the pool as at 31 March 2012 was £120.8 billion. Maximum exposure to Government is estimated at £54.7 billion as at 31 March 2012[20].	54.7[45]	110.0
Network Rail	Indemnity: The Government has provided a financial indemnity in support of Network Rail's Debt Issuance Programme, to decrease Network Rail's costs of borrowing and increase the amount invested in the rail infrastructure. Letter of comfort: The Government 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. The measures of financial support of Network Rail's borrowing are recognised as financial guarantees within the financial liabilities elements of Note 35 (financial instruments), with a market value of £3.0 billion, payable by Network Rail over the life of the debt issuance programme.	27.3 4.0	25.1 4.0
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 take long-term loans for study or display. The probability of these guarantees being acted on is counted as too remote to be included as a contingent liability.	6.6	5.2

33.2 Remote non-quantifiable contingent liabilities reported to Parliament

Government departments also disclose non-quantifiable contingent liabilities where the risk of crystallisation is remote that have been reported to Parliament. Details of the most significant of these are provided below.

Nationalised industries

There is a possibility that liabilities pertaining to the Industrial Development Act 1982 in relation to nationalised, and former nationalised, industries may crystallise and fall to the Department for Business, Innovation and Skills.

[45] This has reduced to zero after the year end, when RBS withdrew from the scheme in October 2012, see Note 37.

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 that it has 31 indemnities which represent remote unquantified contingent liabilities, mainly relating to potential legal action against organisations or individuals. 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. The Department continues to monitor the potential risks relating to these remote contingencies.

Nuclear matter

Indemnities have been given to UK Atomic Energy Authority (UKAEA) by the Department for Business, Innovation and Skills 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.

Guarantee to protect BT's pension liabilities

The Department for Culture, Media and Sport has guaranteed pension liabilities to those who belonged to the BT pension scheme at the time of privatisation in 1984 in the event that BT goes into liquidation. The guarantee would only apply if BT were to go into liquidation, and is set out in the Telecommunications Act 1984. Subsequently, the Trustee of the BT Pension Scheme has undertaken legal proceedings to clarify the terms and scope of this guarantee.

Note 34. Third party assets

	2011-12 £bn	2010-11 £bn
Monetary assets	3.6	4.3
Investments	0.4	0.4
Total third party assets	**4.0**	**4.7**

The Government holds, as custodian or trustee, certain assets belonging to third parties. These included funds in court or money held on behalf of others. These are referred to as third party assets. These assets were not public assets and were not recognised in the Statement of Financial Position since the Government did not have a direct beneficial interest in them. Central government entities are required to disclose them in accordance with the FReM.

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. The market values of these assets as at 29 February 2012 (financial reporting period end date for the Court Funds Office) were: £3.1 billion (2010-11: £3.4 billion) of cash; and £0.2 billion (2010-11: £0.2 billion) of securities.

Further information regarding funds in court is available in the 2011-12 Funds in Court Part A Accounts. Other significant third party assets are held by the Northern Ireland Court of Justice and the Department of Health and its consolidated health bodies.

Note 35. 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. Details of the accounting approaches taken are set out in Note 1.20 to the financial statements.

The following section provides information on the financial instruments balances included in the Government's accounts analyses the risks and how these have been managed.

35.1 Carrying value of financial instruments

Financial assets, as at 31 March 2012, are categorised at their carrying values as follows:

	Note	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	Designated as FV through SoRE £bn	Held for trading at fair value £bn	2011-12 Total £bn
Cash and cash equivalents	*21*	21.5	-	-	-	-	-	21.5
Trade and other receivables	*17*	-	141.9	-	-	-	-	141.9
Loans and deposits with banks	*22*	-	120.2	0.5	-	-	-	120.7
Equity investments in banks	*18*	-	-	-	40.8	-	-	40.8
Other equity investments	*22*	-	-	-	14.1	2.8	0.3	17.2
Debt securities	*22*	-	-	-	-	-	38.2	38.2
Student loans	*22*		33.1	-	-	-	-	33.1
IMF Quota Subscription	*22*	-	10.4	-	-	-	-	10.4
IMF Special Drawing Rights	*22*	-	-	-	-	-	9.3	9.3
Other	*22*	-	1.3	0.1	1.8	7.3	7.4	17.9
Total financial assets		**21.5**	**306.9**	**0.6**	**56.7**	**10.1**	**55.2**	**451.0**

Financial assets, as at 31 March 2011, are categorised at their carrying values as follows:

	Cash & cash equivalents	Loans and receivables at amortised cost	Held to maturity investments at amortised cost	Available for sale at fair value	Held for trading at fair value	2010-11 Total	2010-11 restated Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and cash equivalents	22.5	-	-	-	-	22.5	22.5
Trade and other receivables	-	145.8	-	-	-	145.8	145.1
Loans and deposits with banks	-	109.9	0.3	-	-	110.2	110.0
Equity investments in banks	-	-	-	56.5	-	56.5	59.5
Other equity investments	-	-	0.1	14.3	2.2	16.6	16.6
Debt securities	-	-	-	-	29.2	29.2	29.2
Student loans	-	29.6	-	-	-	29.6	29.6
IMF Quota Subscription	-	10.6	-	-	-	10.6	10.6
IMF Special Drawing Rights	-	-	-	-	9.2	9.2	9.2
Other	-	-	0.5	12.0	5.4	17.9	17.9
	22.5	**295.9**	**0.9**	**82.8**	**46.0**	**448.1**	**450.2**

Financial liabilities, as at 31 March 2012, are categorised at their carrying values as follows:

	Note	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2011-12 Total £bn
Government financing and borrowing	*24*	965.5	-	-	965.5
Trade and other payables	*23*	154.8	-	-	154.8
Deposits by banks	*26*	247.1	13.7	5.1	265.9
Bank and other borrowings	*26*	32.0	-	-	32.0
Banknotes in circulation	*26*	54.9	-	-	54.9
IMF SDR allocation	*26*	-	-	9.8	9.8
Financial guarantees	*26*	4.1	0.1	-	4.2
Other	*26*	0.1	5.6	0.7	6.4
Total financial liabilities		**1,458.5**	**19.4**	**15.6**	**1,493.5**

Financial liabilities, as at 31 March 2011, are categorised at their carrying values as follows:

	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2010-11 Total £bn	2010-11 restated Total £bn
Government financing and borrowing	908.2	-	-	908.2	908.2
Trade and other payables[1]	181.9	-	-	181.9	148.4
Deposits by banks	184.6	-	4.7	189.3	189.3
Bank and other borrowings[1]	-	-	-	-	32.0
Banknotes in circulation	52.2	-	-	52.2	52.2
IMF SDR allocation	-	-	10.0	10.0	10.0
Financial guarantees	5.2	-	-	5.2	5.2
Other	0.2	6.0	0.5	6.7	6.7
Total financial liabilities	**1,332.3**	**6.0**	**15.2**	**1353.5**	**1,352.0**

[1] bank and other borrowing are separately disclosed.

35.2 Fair value of financial instruments

Financial assets are categorised at their carrying and fair values as follows:

	Carrying value 2011-12 £bn	Carrying value 2010-11 £bn	Fair value 2011-12 £bn	Fair value 2010-11 £bn
Cash and cash equivalents	21.5	22.5	21.5	22.5
Loans and receivables at amortised cost	306.9	295.9	306.9	295.9
Held to maturity investments at amortised cost	0.6	0.9	0.6	0.9
Available for sale financial assets	56.7	82.8	56.7	82.8
Designated as fair value through SoRE	10.1	-	10.1	-
Financial assets held for trading	55.2	46.0	55.2	46.0
Total		448.1		448.1
Total financial assets (restated)	**451.0**	**450.2**	**451.0**	**450.2**

Financial liabilities are categorised at their carrying and fair values as follows:

	Carrying value 2011-12 £bn	Carrying value 2010-11 £bn	Fair value 2011-12 £bn	Fair value 2010-11 £bn
Financial liabilities at amortised cost	1,458.5	1,332.1	1,578.2	1,374.0
Financial liabilities at fair value	19.4	6.0	19.4	6.0
Financial liabilities held for trading	15.6	15.4	15.6	15.4
Total		1,353.5		1,395.4
Total financial liabilities (restated)	**1,493.5**	**1,352.0**	**1,613.2**	**1,393.2**

Financial instruments measured at fair value use the valuation techniques described in Note 1.20. The remaining financial instruments were carried at cost or amortised cost which approximated to fair value, with one exception. Gilt-edged securities were carried at amortised cost at £788.3 billion (2010-11: 745.7 billion) and had a fair value of £903.2 billion (2010-11: 787.6 billion).

The valuation hierarchy of financial instruments that were carried at fair value for 2011-12 was:

	Level 1[1] £bn	Level 2 £bn	Level 3 £bn	Total £bn
Financial assets at fair value				
Equity investments	32.5	22.0	3.5	58.0
Debt securities	32.6	5.6	-	38.2
IMF special drawing rights	9.3	-	-	9.3
Other	9.6	6.4	0.5	16.5
Financial liabilities at fair value				
Deposits by banks	(5.1)	(13.7)	-	(18.8)
IMF SDR allocation	(9.8)	-	-	(9.8)
Financial guarantees	(0.1)		-	(0.1)
Other	(3.2)	(3.1)	-	(6.3)

[1]Fuller details on levels provided in page 120

The valuation hierarchy of financial instruments that were carried at fair value for 2010-11 was:

	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn	Total restated £bn
Financial assets at fair value					
Equity investments	36.5	32.0	4.5	73.0	76.0
Debt securities	29.2	-	-	29.2	29.2
IMF special drawing rights	9.2	-	-	9.2	9.2
Other	6.4	11.0	-	17.4	17.4
Financial liabilities at fair value					
Deposits by banks[1]	-	(4.7)	-	(4.7)	(17.7)
IMF SDR allocation	(10.0)	-	-	(10.0)	(10.0)
Financial guarantees	-	(0.2)	-	(0.2)	(0.2)
Other	(6.5)	-	-	(6.5)	(6.5)

[1]Deposits held by banks were restated following the reclassification of the financial liability from amortised cost to fair value

The movement in level 1 equity investments between 2010-11 and 2011-12 was driven by the downward revaluation of shares in Royal Bank of Scotland and Lloyds, combined with the disposal of shares in Northern Rock.

The increase in level 2 debt securities was mainly the result of higher unsettled Treasury Bills held by the DMO, while the increase in level 1 debt securities reflected increased holdings in EEA, which were £3.0 billion higher than in 2010-11.

35.3 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 1.20.6.

35.4 Hedging

The UK had official reserves of gold and currencies (including IMF Special Drawing Rights) of £60.5 billion (2010-11: £53.4 billion), of which £32.0 billion (2010-11: £27.7 billion) was hedged for currency and interest rate risk. The hedged reserves comprised portfolios of eligible dollar, euro and yen-denominated assets and holdings of Special Drawing Rights. Assets in the hedged reserves were hedged for currency risk either by being denominated in the same currency as the liabilities that finance them or by using currency swaps. The hedged reserves were also hedged against interest rate risk, through the use of swaps. The increase in official reserves was primarily caused by the purchase of foreign debt securities.

Where foreign currency reserves are financed by foreign currency borrowing, the debt was issued by, and was an obligation of, the Government. Financing of the hedged reserves in 2011-12 included sterling swapped into foreign currencies of £19.4 billion (2010-11: £14.5 billion) and the SDR allocation of £9.8 billion (2010-11: £10.0 billion). The EEA did not hold any outstanding foreign currency securities and did not issue any new foreign currency securities during the year but the Bank of England held £4.7 billion of listed foreign government and other foreign currency securities (2010-11: £4.4 billion), funded by the Bank's issuance of medium-term securities.

The EEA provided foreign currency services to Government departments and agencies. Foreign currency was sold to departments with foreign currency obligations and foreign currency was purchased from departments with foreign currency receipts, in aggregate totalling £11.2 billion (2010-11: £11.6 billion). The decrease since 2010-11 was due to a fall in forward transactions on behalf of the Ministry of Defence. These purchases and sales, both spot and forward, were hedged through offsetting trades with the market.

The other notable participant in hedging activity was the Rural Payments Agency. The agency received over £2.5 billion from the European Commission in euros on an annual basis. This created considerable foreign exchange risk for the agency. The majority of this risk was managed through hedging contracts for the Single Payment Scheme, the EU 's main agricultural subsidy scheme, and other rural development schemes.

35.5 Financial risk management

The Government's activities exposed it to a variety of financial risks: credit risk, liquidity risk, and market risk (including interest rate risk, foreign exchange risk, and price risk). Individual entities were responsible for ensuring that appropriate risk management policies were in place.

35.5.1 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. In return for taking on the financial risk, fees are charged to the institutions participating in the interventions. Through its risk management, the Government seeks to minimise overall fiscal risk to the public sector while maximising taxpayer value.

The Government's risk appetite in relation to its financial assets and liabilities are categorised into four types (credit risk, liquidity risk, interest rate risk, and foreign exchange risk). 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 HM Treasury and the central funds, including the National Loans Fund (NLF), Debt Management Office (DMO), Exchange Equalisation Account (EEA), and National Savings and Investments (NS&I). The NLF is central government's principal borrowing and lending account. The DMO meets the financing needs of the NLF through its debt and cash management operations. The NS&I 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. The structural relationship between HM Treasury, DMO, NLF, EEA and NS&I is designed to manage transactions between Government departments and minimise the Government's financial risk.

Cash requirements of central government departments are met through the Estimates process, with Parliament annually approving the Supply financing requirements of central government departments. 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 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 being to make arrangements for a forecast of the daily net flows into or out of the NLF; 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, and this is done within a statutory framework. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures sufficient funds 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 can access borrowings from the money markets to cover any day to day cash flow need and can access longer term funds from the Public Works Loan Board (PWLB) which acts as a lender of last resort to ensure their financing needs are met.

The Government's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Government's financial performance and play an enhanced role in wider financial stability. Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed, identifying and evaluating financial risks.

35.5.2 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 the obligation. The Government was exposed to credit risk through a number of its financial assets.

The Government's material credit risk was centred in the central funds (particularly the NLF, DMO and EEA), HM Treasury, the Bank of England, the Department for Business, Innovation and Skills (BIS) and the Department for Transport (DfT). The main credit risks arose 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 ('reverse repos') entered into by DMO and the Bank of England, and student loans provided by BIS.

Granting financial guarantees results in a credit risk exposure, which is the maximum amount an entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The tables below do not include contingent liabilities of £205.0 billion (2010-11: £351.3 billion). These possible liabilities included support to the banking sector through the Credit Guarantee Scheme of £24.2 billion (2010-11: £115.0 billion) and Asset Protection Scheme of £54.7 billion (2010-11: £110.0 billion), guarantees to the European Investment Bank of £29.7 billion (2010-11: £31.6 billion) and guarantees to support Network Rail's Debt issuance Programme of £27.3 billion (2010-11: 25.1 billion). Further information is available in Note 32 and Note 33.

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	2011-12 Total £bn
Cash and cash equivalents	2.1	-		-	0.5	**2.6**
Loans and receivables	2.6	4.6	80.1	2.8	48.0	**138.1**
Available for sale financial assets		-	-	-	1.9	**1.9**
Financial assets held for trading	34.4	4.5	6.3	0.2	9.3	**54.7**
Total material exposure	**39.1**	**9.1**	**86.4**	**3.0**	**59.7**	**197.3**

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2010-11 Total £bn
Cash and cash equivalents	2.1	-	-	-	-	**2.1**
Loans and receivables	19.1	4.5	45.8	2.0	43.6	**115.0**
Available for sale financial assets	-	-	-	-	2.0	**2.0**
Financial assets held for trading	28.4	7.5	1.3	0.9	9.2	**47.3**
Total material exposure	**49.6**	**12.0**	**47.1**	**2.9**	**54.8**	**166.4**

The tables above do not include a credit analysis of financial assets held by the Bank of England of £22.9 billion (2010-11: £33.7 billion). As explained in Note 2 to the Bank's accounts, where the Bank considers certain disclosures inappropriate to its central banking functions, it discloses less detail of certain disclosures (such as information on credit risk) than would be required under adopted IFRS or the Companies Act.

The reduction in loans and receivables classed as AAA, or equivalent, related primarily to loans that were downgraded by ratings agencies during the year to A or equivalent.

Financial assets that are 'not rated' included student loans of £33.1 billion (2010-11: 29.6 billion) and the Government's holdings and quota subscription of IMF Special Drawing Rights (£19.7 billion (2010-11: £19.8 billion)). The increase in the 'not rated' category was driven mainly by an increase in Student Loans.

The Government's material exposures to credit risk are analysed below, by geographic area:

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2011-12 Total £bn
Cash and cash equivalents	2.3	-	0.2	0.1	-	**2.6**
Loans and receivables	111.3	10.5	2.4	1.3	12.4	**137.9**
Available for sale financial assets	1.9	-	-	-	-	**1.9**
Financial assets held for trading	3.8	24.1	14.8	2.9	9.3	**54.9**
Total material exposure	**119.3**	**34.6**	**17.4**	**4.3**	**21.7**	**197.3**

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2010-11 restated Total £bn
Cash and cash equivalents	1.8	-	0.1	0.2	-	**2.1**
Loans and receivables	95.7	5.9	0.7	1.0	11.7	**115.0**
Available for sale financial assets	2.0	-	-	-	-	**2.0**
Financial assets held for trading	2.9	18.5	13.4	3.3	9.2	**47.3**
Total material exposure	**102.4**	**24.4**	**14.2**	**4.5**	**20.9**	**166.4**

Management of credit risk

The Government has adopted a policy of dealing only with highly creditworthy counterparties and issuers, with two exceptions for student loans and the financial interventions. The Government's approach to student loans is described separately below. The Government's financial interventions involved transactions with financial institutions that were rated 'not strong', on the basis that the costs of inaction would have been far greater for the economy as a whole. Otherwise, the following comments describe the Government's general approach to credit risk management.

The creditworthiness of potential counterparties and security issuers is analysed using information provided by credit rating agencies, such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings. This is monitored on an ongoing basis. 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, both of which are considered on a transaction-by-transaction basis. 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.

Exposure to credit risk is managed through collateral arrangements in some areas of government, in particular the DMO, EEA and the Bank of England. These entities take collateral in the form of high quality securities against funds advanced under reverse repo arrangements. They also take US Dollar denominated cash or securities as collateral for derivative transactions (including cross currency swaps and forward foreign exchange transactions), to mitigate against market and interest rate risk.

Student loans

The Department for Business, Innovation and Skills (BIS) has a statutory obligation to issue student loans and seek repayments. It is not permitted to withhold loans on the basis of poor credit rating of the student 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) through the PAYE tax collection process.

BIS estimates the value of future write-offs when loans are issued using the Student Loan Repayment model. The department's estimate as at 31 March 2012 was that £3.9 billion (2010-11: £3.1 billion) (around 9 per cent) of the total face value of the loans issued would not be recovered and this amount was deducted from the face value of the loans to arrive at the carrying amount. However, not all of this was "credit risk" in the normal sense, as the estimates included write off of debts due to death, disability, and age of the student or loan.

BIS works together with the Student Loans Company (SLC) and HMRC, to manage the collection of student loan repayments and 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.

35.5.3 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.

Key financial liabilities where the Government was exposed to liquidity risk include gilt-edged securities, Treasury bills and National Savings & Investment products, totalling £965.5 billion (2010-11: £908.2 billion), and other financial liabilities such as deposits by banks and other financial institutions, held by the Bank of England of £217.6 billion (2010-11: £154.3 billion).

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 are 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 is. Therefore there is minimal liquidity risk associated with the Government's trade and other payables.

The following table shows the maturity of the Government's contractual undiscounted cash flows from those financial liabilities with liquidity risk.

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2011-12 Total £bn
Non-derivative liabilities	577.8	65.3	208.7	200.0	414.9	12.5	1,479.2
Derivative liabilities	3.4	0.2	-	0.1	-	-	3.7
Total in 2011-12	**581.2**	**65.5**	**208.7**	**200.1**	**414.9**	**12.5**	**1,482.9**

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2010-11 Total £bn
Non-derivative liabilities	452.7	63.1	182.5	201.7	456.7	12.8	1,369.5
Derivative liabilities	3.9	0.4	0.4	-	-	-	4.7
Total in 2010-11	**456.6**	**63.5**	**182.9**	**201.7**	**456.7**	**12.8**	**1,374.2**

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 gilts, Treasury bills, National Savings & Investment products, and deposits from banks and other financial institutions held at the Bank of England. The majority of non-derivative financial liabilities with a maturity of more than 10 years are gilts. The increase in risk since 2010-11 was as a result of issuing more gilts to non-government bodies during 2011-12.

The shift in the Government's liquidity risk profile from more long-term risk to risks categorised as 0-12 months is primarily driven by Quantitative Easing (QE). QE involves the purchase of gilts, predominantly from financial institutions, which serves to supplement the liquidity of those entities.

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.

The Debt Management Office (DMO) manages liquidity risk 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.

35.5.4 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.

35.5.5 Interest rate risk

There are two types of interest rate risk: cash flow and fair value. They both arise from risk that the future cash flows from 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), the Debt Management Office (DMO), Exchange Equalisation Account (EEA), National Savings & Investments (NS&I), the Bank of England, HM Treasury and the Department for Business, Innovation and Skills (BIS). Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk. The assets and liabilities which are exposed to significant cash flow interest rate risk are those assets and liabilities applying a variable interest rate. The main examples are index-linked gilts, and student loans which are linked to RPI, bank and other borrowings and deposits by banks that are affected by changes in LIBOR and the Bank of England base rate. The assets and liabilities that are exposed to significant fair value interest rate risk are those assets and liabilities applying a fixed interest rate, such as debt securities. Cash and cash equivalent balances earn negligible interest and so are not exposed to significant interest rate risk.

Where the Government is exposed to material interest rate risk, the interest rate profile is as follows:

	Non-interest bearing £bn	Fixed rate £bn	Floating rate £bn	2011-12 Total £bn
Financial assets - in sterling	4.0	39.0	86.3	129.3
Financial assets - in other currencies	13.2	48.3	10.5	72.0
Financial liabilities - in sterling	(63.8)	(671.9)	(320.0)	(1,055.7)
Financial liabilities - in other currencies	-	(5.1)	(10.4)	(15.5)
Net financial assets/(liabilities)	**(46.6)**	**(589.7)**	**(233.6)**	**(869.9)**

	Non-interest bearing £bn	Fixed Rate £bn	Floating rate £bn	2010-11 Total £bn
Financial assets - in sterling	5.3	36.1	82.0	123.4
Financial assets - in other currencies	12.4	36.0	9.5	57.9
Financial liabilities - in sterling	(66.9)	(608.0)	(308.8)	(983.7)
Financial liabilities - in other currencies	(0.1)	(5.3)	(10.0)	(15.4)
Net financial assets/(liabilities)	**(49.3)**	**(541.2)**	**(227.3)**	**(817.8)**

The increase in liabilities in the 'fixed rate' category has been driven primarily by increased gilt issuance during the reporting period.

Management of interest rate risk

The entities exposed to interest rate risk measure and monitor their risk exposure using different sensitivity analysis techniques, including the value at risk method (VaR). The interest rate risk across these entities is sensitive to a number of factors including RPI, LIBOR and the Bank of England base rate. Therefore it is not possible to summarise this meaningfully in one sensitivity analysis. Instead the significant sensitivities are described below. Further details are available in the underlying accounts.

In relation to index-linked gilts and NS&I products, the NLF has calculated that an increase in RPI by 100 base points would result in an increase in expenditure of £2.7 billion (2010-11: £2.4 billion) on its total balance, including those held by other WGA entities. The DMO enters into cash and securities contracts at fixed interest or discount rates and uses the present value of a basis point to measure the sensitivity to a 0.01 per cent shift in interest rates when all other risk factors are held constant. The EEA hedges interest rate risk through interest rate swaps. Typically, it pays fixed rate interest on currency it acquires and generates fixed interest income in the same currency through purchasing an asset such as a bond. By swapping the fixed interest receipts for floating interest receipts through an interest rate swap, the EEA acquires an income stream that matches its interest payment liability and thus minimises its interest rate risk exposure.

In relation to student loans, BIS relies on long term assumptions after 2018 to determine the impact of interest rate changes both on borrower's ability to pay, and the Department's forecasts of future payment streams. The impact of the risk on student loans is quantified in the impairment provision which models the impact of interest rate rises on expected future cash flows. 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 per cent above the Bank of England base rate nor can it be less than 0 per cent. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. 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. The risk of impairment (£1.0 billion) in the short-term (up to 2018) has been provided for.

35.5.6 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 derivatives, such as forward foreign exchange contracts.

Foreign-exchange rate risks are concentrated in the central funds such as the Exchange Equalisation Account (EEA), the National Loans Fund (NLF) and the Consolidated Fund. A lower level of exposure exists with entities such as the Ministry of Defence and the Department for International Development. Exposure to foreign currency risk during the year was insignificant from a WGA perspective for other central government departments, local authorities, entities within the National Health Service, and public corporations. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure (less than 1 per cent).

Presented below is the sterling equivalent of the Government's foreign currency assets and liabilities, analysed by their underlying foreign currencies, which 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	2011-12 Total £bn
Financial assets					
Cash and cash equivalents	0.3	0.6	0.1	0.1	1.1
Loans and receivables	0.7	0.2	-	12.4	13.3
Available for sale financial assets	6.7	2.1	-	0.6	9.4
Financial assets held for trading	5.3	6.9	2.6	0.1	14.9
Total	13.0	9.8	2.7	13.2	38.7
Financial liabilities					
Financial liabilities at amortised cost	0.5	0.6	-	7.0	8.1
Financial liabilities at fair value	0.5	0.1	-	-	0.6
Financial liabilities held for trading	-		-	0.6	0.6
Total	1.0	0.7	-	7.6	9.3

Foreign currency denominated financial assets/liabilities	Euro £bn	USD £bn	YEN £bn	Other £bn	2010-11 Total £bn
Financial assets					
Cash and cash equivalents	0.2	0.5	0.2	0.2	1.1
Loans and receivables	1.0	0.6	0.1	11.8	13.5
Available for sale financial assets	6.7	2.0	-	0.5	9.2
Financial assets held for trading	5.4	7.2	2.3	0.1	15.0
Total	**13.3**	**10.3**	**2.6**	**12.6**	**38.8**
Financial liabilities					
Financial liabilities at amortised cost	1.0	0.9	0.1	7.7	9.7
Financial liabilities at fair value	-	0.1	-	-	0.1
Financial liabilities held for trading	-	-	-	0.8	0.8
Total	**1.0**	**1.0**	**0.1**	**8.5**	**10.6**

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	2011-12 Impact on Revenue & Expenditure £bn	2010-11 Impact on Revenue & Expenditure £bn	2011-12 Impact on Net liabilities £bn	2010-11 Impact on Net liabilities £bn
Strengthen by 10%	1.1	2.3	(1.9)	(1.9)
Weaken by 10%	(1.5)	(2.7)	2.4	2.2

The UK's official reserves of foreign currency and gold 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 that are unhedged.

The hedged reserves comprise portfolios of eligible dollar, euro and yen denominated assets and holdings of SDRs. The unhedged reserves that are exposed to foreign-exchange rate risk comprise dollar and euro denominated bonds, 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 managed on a day-to-day basis by the Bank of England, and are hedged for currency risk to reduce exposure 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 by sterling raised from the sale of gilts advanced from the NLF to the EEA. Financing of the hedged reserves in 2011-12 included sterling swapped into foreign currencies of £19.4 billion (2010-11: £14.5 billion) and the SDR allocation of £9.8 billion (2010-11: £10.0 billion).

The NLF is directly exposed to foreign exchange movements through the UK's transactions with the International Monetary Fund (IMF).The UK's quota subscription to the IMF and the bilateral loan to the IMF are both denominated in Special Drawing Rights (SDR) and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

The UK's capital investment in the European Investment Bank (EIB) of £5.7 billion (2010-11: £5.8 billion) was reported on the basis of a certain share of the EIB's net assets in euros. Therefore there was an exposure to foreign exchange rate risk affecting the fair value of the equity investment.

Management of foreign-exchange rate risk

As described above, foreign-exchange rate risks are concentrated mainly in the Exchange Equalisation Account (EEA). EEA uses currency swaps to hedge foreign-exchange rate risk, through an initial exchange of sterling principal for foreign currency at the spot rate, receiving back the same amount of sterling principal at maturity, and regular exchanges of interest payments on the principal amounts. The Government's financing of the hedged foreign currency reserves, by engaging in foreign currency swaps out of sterling, is done in a way that minimises the exposure to fluctuations in the value of currencies.

35.5.7 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. In addition, RBS's B-shares are considered to be equivalent in market value to RBS's ordinary shares. 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 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 investments in Lloyds Banking Group and The Royal Bank of Scotland. These variances were considered reasonably possible at the balance date.

Variance in market price	Impact on Revenue & Expenditure	
	2011-12	2010-11
	£bn	£bn
Increase of 10 per cent	1.8	0.4
Increase of 25 per cent	4.5	0.4
(Decrease) of 10 per cent	(1.8)	(7.2)
(Decrease) of 25 per cent	(8.7)	(11.7)

Note 36. Related party transactions

WGA consolidates entities that are judged by 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. Instead, related parties, as defined in the FReM for WGA purposes, are those public sector entities in Annex 2 that have not been consolidated into 2011-12 WGA. 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 Group plc, Lloyds Banking Group plc, Bradford and Bingley plc, and Northern Rock (Asset Management) plc. In the course of normal business, WGA entities entered into arms-length banking transactions with these institutions. They included loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions made comprehensive disclosure impractical. Significant transactions involving the Asset Protection Scheme and Credit Guarantee Schemes are described in Note 33.

Due to the nature of HM Revenue and Customs' business, it had a large number of transactions relating to taxation income with other public sector entities not within the WGA boundary.

Local government entities had transactions with municipal ports, airports and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and in some instances record the scheme's assets and liabilities in their accounts.

The Department for Business, Innovation and Skills, through the Skills Funding Agency, and local authorities, provided funding to further education colleges in England and Wales for research and provision of further education courses. Through the Higher Education Funding Council, it provided funding for research and higher education courses. In Scotland and Northern Ireland, the Scottish Funding Council and the Department for Employment and Learning provided funding to further education colleges.

Note 37. Significant financial assets and liabilities that are not consolidated in the account

As at 31 March 2012, the Government had investments in the Royal Bank of Scotland Group Plc (RBS), Lloyds Banking Group Plc (LBG) and UK Asset Resolution Ltd which is the holding company for Bradford and Bingley plc (B&B) and Northern Rock (Asset Management) plc (NRAM).In January 2012, it disposed of its ordinary shares in Northern Rock plc (NR plc). Its equity investments are disclosed in Note 18.Their assets and liabilities, which are not consolidated into these accounts, are shown below.

As reported in their published accounts	31 December 2011			31 December 2010 (restated) [1]		
	Total assets £bn	Total liabilities £bn	Net asset/ (liability) £bn	Total assets £bn	Total liabilities £bn	Net asset (liability) £bn
NR plc[2]	n/a	n/a	n/a	18.6	(17.4)	1.2
NRAM and B&B[3]	95.4	(90.8)	4.6	111.0	(108.0)	3.0
RBS and LBG[4]	2,477.4	(2,354.7)	122.7	2,445.2	(2,321.4)	123.8
Total	2,572.8	(2,445.5)	127.3	2,574.8	(2,446.8)	128.0
WGA total	**1,267.6**	**(2,614.6)**	**(1,347.0)**	**1,234.3**	**(2,420.0)**	**(1,185.7)**

[1] 2010 figures for NRAM and B&B were restated due to a change in accounting policy and reclassifications in 2011.
[2] Reflecting the disposal of NR plc in January 2012
[3] Source: accounts of NRAM and B&B for the year ended 31 December 2011
[4] Source: accounts of RBS and LBG for year ended 31 December 2011

NRAM and B&B's assets and liabilities will be consolidated into WGA from 2013-14, as they are expected to be a permanent part of government until their mortgage books have expired. They therefore form a longer-term part of the public sector.

The remaining banks will continue to be held as equity investments. These entities are not consolidated in WGA in 2011-12, because their scale dwarfs other aspects of WGA, distorting the accounts, and 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. This intention was reinforced in June 2013 by the Chancellor when he announced that the Treasury would actively consider options for sale of Lloyds' shares and investigate the case for moving the bad assets out of RBS into a separate entity if it would accelerate the path back to private ownership for the remainder of RBS. In the event that a separate entity is created to hold the bad assets from RBS, it is expected to be treated in the same way as NRAM and B&B. Finally, it would also be 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.

On 1 January 2012, the Government sold Northern Rock to Virgin Money. The Government received £0.7 billion in cash and a capital note with a par value of £0.1 billion on closing of the sale with further additional cash payments of £0.1 billion received in July 2012. The sale agreement also includes an additional cash consideration of £0.1 billion receivable upon a future profitable IPO r sale in the five years following the transaction.

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[46].

[46] https://www.gov.uk/government/organisations/hm-treasury

37.1 UKAR

UK Asset Resolution Limited (UKAR) is the holding company established on 1 October 2010 to bring together the Government-owned businesses of Northern Rock (Asset Management) plc (NRAM) and Bradford & Bingley plc (B&B). This is the first year of UKAR producing consolidated accounts for NRAM and B&B for the period ended 31 December 2011. NRAM and B&B have published their own financial statements for 2011, extracts of which are included in Notes 37.4 and 37.5 below. More details on UKAR and its activities are available on its website[47].

37.2 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 were transferred into Temporary Public Ownership. On 1 January 2010, the former Northern Rock business was restructured to create two new companies: Northern Rock plc and Northern Rock (Asset Management) plc (NRAM). All customer deposits and a proportion (around 10 per cent) of the mortgage book were transferred to the new bank, Northern Rock. The remaining mortgages and most wholesale funding remained in NRAM. NRAM does not offer new mortgage products or hold any customer deposits and is committed to a wind down of its business.

On 30 March 2010, the independent valuer appointed under the Northern Rock plc Compensation Scheme Order 2008 concluded that no compensation was payable by HM Treasury to former shareholders. Non-quantifiable contingent liabilities in relation to this compensation scheme and associated court proceedings are disclosed in Note 32.3 to these Accounts.

On 17 November 2011 the Chancellor announced the sale of Northern Rock. The Treasury received initial proceeds of £0.7 billion of cash on 31 December 2011, plus a perpetual Tier 1 capital note with a par value of £0.2 billion. A further payment of about £0.1 billion is anticipated as a post-closing adjustment during 2012-13 and about £1.0 billion if there is a successful sale or listing before the end of 2016. The estimated value of the total proceeds is £0.9 billion, resulting in a loss of £0.3 billion on disposal recognised in the SORE.

HM Treasury has provided the following support to NR and NRAM:

- financing to help with the restructure of £19.8 billion as at 31 March 2012 (2010-11: £21.6 billion). The interest receivable on this loan for 2010-11 was £0.2 billion;
- capital support of £1.4 billion in order for NR to meet regulatory capital requirements;
- a commitment to the regulatory authorities that up to £1.6 billion in additional capital support will be provided to NRAM should that be necessary to allow it to continue to meet its regulatory capital requirements; and
- a working capital facility (WCF) loan to NRAM with a current commitment of up to £2.5 billion to help the company with its wind down. This has not been drawn on to date. No fee is payable on the WCF unless drawn down.

NRAM published its 2011 Results on 28 March 2012 which showed a profit before tax of £0.9 billion (2011 restated: £0.3 billion). An extract showing the key figures is provided below. For further details, refer to the accounts of Northern Rock (Asset Management) plc, which are available on its website[48].

[47] www.ukar.co.uk
[48] www.northernrockassetmanagement.co.uk

Extracts from Northern Rock (Asset Management) plc's Accounts for the Year Ended 31 December 2011

	2011 £bn	2010 restated[1] £bn
Total income	1.3	1.2
Profit/(loss) before taxation	0.9	0.3
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.1)	-
Profit/(loss) for the year after tax	**0.8**	**0.3**
Total assets	55.3	66.1
Total liabilities	(53.1)	(65.0)
Total equity	**2.2**	**1.1**
Total non-shareholders' funds	(0.1)	(0.2)
Total share capital and reserves	**2.1**	**0.9**

1. Restated for a change in accounting policy and reclassifications in 2011

37.3 Bradford & Bingley plc

On 29 September 2008, in exercise of a power under the Banking (Special Provisions) Act 2008, HM Treasury transferred the shares of Bradford & Bingley plc (B&B) into public ownership. Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey), along with cash payments equal to the value of deposit liabilities totalling £18.5 billion. Of this, HM Treasury is liable for deposit balances in excess of £35,000, (the FSCS compensation limit at the time) which have been determined to be £2.8 billion. The FSCS is liable for the remaining £15.7 billion. In September 2008, the Bank of England also provided a Working Capital Facility (WCF) loan to B&B which was refinanced by HM Treasury on 29 December 2008 and stood at £8.0 billion as at 31 March 2012.

As at 31 March 2011, the FSCS loan was £15.7 billion and the net present value of the HM Treasury statutory debt, after impairments and amortisation, was £2.1 billion. The FSCS pays interest on the loan from HM Treasury relating to B&B deposits. Interest accrued during 2010-11 totalled £0.3 billion, payable on 3 October 2011.

As at 31 March 2012, the outstanding B&B working capital loan balance is £8.0 billion, the outstanding FSCS loan is £15.7 billion and the HM Treasury statutory debt is £2.8 billion. Following impairment and amortisation of cost on statutory debt, the net present value is £2.3 billion. B&B pay interest on the working capital facility. Interest receivable for 2011-12 totalled £0.4 billion.

On 1 October 2010, B&B was integrated with NRAM under a single holding company, UKAR.

On 24 June 2009, HM Treasury appointed as independent valuer under the terms of the Bradford & Bingley plc Compensation Scheme Order 2008 who concluded no compensation was payable by HM Treasury to former B&B's shareholders and bondholders. Non-quantifiable contingent liabilities in relation to this compensation scheme and associated court proceedings are disclosed in Note 32.3 to these Accounts.

B&B published its 2011 results on 31 March 2012 which showed a profit before tax of £0.4 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Bradford & Bingley plc, which are available on its website[49].

[49] www.bbg.co.uk

Extracts from Bradford & Bingley plc's Accounts for the Year Ended 31 December 2011

	2011 £bn	2010 restated[1] £bn
Total income	0.5	0.7
Profit/(loss) before taxation	0.4	1.2
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.1)	(0.3)
Profit/(loss) for the year after tax	**0.3**	**0.9**
Total assets	40.1	44.9
Total liabilities	(37.7)	(43.1)
Total net assets	**2.4**	**1.8**

1. Restated for a change in accounting policy and reclassifications in 2011

37.4 Royal Bank of Scotland Group plc

In December 2008, HM Treasury acquired approximately £15 billion of ordinary shares in the Royal Bank of Scotland Group plc (RBS), plus £5 billion of preference shares which were later converted into ordinary shares. On 22 December 2009 the Government injected a further £25.5 billion of capital in the form of B shares. In addition, the Government has agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's Core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5 per cent. In December 2009, RBS acceded to the Asset Protection Scheme (APS), insuring an initial asset pool of £282 billion. On 18 October, RBS reached the minimum fee of £2.5 billion and with no payout under the scheme deemed likely, the Government agreed with RBS to allow its exit. During 2011-12, RBS paid £0.3 billion in fees for inclusion in the APS and £0.3 billion in contingent capital fees.

Over the course of 2011-12, HM Treasury's economic ownership of RBS decreased to 82 per cent and the ownership of the ordinary share capital decreased to 66.1 per cent, due to the increase in total share count arising from equity issued by RBS, including in relation to share-based remuneration awards.

RBS published its 2011 results showing a loss on continuing operations of £0.8 billion before tax. An extract showing the key figures is provided below. For further details, refer to the accounts of Royal Bank of Scotland Group plc, which are available on its website[50].

[50] www.rbs.com

Extracts from Royal Bank of Scotland Group plc's Accounts for the Year Ended 31 December 2011

	2011 £bn	2010 £bn
Total income	28.9	31.9
Loss before taxation	(0.8)	(0.4)
Tax credit/(charge) on profit/(loss) of ordinary activities	(1.2)	(0.6)
Loss from discontinued operations	-	(0.6)
Loss for the year after tax	**(2.0)**	**(1.6)**
Total assets	1,506.9	1,453.6
Total liabilities	(1,430.8)	(1,376.7)
Net assets and shareholder funds	**76.1**	**76.9**

37.5 Lloyds Banking Group plc

On 13 October 2008, HM Treasury acquired ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB, and preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB. On 19 January 2009, HBOS and Lloyds TSB merged to form the Lloyds Banking Group (LBG) and this resulted in HM Treasury holding 43.4 per cent of the share capital and £4 billion of preference shares in LBG, later converted to ordinary shares.

Over the course of 2011-12, HM Treasury's holdings of the ordinary share capital of LBG decreased to 39.8 per cent, due to the increase in total share count arising from equity issued by LBG, including in relation to share-based remuneration awards.

There have been no financial transactions with LBG during 2011-12.

LBG published its 2011 showing a loss before tax of £3.5 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Lloyds Banking Group plc, which are available on its website[51].

Extracts from Lloyds Banking Group plc's Accounts for the Year Ended 31 December 2011

	2011 £bn	2010 £bn
Total income	26.8	44.0
Profit/(loss) before taxation	(3.5)	0.3
Tax credit/(charge) on profit of ordinary activities	0.8	(0.5)
Profit/(loss) for the year after tax	**(2.7)**	**(0.2)**
Total assets	970.5	991.6
Total liabilities	(923.9)	(944.7)
Net assets and shareholder funds	**46.6**	**46.9**

[51] www.lloydsbankinggroup.com

Note 38. 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.

Preparations for the sale of the Royal Bank of Scotland and Lloyds

In June 2013, the Chancellor made an announcement outlining a significant step in the Government's strategy to return the Royal Bank of Scotland (RBS) and Lloyds Banking Group plc (Lloyds) to private ownership. The Chancellor announced that the Treasury would actively consider options for the sale of Lloyds' shares and would investigate the case for taking bad assets out of RBS if it would accelerate the path back to private ownership. Shares in RBS and Lloyds were recognised as investments valued at £27 billion and £9 billion as at 31 March 2012.

Preparations for the sale of the Royal Mail

The Postal Services Act 2011 put in place a legislative framework aimed at safeguarding the future of Royal Mail and the universal postal service and was the first step on the path towards a sale of shares in the Royal Mail. In preparation for securing private investment for Royal Mail, Post Office Limited formally separated from Royal Mail Group Ltd on 1 April 2012 and will remain publicly owned. In addition, the Act enabled the relief of the Royal Mail Pension Plan's historic pension deficit, with members' historic rights being protected by the Government through the Royal Mail Statutory Pension Scheme. The Royal Mail Statutory Pension Scheme assumed responsibility for an estimated £32 billion of future pension payments from 1 April 2012 when almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan were transferred to HM Government. This left the pension plan fully funded on an actuarial basis in respect of historic liabilities at that date. Royal Mail Pension Plan assets of around £28 billion were subsequently transferred to Government from 1 April 2012 in phases as actuarial calculations were finalised.

Financial intervention guarantees

The Asset Protection Scheme (APS) was created to provide participating institutions such as the Royal Bank of Scotland with protection against future credit losses on defined portfolios of assets in exchange for a fee. As the bank continued to stabilise and manage down non-performing assets, it exited the scheme which then closed on 18 October 2012 extinguishing a remote contingent liability that had been £55 billion at 31 March 2012 as disclosed in Note 33.

The Credit Guarantee Scheme (CGS) was created to provide guarantees for senior unsecured debt of authorised UK banks in return for a fee. The last CGS guaranteed debt issuance reached maturity in October 2012 and the scheme closed, extinguishing a remote contingent liability that had been £24 billion at 31 March 2012 as disclosed in Note 33.

The National Loan Guarantee Scheme (NLGS) was launched in March 2012 to help businesses access cheaper finance by providing government guarantees on unsecured borrowing by banks, enabling them to borrow and lend at a cheaper rate. Guarantees under the scheme made in April 2012 totalled £3 billion.

The Funding for Lending Scheme (FLS) was launched in August 2012 with the aim of incentivising banks and building societies to increase lending to UK households and non-financial companies by allowing them to borrow at cheaper rates from the Bank of England. At the end of February 2013, 39 firms had signed up to the scheme and had drawn £15 billion. More information can be found on the Bank of England's website.

Infrastructure guarantees

The Government launched the UK Guarantees scheme on 18 July 2012 to accelerate major infrastructure investment and provide major support to UK exporters. The UK Guarantees scheme was established to ensure that where major infrastructure projects may struggle to access private finance because of adverse credit conditions they can proceed as planned. In September 2012, the Government published legislation which enabled it to guarantee up to £40 billion of investment in infrastructure, in addition to up to £10 billion in new homes as part the housing guarantee schemes. In addition, a £5 billion export refinancing facility will be available later this year from UK Export Finance as part of the UK Guarantees scheme to support British exporters by ensuring that overseas buyers have the long-term funding they need.

Bilateral loan to the IMF

In April 2012, a G20-led agreement to temporarily increase International Monetary Fund (IMF) resources was agreed. As part of this, the UK agreed to provide a new bilateral loan facility to the IMF for around $15 billion (£9.4 billion using prevailing exchange rates at the reporting period end). Any increase will be within the limits approved by Parliament, and will only be available once the 2010 quota reforms have been implemented.

EIB bond purchase facility

The UK's interest in the European Investment Bank (EIB) is a non-current investment in the Statement of Financial Position. The aim of the EIB is to further the objectives of the European Union by making long-term finance available for investment projects, and its capital has been provided through subscriptions by EU Member States. In June 2012, the European Council endorsed a proposal to increase the EIB's paid-in capital by €10 billion, to support additional EIB lending of up to €60 billion over the following three years. The UK paid its contribution to the capital increase of €1.6 billion (£1.4 billion) on 27 March 2013.

Pensions

On 6 February 2013, the UK Supreme Court published its judgment in the case of O'Brien, finding that a fee paid judicial office holder did qualify for a judicial pension on retirement. This judgement may have implications for the Government's judicial pension liabilities in the region of £0.4 billion to £2 billion.

Land and buildings

In March 2013 the Secretary of State for Defence announced the planned withdrawal of forces from Germany was to be brought forward so that the drawdown would be completed by the end of 2019. There is still uncertainty over the exact timing of any individual base closures but the announcement will result in a significant revaluation of the Government's land and buildings in Germany.

Note 39. Prior period adjustments

Prior period adjustments in WGA arose from WGA bodies restating, reclassifying or correcting 2010-11 figures in their 2011-12 accounts. These restatements have no material impact on the Statement of Revenue and Expenditure. The impact of the restatements on the Statement of Financial Position is shown below.

In 2011-12 the Government implemented the Clear Line of Sight reforms which expanded the consolidation boundary of government departmental accounts resulting in many minor bodies being consolidated in underlying accounts and included within WGA for the first time. Clear Line of Sight resulted in small presentational adjustments and reclassifications due to the alignment of accounting policies within departmental groups.

Bank and other borrowings were reclassified from trade and other payables in 2011 to other financial liabilities in 2012.This impacted on the current and non-current balances for 2011 but had no net impact on the Statement of Financial Position.

In 2011-12, the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 introduced a change to the treatment in accounting for heritage assets held by local authorities. Authorities were required to change their accounting policy for heritage assets and recognise them at valuation in property, plant and equipment on the Statement of Financial Position. Previously, heritage assets were either recognised as other types of assets or were not recognised in the Statement of Financial Position where it was not possible to obtain cost information on the assets. The accounting policies for recognition and measurement of heritage assets are set out in Note 1 of these Accounts. The impact of this change of accounting policy is reflected in the restatement of property, plant and equipment and revaluation reserves.

UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) plc and Bradford & Bingley plc. Shares in UKAR were previously recognised at historic cost (£1,000 of share capital), but in 2011-12 they were recognised at net asset value as a proxy for fair value, in the absence of an active market. The 2010-11 comparative figures for equity investment in the public sector banks and revaluation reserves have been restated to £3.0 billion in order to reflect this.

The restatement in the net pension liability included £0.9 billion in relation to the Armed Forces Pension Scheme (AFPS).The prior period adjustment resulted from the non-inclusion of a group of AFPS deferred members in the scheme liability in prior periods which was identified following analysis of the scheme membership database and the creation of a new scheme membership report. Further details are available in the AFPS 2011-12 accounts.

The restatement to reserves included £23.1 billion movement from other reserves to general reserves to reflect an alignment of accounting policy in the consolidated accounts of the Department of Energy and Climate Change which consolidated the Nuclear Decommissioning Authority.Otherwise, the Clear Line of Sight reforms resulted in small restatements to prior year figures and had no material impact on the Statement of Revenue and Expenditure or Statement of Financial Position.

The option to recognise donated assets in reserves was removed from the 2011-12 Government Financial Reporting Manual. As a result the other reserves balance, which included donated assets, has been restated and £2.5 billion included in general reserves.

Changes of accounting policy also included a number of small adjustments which were not significant for these accounts but which were material to underlying accounts and reflected in those balances making up these accounts.

Restatement of the Consolidated Statement of Financial Position

As at 31 March 2011

	Note	2011 reported £bn	Accounting policy change £bn	2011 restated £bn
Non-current assets				
Property, plant and equipment	*14*	710.0	4.0	714.0
Investment property	*15*	12.4	-	12.4
Intangible assets	*16*	34.3	0.5	34.8
Trade and other receivables	*17*	15.1	-	15.1
Equity investment in the public sector banks	*18*	56.5	3.0	59.5
Other financial assets	*22*	120.6	(0.2)	120.4
Total non-current assets		**948.9**	**7.3**	**956.2**
Current assets				
Inventories	*20*	12.0	-	12.0
Trade and other receivables	*17*	130.7	(0.7)	130.0
Cash and cash equivalents	*21*	22.5	-	22.5
Gold holdings		9.0	-	9.0
Assets held for sale	*19*	1.9	-	1.9
Other financial assets	*22*	102.7	-	102.7
Total current assets		**278.8**	**(0.7)**	**278.1**
Current liabilities				
Trade and other payables	*23*	(104.2)	5.6	(98.6)
Government borrowing and financing	*24*	(217.2)	0.2	(217.0)
Provisions for liabilities and charges	*25*	(12.0)	0.4	(11.6)
Other financial liabilities	*26*	(254.2)	(5.2)	(259.4)
Total current liabilities		**(587.6)**	**1.0**	**(586.6)**
Non-current liabilities				
Trade and other payables	*23*	(77.7)	27.9	(49.8)
Government borrowing and financing	*24*	(691.0)	(0.2)	(691.2)
Provisions for liabilities and charges	*25*	(96.1)	0.7	(95.4)
Net public service pension liability	*27*	(959.5)	(1.5)	(961.0)
Other financial liabilities	*26*	(9.2)	(26.8)	(36.0)
Total non-current liabilities		**(1,833.5)**	**0.1**	**(1,833.4)**
Net liabilities		**(1,193.4)**	**7.7**	**(1,185.7)**
Liabilities to be funded by future revenues:				
General reserve	*SoCTE*	1,401.9	20.8	1,422.7
Revaluation reserve	*SoCTE*	(221.8)	(9.6)	(231.4)
Other reserves	*SoCTE*	13.3	(18.9)	(5.6)
Total liabilities to be funded by future revenues		**1,193.4**	**(7.7)**	**1,185.7**

Note 40. Date authorised for issue

The financial statements were authorised for issue on 15 July 2013.

The 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 Accounts (the Account) for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. These comprise the Consolidated Statements of Revenue and Expenditure, Comprehensive Income, Financial Position, 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. My responsibility is to audit, certify and report on the accounts with a view to satisfying myself that they present a true and fair view. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Basis for qualified opinion on financial statements

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 1.22.1 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.[52] 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 2011-12 as a number of significant bodies[53] have not been included in the Accounts, even though they are classified by the 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.

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, illustrating the potential impact:

- Network Rail which has gross assets of £47.8 billion and gross liabilities of £39.3 billion;
- Publicly-owned banks which have gross assets £2,572.8 billion and gross liabilities of £2,445.5 billion; and
- Other bodies which have estimated gross assets of £18.9 billion and gross liabilities of £6.1 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.[54] 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 Code of Practice on Local

[52] *International Accounting Standard 27 - Consolidated and Separate Financial Statements*

[53] The significant bodies excluded are listed in Figure 17 in my Report.

[54] This framework is set out in the Government Financial Reporting Manual

Authority Accounting in the UK for 2011-12;

- Bodies that follow either pure IFRS or UK GAAP;
- Bodies that follow the Charities Statement Of Recommended Practice; and
- Bodies that follow the NHS reporting framework.

Under accounting standards, the Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the Account is prepared consistently in accordance with the relevant financial reporting framework.[55] The Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2011-12. This inconsistency 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.[56] I do not have the information to fully quantify the effect of this limitation.

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 on-going obligation to ensure that the spectrum remains available to licence holders. The impact of this difference is that income would be £1.3 billion greater; liabilities would be £9.0 billion greater (£10.3 billion in 2010-11); and the value of the general fund would be £9.0 billion less (£10.3 billion in 2010-11).

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 between bodies consolidated into these Accounts shall be eliminated in full. HM Treasury has a process in place to identify intra-government balances and transactions between bodies consolidated into the Accounts, and most balances and transactions have been eliminated. However, there remains a material value of intra-government transactions and balances which have not been eliminated. The effect of not adjusting for these could lead to a potential overstatement of up to £16 billion (£22.6 billion in 2010-11) in gross income and expenditure and up to £5.1 billion (£10.4 billion in 2010-

[55] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

[56] Note 14 to the WGA

11) 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 expenditure for the year or net liabilities. The totals reported for the net expenditure for the year and the net liabilities are subject to a maximum uncertainty of some £1.0 billion (£2.9 billion in 2010-11). This information is derived from where only one body has reported an intra-government transaction or balance or there is a mismatch on the amounts reported. There is also uncertainty about whether there are amounts which both bodies involved in a relationship have not reported, leading to further overstatement.

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts

Local authority maintained schools and academies are required to be included in the Accounts. There is insufficient evidence over the completeness and valuation of assets held by these schools. There are three areas of uncertainty:

- local authority maintained schools' assets, which are estimated to be up to £26 billion of assets from voluntary aided and foundation schools and £8.5 billion assets from voluntary controlled schools have been omitted from these Accounts.
- local authorities transferred land and buildings with a book value of £6.5 billion to academies in 2011-12 with the academies recording additions of land and buildings of some £12.3 billion. The Treasury and the Education Funding Agency commissioned an exercise to value the academies' estates. The subsequent audit of the exercise found that not all land and buildings on academy sites should be included in the academies' accounts and the Agency was unable to demonstrate that the risks and rewards of ownership had been transferred in all cases. There is, therefore, insufficient evidence for me to establish the correct value of the assets that should be included within the Accounts.
- I have also been unable to obtain sufficient assurance from my audit that the data submitted by the academies is representative of the income and expenditure incurred in 2011-12.

Qualification arising from disagreement and limitation of 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 these, two are of material significance to these Accounts. I qualified the Resource Accounts of the Ministry of Defence and the Cabinet Office: Civil Superannuation.

- **Ministry of Defence Resource Accounts**: Firstly, the Ministry has not complied with the relevant 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 2011 and 31 March 2012. This has also led to a consequential misstatement of the Account's Consolidated Statement of Revenue and Expenditure for 2010-11 and 2011-12. 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, in respect of the valuation of inventory (£3 billion) and certain non-current assets in the form of capital spares (£7 billion) recorded in the financial statements, the evidence available to me was limited due to the Department having failed to perform an adequate impairment review on a systematic basis. Consequently I was unable to obtain sufficient, appropriate audit evidence to support the valuation of £10 billion in the Statement of Financial Position and assess the completeness and accuracy of the associated transactions in the Statement of Comprehensive Net Expenditure. I have also been unable to obtain sufficient, appropriate audit evidence for the corresponding figures for 2010-11, which were also subject to this qualification.

- **Cabinet Office: Civil Superannuation Resource Accounts**: Under legislation and the governing rules of the Principal Civil Service Pension Scheme, benefits are calculated with reference to an individual's qualifying service and their pensionable pay. The scope of my audit was limited because the Cabinet Office was unable to provide me with evidence to support some service and salary records and therefore to validate the accuracy of some benefits awarded.

  The benefits awarded and membership records held by the Scheme are used to calculate the liability for future benefits. Because of the limitation in the evidence to support the accuracy of benefits awarded in the year to 31 March 2012 and a further limitation in the evidence provided to me to support some benefits accrued at the start of the financial year, I have limited the scope of my opinion on the valuation of the pension liability.

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 Accounts as at 31 March 2012 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000.

Emphasis of matter – inherent 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 1.22.6 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 £52.9 billion (£49.1 billion in 2010-11).

Opinion on other matters

In my opinion, the information given in the Foreword and the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitations on audit scope referred to in the basis for qualified opinion paragraphs 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 Governance Statement does not reflect compliance with HM Treasury's guidance.

My Report on pages 155 to 196 includes more details of the matters leading to my qualified opinion.

Amyas C E Morse
Comptroller and Auditor General

15 July 2013

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

1 The Whole of Government Accounts (WGA) is a single set of accounts consolidating the financial activities of the UK public sector. The WGA for 2011-12 is the third such set of accounts to be published by HM Treasury.

Scope of this report

2 The purpose of my Report is to highlight key areas of the WGA of interest and to supplement these with broader observations to aid its interpretation. These observations are drawn from my work on the WGA and from my other work across the UK's public sector. My Report covers:

- In **Part 1**, I explain the key figures in the 2011-12 WGA and provide further insight into the Government's finances.
- In **Part 2**, I set out how the WGA is meeting its objectives, how it is being used so far and why I qualified my audit opinion on the 2011-12 WGA.

Key findings

3 The WGA shows the UK public sector's overall financial position, as defined by accounting standards. In 2011-12, the WGA deficit[57] (the difference between expenditure and income) decreased by £11 billion to £185 billion, once the 2010-11 position is adjusted to take into account the £126 billion gain arising from reducing the indexation rate used for public sector pensions and a £24 billion reduction in the value of social housing.

4 The financial positions in the WGA can be compared to those produced by the Office for National Statistics which, in turn, are used by Government for fiscal management purposes. The WGA deficit is more than the current deficit, and WGA net liabilities are more than the Public Sector Net Debt. Chapter 1 sets out the relationship between the WGA positions and those produced by the Office for National Statistics. The figures differ because the WGA goes further than these other measures

[57] The 2011-12 WGA describes the WGA Deficit as "Net Expenditure for the Year". In previous years, it was termed "Net Deficit for the Year".

by including long term obligations which occurred during the year but which will not be paid until some point in the future, for example, pension liabilities. The WGA also highlights categories of expenditure that are within the direct control of bodies included in the WGA and those that are based on external factors, such as pension and provision discount rates.

5 The WGA shows that the government's measures to reduce the deficit are beginning to have an impact. Direct expenditure has fallen from £663.3 billion in 2010-11 to £647.8 billion in 2011-12. This is the first full year of the Government's debt reduction plan and the WGA will continue to report on progress. However, the Government will need to take continued steps in order to make longer term and more sustainable savings.

6 The 2011-12 WGA is a true and fair account of the use of public resources, but my opinion remains qualified in certain aspects. My audit opinion on the 2011-12 WGA is similar to that for 2010-11, although the Treasury has made some improvements. My audit revealed significant issues with the quality and consistency of the data included in the WGA and some bodies, such as Network Rail, remain excluded from the WGA even though accounting standards require their inclusion.

7 The Treasury has again bought forward its publication of the WGA but, for it to be used more effectively, it needs to be produced faster. The 2011-12 WGA was published some 16 months after the financial year to which it relates. This is an improvement and is a significant milestone in achieving the Treasury's medium term goal of delivering the WGA within nine months of the year end.

8 The lack of detail in parts of the WGA continues to inhibit its usefulness and the underlying data is not yet good enough to allow improvements to be made. For example, the 2011-12 WGA does not breakdown expenditure by function or show how this is distributed across the UK's nations. The Treasury's current system, which is to be replaced, was not designed to collect this data.

Conclusions

9 As I concluded last year, I continue to regard the WGA as a key means through which Parliament and other stakeholders might gain greater insight into the wide range of activities that the government undertakes, scrutinise public finances and hold the government to account. The Treasury continues to make improvements to the WGA so that it can meet all of its original objectives and is now beginning to address some of my qualifications. But, for the WGA to meet its full potential, the Treasury must do more before I can remove my qualifications.

Recommendations

10 Although responsibility for the underlying transactions lies with the various bodies included in the WGA, my recommendations are all aimed at the Treasury, because it has ultimate responsibility for preparing the WGA. The Treasury should:

- **Ensure the profile of the WGA is raised within government and is used more effectively to help decision making.** The Treasury has started to take steps to do this, including for the 2013 Spending Round, but it needs to ensure this is embedded in all cross-government decision making.
- **Continue to improve the production process so that the WGA can be published quicker**.
- **Do more to remove my qualifications.** Until I am able to remove my current qualifications, the WGA cannot fully meet its objectives.
- **Improve data collection so that information in the WGA can become more detailed and be of greater use to its readers.** Whilst the WGA meets the requirements of the accounting standards, the WGA could add value by including more detail over government spending.

Part One: The UK Government's Financial Position

The Whole of Government Accounts

1.1 The Whole of Government Accounts (WGA) is a single set of audited accounts consolidating the financial activities of most of the UK public sector. The WGA sets out what the public sector owns (assets), owes (liabilities), spends (expenditure) and receives (revenue). The WGA portrays the public sector as a single corporate entity. This means that all transactions and balances between different parts of the public sector should be eliminated to avoid double counting them.

1.2 HM Treasury compiles the WGA and has overall responsibility for delivering it as a "true and fair" representation of the financial position and performance of the whole of government. The WGA is based on International Financial Reporting Standards adapted for use by the public sector. While the Treasury is not responsible for the individual transactions underpinning the accounts consolidated into the WGA, it is jointly responsible, along with the bodies included in the WGA, for ensuring that data collection, financial management and reporting are robust.

1.3 The Treasury estimates that the 2011-12 WGA includes around 3,000 bodies.[58] To be included in the WGA, a body must exercise functions of a public nature and be accountable to, or be otherwise controlled by the UK Government. This definition includes central and local government, public corporations such as the Bank of England but not independent public sector organisations such as Parliament, the Crown Estate or the National Audit Office. The Treasury used statistical, rather than accounting, standards to determine which bodies should be included in the WGA, and this departure from accounting standards is one of the reasons I qualified my opinion on the WGA (**Part 2**).

The purpose of my Report

1.4 The Treasury has provided a comprehensive commentary on the WGA in their Foreword and Performance Report. The purpose of my Report is not to duplicate what

[58] The 2011-12 WGA includes information from 3,076 accounts which are listed in Annex 1 of the WGA. Some bodies publish more than one set of accounts, and some of the accounts already consolidate more than one separate body. For example, the Department of Health consolidates 256 hospitals and the Consolidated Academies account consolidates 1,623 Academies. In addition, Annex 2 and 3 to the WGA show some 460 bodies that should have been consolidated (e.g. four banks, Network Rail, 86 trust ports and 344 further education colleges) but have not been.

is already in this commentary but to highlight key areas of interest and to supplement this with our broader observations to aid the WGA's interpretation. These observations are drawn from my work on the WGA and from my other work across the UK's public sector.

1.5 **Figure 1** shows the key elements within the 2011-12 WGA and this Part of my Report highlights:

- **the financial position of the UK public sector as reported in the WGA** (paragraphs 1.6 to 1.9);
- **the WGA Deficit,** including the impact of actions taken by the Government so far to reduce the deficit (paragraphs 1.10 to 1.19);
- **Expenditure**, including the impact of payroll initiatives and losses (paragraphs 1.20 to 1.29);
- **Liabilities**, including Government borrowing (paragraphs 1.30 to 1.53); and
- **Assets** (paragraphs 1.54 to 1.62).

The financial position of the UK Public Sector

1.6 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. These produce two main measures which HM Treasury use for fiscal management which are the *current deficit* and *public sector net debt*.

1.7 I highlighted in my first Report for 2009-10[59], that the WGA complements the existing statistical information on public finances by giving a view based on accounting standards. These standards require the inclusion of a wider range of public assets, liabilities and expenditure than those used to prepare the *National Accounts*. The Treasury have set out the key differences between the two approaches in **Chapter 3** and their impact in reporting the public sector's financial position.

1.8 Chapter 3 compares the financial position as recorded in the WGA and the equivalent using the fiscal definitions. **Figure 2** shows these positions for the Government's Deficit and **Figure 3** shows these for the Net Liability. Between 2009-10 and 2011-12, the Deficit as shown in the WGA has fluctuated (paragraph 1.10) whereas the Current Deficit fell year on year. The WGA also shows that the Net Liability has fluctuated over the same time period whereas the Public Sector Net Debt has increased.

[59] Whole of Government Accounts 2009-10, Session 2010-12, HC 1601, November 2011, paragraphs 7.29 to 7.33

Figure 1

Key elements of the Whole of Government Accounts 2011-12

	Description	Examples	2009-10	2010-11	2011-12
Assets	Resources controlled by government from which future benefits can be generated	Offices, student loans, the national road network, military equipment.	1,249.5	1,234.3	1,267.6
Liabilities	Obligations on government arising from past transactions or events	Unfunded elements of public sector pension schemes, gilt-edged stock, future cost of decommissioning existing nuclear facilities.	(2,477.4)	(2,420.0)	(2,614.6)
Net Liability	**The difference between what the public sector owned and what it owed at the end of the financial year**		**(1,227.9)**	**(1,185.7)**	**(1,347.0)**
Revenue	Income received from government activities	Taxation, rental from local government housing, funding received from the EU.	583.4	614.0	616.6
Direct Expenditure	The costs of running government and providing public services	Benefit payments, staff costs, grants, depreciation, contributions to the EU.	(619.5)	(663.3)	(647.8)
Other Operating Expenditure	Items subject to revaluations based on external factors	Pension scheme costs and impairment of assets.	(47.7)	38.4	(67.3)
Net financing cost	The cost of funding government's activities	Investment revenue, interest paid on gilts, interest on pension scheme liabilities.	(78.9)	(83.5)	(86.8)
WGA Net Expenditure for the year	**The difference between all the public sector's expenditure and its income (WGA Deficit)**		**(162.7)**	**(94.4)**	**(185.3)**

All figures in £ billions

The balance sheet figures for 2010-11 have been restated so that they are comparable with the 2011-12 WGA. This reduced the net liability by £7.7 billion.

The figures for 2009-10 were restated last year to make them comparable with the original figures for 2010-11 but have not been further restated for comparability with 2011-12. This reduced net expenditure for the year by £1.8 billion and increased the net liability £16.1 billion.

Source: NAO analysis of WGA 2011-12 and 2010-11

Figure 2

Measures of the Government's Deficit

	2009-10	2010-11	2011-12
WGA Net Expenditure	163	94	185
Current Deficit as reported by the Office for National Statistics	109	101	90

All amounts in £ billion

Source: Paragraph 3.5 of the WGA

Figure 3

Measures of the Government's Net Liability

	2009-10	2010-11	2011-12
WGA Net Liability	1,228	1,186	1,347
Public Sector Net Debt as reported by the Office for National Statistics	828	1,005	1,106

All amounts in £ billion

Source: Paragraph 3.5 of the WGA

1.9 The WGA will, in time, allow the reader to see how the UK Government is reducing the deficit. With three years of WGA now available, the reader can begin to see trends develop, but is not yet able to identify long-term trends as, for example, large one-off items in any one year can make identifying trends difficult.

The WGA Deficit

1.10 The WGA shows that the WGA Deficit[60], the shortfall between income and expenditure as defined by accounting standards, was £185.3 billion (**Figure 1**). This compares to £94.4 billion reported in 2010-11. This difference was largely due to the impact of two non-recurrent items in 2010-11:

- the Government changed the indexation rate used for public sector pensions from RPI to CPI, which created a one-off gain of £126 billion; and
- a one-off impairment to council housing, which increased the 2010-11 expenditure by £24 billion.

[60] The 2011-12 WGA describes the WGA Deficit as "Net Expenditure for the Year". In previous years, it was termed "Net Deficit for the Year".

1.11 The Treasury classifies expenditure as that which is direct expenditure of Government, and that which is subject to revaluation, usually based on external factors such as changes in discount rates for pensions reflecting market yields on corporate bonds and the value of shares in the banks owned by the public sector at the balance sheet date. Direct expenditure is similar to the definition of spending used by the Office for National Statistics to calculate the fiscal deficit. Direct expenditure has decreased from £663.3 billion in 2010-11 to £647.8 billion in 2011-12 (**Figures 1 and 4**) due to:

- staff costs (excluding pension scheme costs) decreased by 2 per cent from £152 billion in 2009-10 to £148.9 billion in 2011-12; and
- purchases of goods and services decreased 5.5 per cent from £160.9 billion in 2009-10 to £152 billion in 2011-12.

1.12 Figure 1 also shows that revenue has risen each year, whereas components within expenditure and indirectly controlled expenditure have increased or decreased largely because of one-off factors. These include:

- Revenues have increased from £614.0 billion in 2010-11 to £616.6 billion in 2011-12. Tax revenues increased from £485.3 billion in 2009-10 to £523.7 billion in 2011-12, largely due to the increase in the rate of value added tax, which raised an additional £21.7 billion.
- There were increases in expenditure on benefits from £197.1 billion in 2009-10 to £209.7 billion in 2011-12, with the largest increase (some £6.7 billion) due to the state retirement pension.
- Other operating expenditure, relating to impairment of assets and pension scheme costs, changed from a £38.4 billion gain to a loss of £67.3 billion.
- Financing cost, investment revenue, interest on pension liability and gains and losses on assets increased from £83.5 billion to £86.8 billion.

Measures to reduce the deficit

1.13 Against this background, the Government has introduced measures to reduce the deficit:

- those proposed in key fiscal statements such as the Budget and the 2013 Spending Round for 2015-16; and
- actions taken by the Cabinet Office's Efficiency and Reform Group and the Government Property Unit.

1.14 Most recently, the Chancellor presented the 2013 Spending Round to the House of Commons on 26 June. This set out how government spending in the year

2015-16 will be divided between departments and confirmed that the Total Managed Expenditure in 2015-16 will be £744.7 billion.[61] In total, the Departmental Expenditure Limit for all departments will be reduced by 2.8 per cent in real terms compared to 2014-15. However, the National Health Service, schools and international development budgets will be protected, meaning that the reductions have fallen across the other departments. The total reductions announced of £11.5 billion for 2015-16 are in addition to the previously made Budget announcements.

1.15 The 2013 Spending Round also set out proposals for further changes which may impact upon the deficit. A welfare cap will be applied from April 2015 and will be set every year in the budget. The welfare cap will include housing benefit, tax credits, disability benefits and pensioner benefits but will not include the state pension. It is too early to state the impact that this will have on the deficit.

1.16 The departmental spending reductions announced in successive Budgets and Spending Rounds will be delivered by departments. The Efficiency and Reform Group (ERG) was set up in May 2010 to help central government achieve cost reductions by encouraging improved efficiency and wider reform, and exerting a stronger central oversight of department's spending.

1.17 The ERG reported savings of £5.5 billion in 2011-12. These savings contribute to a £15 billion reduction in central government spending in 2011-12 compared to 2009-10.[62] ERG has subsequently reported a further increase, taking the savings to £10 billion in 2012-13. The savings are a mix of one-off and sustainable benefits to the taxpayer. They include changes to public service pension schemes, restrictions on employing consultants and temporary staff, the monitoring of the recruitment of permanent staff, central control over procurement of common goods and services and review of major ICT and other projects.

1.18 In April 2013, I reported that one-off savings and cost avoidance are valuable but do not deliver the same long-term benefits as sustainable savings given that short-term savings will need to be replicated by new savings in 2014-15.[52]

1.19 The Government Property Unit is part of the Cabinet Office's Efficiency and Reform Group. Its aim is to maximise the value obtained from the central government estate. It claims to have raised £1 billion from the sale of surplus property and land owned by central government between the start of June 2010 and the end of February 2013.[63] Despite the size of the reported savings, the figures may be recognised over a number of years which will not make a visible impact on the WGA's Net

[61] HM Treasury, 2013 Budget, Session 2012-13, HC 1033, March 2013, Table 2.3, page 68

[62] Comptroller and Auditor General, *The Efficiency and Reform Group*, Session 2012-13, HC 956, National Audit Office, April 2013

[63] Cabinet Office, 13 March 2013. https://www.gov.uk/government/news/government-raises-1-billion-for-public-purse-by-exiting-unused-assets accessed on 28 May 2013

Expenditure. For example, the £62.5 million generated from the Department for International Development's move to Whitehall in February 2013 will be realised at around £10 million per year.[64]

Expenditure

1.20 The WGA shows that public sector expenditure, finance costs and pension scheme revaluations totalled £822.5 billion[65] in 2011-12, of which 25 per cent related to benefit payments and 18 per cent to staff costs (**Figure 4**). Staff costs reduced by £4.1 billion, purchase of goods and services by £7 billion and other expenditure by £3 billion. This was offset by increased spending on social security benefits by £5.7 billion.

Figure 4

Expenditure since 2009-10

Type of expenditure	*WGA Note*	2009-10	2010-11	2011-12
Benefits	*6*	197.1	204.0	209.7
Staff costs (exc. Pension scheme costs)	*7.1*	152.0	153.0	148.9
Purchase of goods and services	*8*	160.9	159.2	152.0
Grants and subsidies	*9*	66.2	68.4	61.6
Depreciation and amortisation	*10*	25.1	27.4	27.6
Impairment of receivables	*10*	7.2	5.5	4.8
Provision expense	*25*	-17.0	18.3	17.4
Other expenditure	*11*	28.0	27.5	25.8
Direct expenditure (per Table 2.2 of the WGA)		**619.5**	**663.3**	**647.8**
Impairments and revaluations of non-financial assets	*10*	18.7	41.7	13.4
Impairments of financial assets	*10*	0.6	5.8	18.6
Pension scheme costs: current service costs	*7.1*	27.5	40.4	34.6
Pension scheme costs: losses on settlement & curtailment	*7.1*	0.2	-0.3	-0.3
Pension past service costs	*7.2*	0.7	-126	1
Total expenditure (per Table 2.2 of the WGA)		**667.2**	**624.9**	**715.1**
Finance costs	*13*	33.1	40.5	42.3
Interest on pension schemes	*27*	58.9	60.8	64.8
Net loss on disposal of assets	*n/a*	1.2	3.6	0.3
Total expenditure in WGA		**760.4**	**729.8**	**822.5**

All amounts in £ billion

Source: NAO analysis of WGA 2011-12 and 2010-11, in particular Table 2.2 in Chapter 2 to WGA 2011-12.

[64] Cabinet Office, State of the Estate in 2012, May 2013 https://www.gov.uk/government/publications/state-of-the-estate-in-2012 accessed on 28 May 2013

[65] The revenue and expenditure elements of Net Finance Costs in the WGA have been allocated to Revenue and Expenditure in Figures 1 and 4.

Purchases of Goods and Services and Other

1.21 The WGA does not include detailed information on expenditure on '*purchases of goods and services*' of £152.0 billion and '*other expenditure*' of £25.8 billion.[66] These costs represent the day to day activities. The absence of detailed information in the WGA does not allow the reader to analyse these areas, although the presentation does not depart from accounting standards. For example, it is not currently possible to see what the public sector spent on consultancy, accommodation and subscriptions to international bodies. However, from my analysis of the WGA's supporting data, I have been able to provide further insight on such subscriptions which, together with other payments to international bodies and countries which are recorded elsewhere in the WGA, account for some £13.3 billion, and is a significant element of public expenditure and an important means by which the government discharges its international obligations (**Box 1**).

Box 1: International expenditure in 2011-12

The Government took part in various international activities costing around £13.3 billion in 2011-12. These can be grouped into three areas: grants to the EU; international aid; and subscriptions to international organisations. In 2011-12, the Government paid:

Grants to the EU: The UK contributed some **£12.2 billion** to the EU, of which some £5.0 billion was received back from the EU (Note 9 to the WGA). Of this £5.0 billion, some £4.6 billion (Note 5) was granted by the Government as co-managed funding for EU approved projects in the UK, including subsidies to farmers (Note 9).

International Aid: **£5.3 billion** in grants to developing countries (Note 9 of the WGA)

International Subscriptions: **£0.8 billion** for international subscriptions, the costs of which are included within 'Other expenditure' (Note 11 to the WGA):

	£ million
North Atlantic Treaty Organisation (NATO)	197.4
European Space Agency	199.9
United Nations (UN)	98.1
European Organisation for Nuclear Research (CERN)	102.2
European Southern Observatory	27.9
Council of Europe	26.5
World Health Organisation	19.5
International Atomic Energy Agency	21.1
Organisation for Economic Co-operation and Development	12.5
European Meteorological Infrastructure	11.1
World Trade Organisation	6.3
Interpol	2.8
World Meteorological Organisation	2.4
Other	33.4
Total	**761.1**

Source: NAO analysis of accounts consolidated into the WGA 2011-12.

[66] Notes 8 and 11 of the WGA respectively

Staff costs

1.22 After social security benefits, the public sector spends most on staff with costs of £183 billion (Note 7.1 to the WGA). Staff costs reduced by £10 billion in 2011-12 due to falling pension scheme costs (£6 billion), primarily due to a change in the discount rate, and salaries and wages (£4 billion) mainly because government employed 22,145 (0.5 per cent) fewer people (paragraph 1.23) and the freezing of public sector pay (paragraph 1.25). Reduced staff costs were off-set by £2.7 billion of redundancy packages, which will result in lower staff costs in the longer term.

Reductions in staff numbers

1.23 The public sector has made some 108,234 redundancies in 2011-12 (Note 7.4 to the WGA). Overall, this has led to 22,145 less full-time equivalent staff (Note 7.3 to the WGA). Note 7 of the WGA also shows that central government (including the NHS) increased its staff numbers, but this was because some 168,495 staff working in Academies were reclassified from local to central government. Adjusting for this transfer, the WGA figures indicate that local government would have increased its staff numbers and the majority of staff reductions were being made in central government (dotted lines in **Figure 5**).

1.24 Changes to the Civil Service Compensation Scheme have reduced the average cost of early departures in central government departments between 2010-11 and 2011-12[67] and the NAO estimated that departure costs would be recovered through reduced costs within 15 months, except for staff nearing retirement.[68] The average cost of government exit packages was £25,047 (**Figure 6**).

Impact of the public sector pay freeze on staff costs

1.25 The government introduced a public sector pay freeze but it did not prevent average pay from increasing. In June 2010, the Chancellor of the Exchequer announced to Parliament a two year pay freeze starting in 2011-12. The freeze did not apply to public sector workers earning less than £21,000 a year (who received an increase of at least £250 a year[69]) and the freeze did not prevent many public sector workers receiving pay rises due to automatic pay progressions written into their contracts (for example teachers, police and some civil servants). Pay systems involving progression exist for around a half to two thirds of the public sector workforce. Automatic time served progression exists for around 20-25 per cent of the Civil Service. The actual number receiving increments will depend on how many have

[67] Comptroller & Auditor General, The Efficiency and Reform Group, Session 2012-13, HC 956, April 2013.

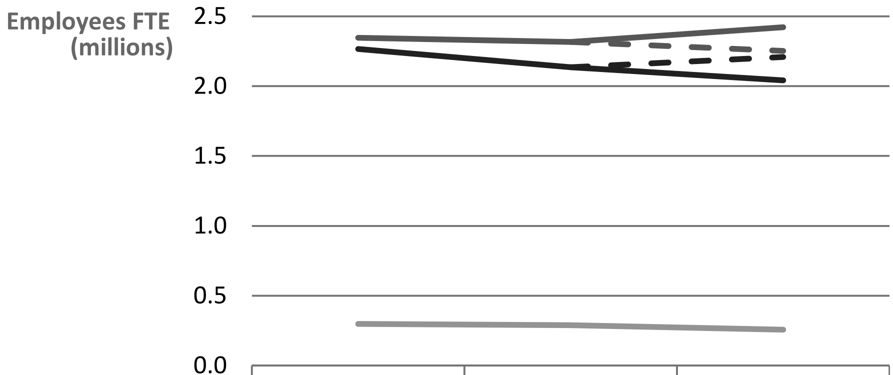
[68] Comptroller & Auditor General, Managing early departures in central government, Session 2010–2012, HC 1795, March 2012.

[69] HM Treasury, Budget Statement 2010, Session 2010-12, HC 61, 22 June 2010, paragraph 2.18.

reached the top of their pay scales. The ONS estimates that the average pay rise for the public sector is 1.3 per cent in 2011-12 (**Figure 7**).

Figure 5

Staff numbers since 2009-10



	2009-10	2010-11	2011-12
Central government	2,345,408	2,316,023	2,421,154
Central government exc. Academies		2,316,023	2,252,659
Local government	2,266,834	2,135,666	2,040,846
Local government inc. Academies		2,135,666	2,209,341
Public corporations	299,126	289,597	257,141
Total	4,911,368	4,741,286	4,719,141

Source: NAO analysis of WGA 2011-12 and 2010-11

Figure 6

Public sector exit packages compared to median earnings

Source: WGA 2011-12, Remuneration Report and Note 7.4

1.26 In the 2013 Spending Round, the Chancellor announced that the government would put in place plans to end automatic time-served pay progression in the civil service, excluding those in place for the armed forces, by 2015-16. In addition, substantial reforms to progression pay will be taken forward or are already underway for teachers, the health service, prisons and the police.

Figure 7

Average annual pay rises

	Public Sector	**Private Sector**
2011-12	+ 1.3 %	+ 0.3 %
2012-13	+ 1.4 %	+ 0.8 %

Source: Office for National Statistics, Statistical bulletin: Labour Market Statistics: Earnings. May 2012 and 2013

Estimated Losses and Fraud

1.27 The size and complexity of the types of expenditure managed by the public sector sometimes means that monies are not always applied to their intended purpose and, in the case of revenues, not fully collected. Although the amounts involved are relatively small compared with the total amount spent and received by the public sector, they do represent significant sums of public money and, in recognition of this, the Government established the *Fraud, Error and Debt Taskforce* in 2010 to help coordinate action across Government and the wider public sector to focus on efficiently and effectively reducing fraud and error loss in the public sector.

1.28 The WGA includes the impacts of fraud, error, negligence and loss (**Figure 8**). For example, the Comptroller and Auditor General has highlighted the levels of estimated overpayments of benefits due to fraud and error as part of his audits of the accounts produced by HMRC and the Department for Work and Pensions. In addition, central government departments have disclosed in their financial statements losses that they have incurred[70] - twenty of the most significant government departments reported actual losses in their accounts of some £1.1 billion, which includes categories such as inventory write offs, payments made with no benefit gained, and debts no longer being pursued. Figures for local government and public corporations are not available because these bodies are not required to disclose their losses as they do not prepare their accounts in line with the Government's Financial Reporting Manual.

[70] HM Treasury, Managing Public Money, October 2007. Annex 4.10

Figure 8

Losses from Fraud, Error, Negligence and Debt Management

	Total	Fraud	Debt management	Error	Other
Tax write-offs [a,b]	**7,018**	-	7,018	-	-
Benefits fraud and error [c,f]	**3,654**	1,100	-	2,554	-
Clinical negligence [d,e]	**1,377**	-	-	1,377	-
Write-offs [f]	**594**	-	574	-	20
Other losses [f]	**514**	-	-	413	101
Total	**13,157**	1,100	7,592	4,344	121

All figures in £ million

Sources:

a. HMRC, Annual Report and Accounts 2011-12, Session 2012-13, HC 38, June 2012, pages 115 and 145.

b. Television Licence Fee Trust Statement 2011-12, Session 2012-13, HC 383, July 2012, page 19

c. The Comptroller and Auditor General, Report on the Department for Work & Pensions Accounts 2011-12, July 2012.

d. NHS Litigation Authority Annual Report and Accounts 2011-12, Session 2012-13, HC 215, June 2012.

e. Welsh Government Consolidated Accounts 2011-2012, July 2012

f. NAO analysis of losses in the losses and special payments notes of 20 of the most significant departments in central government, including the devolved nations, excluding HMRC losses which are recorded under (a.).

1.29 As well as fraud and losses that are disclosed in the accounts of public sector bodies, other sources provide estimated information on the potential impact on the revenues and costs of the public sector:

- **Fraud:** The National Fraud Authority estimates fraud in the public sector to be £20.6 billion.[71] Although any estimate of fraud will always be subject to uncertainty, the Authority considers that fraud is more accurately measured in the public sector than other sectors.[72] The types of public sector fraud that the Authority identified can be classified as: tax fraud (£14 billion); procurement fraud (£2.3 billion); benefit fraud (£2.3 billion, including £1.1 billion reported in Figure 8); grants fraud (£0.5 billion), payroll and pension fraud (£0.4 billion), television licence fee fraud (£0.2 billion) and council tax fraud (£0.1 billion).

[71] National Fraud Authority, Annual Fraud Indicator, June 2013

[72] The National Fraud Authority estimates fraud in the public sector to be £20.6 billion compared to £21.2 billion in the private sector, £9.1 billion to individuals and £0.15 billion in the charity sector.[72]

- **Tax Gap:** This is the difference between the hypothetical amount of tax due, based on data on economic activity, and that amount that the Government expects to collect. This theoretical asset to the government is the additional amount of tax that would be due if every business and individual complied exactly with tax law as interpreted by HMRC. The most recent estimate of the tax gap relates to 2010-11 and shows a total tax gap of £32 billion.[73]

Government liabilities

1.30 As highlighted in Chapter 1, the measure of net liability as recorded in the WGA differs from the Government's fiscal measure, Public Sector Net Debt (PSND). The WGA is wider in scope than the PSND as it includes additional areas such as property, plant and equipment, and public service pension liabilities.

1.31 The WGA shows that all types of Government liability increased between March 2011 and March 2012 (**Figure 9**). The WGA shows liabilities of £2.6 trillion, including Government financing and borrowing commitments of £965.5 billion (paragraphs 1.32 to 1.34), commitments of £1,008 billion for public service pensions (paragraphs 1.35 to 1.37); £113 billion of provisions for likely future expenses due to past events (paragraphs 1.38 to 1.47) and £154 billion of trade payables. The WGA also shows £262 billion of contingent liabilities (paragraphs 1.48 to 1.51).

Government borrowing

1.32 Government financing and borrowing grew from £908 billion in March 2011 to £965 billion in March 2012 (Note 24 to the WGA). This represents the total amount of borrowing accumulated by government over time. The £965 billion consisted of gilt-edged securities (£788 billion of debt issued to the market), Treasury bills (£74 billion of short-term financing) and National Savings & Investment products (£103 billion).

Figure 9

WGA Liabilities since 31 March 2010

	31 March 2010	**31 March 2011**	**31 March 2012**
Public service pensions	1,134.7	961.0	1,007.8
Borrowing and financing	781.8	908.2	965.5
Other financial liabilities	312.6	295.4	373.2
Trade and other payables	146.1	148.4	154.8
Provisions	102.2	107.0	113.3
Total	**2,477.4**	**2,420.0**	**2,614.6**

Source: NAO analysis of WGA 2011-12 and 2010-11

[73] HM Revenue and Customs, *Measuring Tax Gaps, 2012*, October 2012.

1.33 The increase in borrowing has mainly been driven by additional gilts issued to fund payments that could not be met from taxation revenues. This increase in borrowing has led to a corresponding increase in the cost of borrowing of £1.1 billion since 2010-11 to £37 billion in the year ended 31 March 2012 (Note 13 to the WGA).

1.34 The £965 billion is the total amount borrowed by central government and other liabilities have also been incurred to fund the activities of government as a whole. In addition to the £965 billion shown in Note 24 to the WGA, borrowings by local authorities totalled £33 billion (contained within Bank and other borrowings in Note 26 to the WGA), government owes £36 billion for assets and services purchased using the Private Finance Initiative, and a further £217 billion held by the Bank of England to finance the re-purchase of gilts by the Bank of England's Asset Purchase Facility Fund in support of the policy of quantitative easing (contained within Deposits by Banks in Note 26). The consolidation of quantitative easing into WGA does not reduce the overall liabilities because gilts are exchanged for central bank reserves. These aggregate to some £1.25 trillion at the end of March 2012. I have commented on the emerging effectiveness of quantitative easing in my Report on the 2012-13 HM Treasury Departmental Accounts.[74]

The public sector pension liability

1.35 The largest liability recorded in the WGA is the public sector pension liability of £1,008 billion (Note 27 to the WGA). The increase of £47 billion in 2011-12 is largely driven by changes in actuarial assumptions over the long term cost of meeting the pension commitments. Actuarial assumptions used in calculating the public pension liability include the rate of increase of salaries and pension inflation as well as the discount rate.

1.36 The Government has introduced various reforms to manage the pension liability. Central government employee pension contributions were increased by an average 3.2 per cent over a three year period starting in 2012-13 (intended to save £2.8 billion in 2014-15[75]). The Public Service Pensions Act 2013 will introduce new pension schemes from April 2015 which will provide members with pensions based on their average career earnings instead of final salary. The Act will increase the age when public sector workers start to receive their pension to the same age as when the state pension is paid, except for police, fire service and armed forces personnel for whom a pension age of 60 has been proposed.

1.37 As I highlighted in my report on the 2010-11 WGA, the Office for Budget Responsibility estimates that these measures will reduce the cost of public sector

[74] HM Treasury, Annual Report and Accounts 2012-13, Session 2013-14, HC 34, July 2013.

[75] Written Ministerial statement, Cabinet Office, 26 March 2012, Minister for the Cabinet Office, Paymaster General: Principal Civil Service Pension Scheme – Increase to member contributions, Rt Hon Francis Maude http://www.civilservice.gov.uk/pensions/reform/contribution-increases accessed on 19 June 2013

pensions from around the current 1.5 per cent of GDP to 1 per cent of GDP by 2061-62.[76]

Provisions

1.38 The second largest category of liabilities in the WGA are the provisions for costs the Government expects to have to meet at some point in the future arising from past events. The main provisions are nuclear decommissioning (£64.3 billion) clinical negligence (£19.4 billion) and other provisions (£29.6 billion). **Figure 10** shows that the overall provisions figure continued to increase over the three years of the WGA.

The provision for nuclear decommissioning

1.39 The WGA (Note 25 to the WGA) shows provisions of £64.3 billion relating to the estimated cost of decommissioning and cleaning up the civil and military nuclear estate. Of this figure, some £52.9 billion is in respect of the nuclear facilities owned by the Nuclear Decommissioning Authority.[77]

1.40 The increase in the nuclear decommissioning provision in 2011-12 is partly due to the impact of inflation, some changes to site programmes and a further £2.5 billion increase due to changes made by the Government over its preferred option for the re-use of civil stocks of plutonium. My report on the financial statements of the Nuclear Decommissioning Authority for 2012-13 includes a more up to date position and its sensitivity to changes in the discount rate.[78]

1.41 The Energy Act 2008 requires the operator of new nuclear power stations to provide secure financing arrangements to meet the full costs of decommissioning and their full share of the costs of waste disposal before nuclear-related construction can begin. In March 2013, the Government announced that Hinkley Point C will be the first nuclear project that will be decommissioned using private sector finances.[79]

The provision for clinical negligence

1.42 The WGA (Note 25 to the WGA) includes a provision of £19.4 billion for clinical negligence. Clinical negligence is the term given to a breach of a duty of care by healthcare practitioners in the performance of their duties which has been confirmed by the employing NHS body or through legal process. Claims for clinical negligence are typically long-term liabilities as it can take up to 30 years for claims to be reported

[76] Office for Budget Responsibility, Fiscal Sustainability Report, July 2012.

[77] Nuclear Decommissioning Authority, Annual Accounts 2011-12, Session 2012-13, HC 355, July 2012.

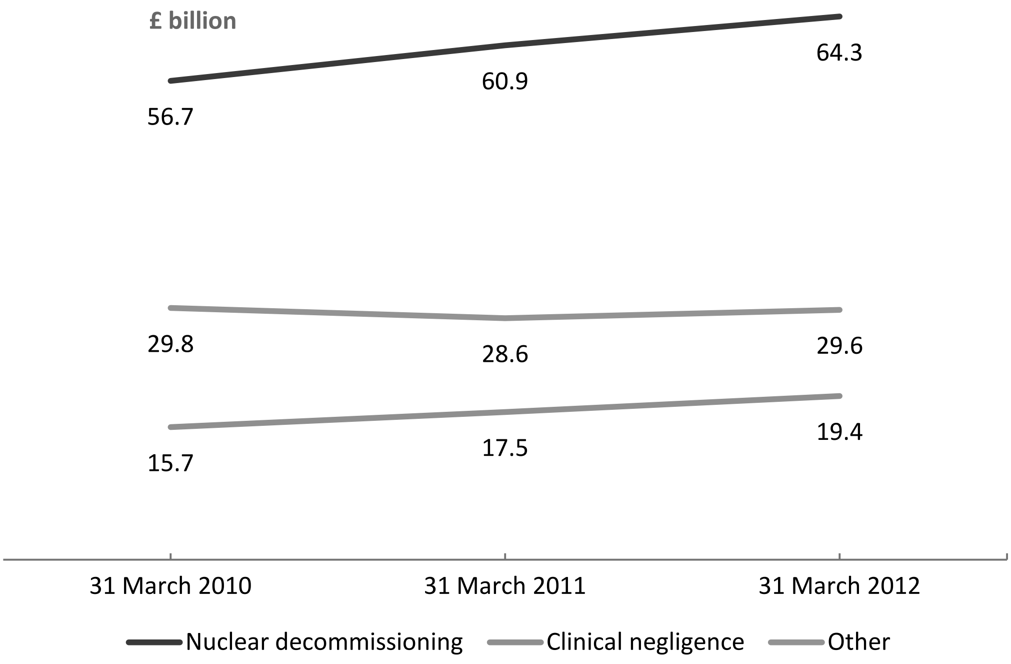
[78] Nuclear Decommissioning Authority, Annual Accounts 2012-13, Session 2013-14, HC236, June 2013.

[79] EDF Energy, Hinkley Point C - An Opportunity to Power the Future, http://www.edfenergy.com/about-us/energy-generation/new-nuclear/hinkley-point-c/book/book/files/assets/basic-html/page12.html accessed on 12 June 2013.

and settling a claim can also take many years, depending on the complexity and circumstances of the case.

Figure 10

Provisions since 31 March 2010



Source: NAO analysis of WGA 2011-12 and 2010-11

1.43 The largest element of this provision derives from the work of the NHS Litigation Authority, which is the body responsible for managing claims of alleged negligence for English NHS bodies. The NHS Litigation Authority has increased its total provision for all claims of negligence from £9.2 billion at 31 March 2007 to £23 billion at 31 March 2013.[80]

Other types of provision

1.44 The visibility of provisions for clinical negligence and nuclear decommissioning has allowed for wider consideration of their management. The narrative to Note 25 of WGA does not provide a breakdown of the £29.6 billion of other provisions although these figures are disclosed in their originating financial statements. **Figure 11** provides a more detailed breakdown of other provisions which shows that individual provisions largely remain constant.

[80] NHS Litigation Authority, Annual Report and Accounts 2012-13, Session 2013-14, HC 527, July 2013.

Figure 11

Details of Other Provisions

March 2011	March 2012	Responsible party	Description
2.7	3.9	DWP	DWP makes provision for potential payments under the Financial Assistance Scheme. The Scheme was announced in 2004 to provide assistance to members of defined benefit occupational schemes that were underfunded and where the employers became insolvent between January 1997 and April 2005. Schemes that became insolvent after April 2005 may be covered by the Pension Protection Fund.
3.4	3.3	DECC	The Coal Authority provides for compensating coal workers for injuries, litigation costs and ensuring the safety of abandoned coalmines.
4.4	2.1	HMRC	HMRC takes legal advice for legal disputes, recognising a provision if it believes the case will result in a probable loss to the Government. As these often involve complex tax cases, the amount settled may be different than the amount provided for, and the case may take many years to resolve.
1.6	1.3	Various	Employee early departure costs.
1.5	1.3	Treasury	Compensation of Equitable Life policy holders for the failure of regulation.
13.6	**11.8**		
16.1	17.8		Others provisions individually less than £1 billion. For example, £0.7bn has been provided for Injury claims by NHS staff injured in the course of their duties.
29.7	**29.6**		**Total other provisions**

All figures in £ billions

Source: NAO analysis of 2011-12 WGA data and Accounts of the responsible parties referred to.

Discount rates and assumptions have a significant impact on the value of long term liabilities

1.45 Accounting standards require liabilities due a long time in the future to be valued at the present value of future payments, discounted at a rate reflecting the time value of money. As I highlighted in my Report on the 2010-11 WGA[81], changes in the discount rate used would therefore impact on the value of the liabilities presented in the WGA. A higher discount rate results in a lower liability and vice versa.

1.46 As in previous years, the Treasury changed the discount rate for provisions so it was more closely aligned to market conditions. The accounting standard used by the WGA requires the discount rate for pension liabilities to be set 'with reference to market yields at the end of the reporting period on high quality corporate bonds'.[82] This means the value of the pension liability and the cost recognised will fluctuate based on market prices. For the public sector pension liability, the accounting standard used by the WGA requires the discount rate for pension liabilities to be set 'with reference to market yields at the end of the reporting period on high quality corporate bonds'. This means that the value of the pension liability and the cost recognised in any year will fluctuate based on market prices.

1.47 The WGA does not provide a sensitivity analysis to show readers the impact of potential changes to the assumptions used for long term liabilities (for example, changes in discount rates for provisions; and for pensions: performance of bond and stock markets). The WGA refers readers to the underlying accounts to understand how these figures are based upon changes to assumptions.

Contingent liabilities

1.48 According to accounting standards, a contingent liability is a possible obligation that depends on the outcome of a future event, or a present obligation where payment is not probable (less likely than a provision) or the amount cannot be measured reliably. The Government has £100.8 billion of contingent liabilities at 31 March 2012 that meet this definition (**Figure 12**). This type of contingent liability has increased from £49.5 billion at 31 March 2011 because of new or increases to existing liabilities, for example:

- £29.7 billion that the UK may have to contribute to the European Investment Bank under European legislation which was treated as a remote contingent liability in 2010-11;
- £20 billion for oil field decommissioning that may reduce Petroleum Tax revenues;

[81] Comptroller and Auditor General, Report on the Whole of Government Account 2010-11, October 2012

[82] *International Accounting Standard 19 – Employee Benefits*

- £14.5 billion for HMRC legal proceedings;
- £9.9 billion that the Export Credits Guarantee Department guarantees exporters of goods and services and overseas investors from the UK against loss; and
- £8.5 billion for clinical negligence (which is considered less likely to be payable than the £17.5 billion provided for).

1.49 Parliament also requests sight of certain contingent liabilities that are considered to have a remote chance of occurring. The Government has £160.3 billion of contingent liabilities at 31 March 2012 that meet this definition, a reduction of £170.2 billion from 31 March 2011. The reduction has been mainly caused by reduced credit guarantee scheme obligations (£91 billion), the change in treatment of the potential contribution to the European Investment Bank from a remote contingent liability to a contingent liability (£29.7 billion) and reduction to the value of assets covered by the asset protection scheme (£56 billion). These reductions have been offset by some increases across the other remote contingent liabilities to arrive at the net reduction.

1.50 Remote contingent liabilities have reduced by a further £78.9 billion since 31 March 2012 due to the closure of the Asset Protection Scheme and Credit Guarantee Schemes in October 2012, without any claims being made upon them.

1.51 As well as the £261 billion of contingent liabilities that the Government can quantify[83], the Government has some contingent liabilities that it cannot estimate. These are described in Notes 32.3 and 33.2 of the WGA, and include indemnities in relation to financial stability interventions, reinsurance arising from acts of terrorism, and life insurance for Ministry of Defence service personnel.

[83] £261 billion is the total of £100.8 billion that meet accounting standard requirements (paragraph 1.48), plus £160.3 billion that Parliament requests sight of (paragraph 1.49).

Figure 12

The Profile of Public Sector Liabilities

Likelihood of the public sector having to make a payment (and accounting treatment)			31 March 2010	31 March 2011	31 March 2012
Certain	On balance sheet	Payables, borrowing and pensions	2,375.2	2,313.0	2,501.3
Probable	On balance sheet	Provisions	102.2	107.0	113.3
Possible	Off balance sheet	Contingent Liabilities for accounting standards	41.4	49.5	100.8
Remote	Off balance sheet	Contingent Liabilities for Parliament	434.0	330.5	160.3
Total			**2,952.8**	**2,800.0**	**2,875.7**

All figures in £ billions

Source: NAO analysis of WGA 2011-12 and 2010-11

Other liabilities and commitments

1.52 In addition to the Government's liabilities and provisions the Government has non-cancellable contractual commitments which it is obliged to pay when the obligating event has occurred. The Government had non-cancellable contractual commitments totalling £272.7 billion at the end of March 2012, which is £10 billion less than in March 2011 (**Figure 13**).

1.53 The WGA does not include any liability or commitment for future benefits such as the State Pension scheme as citizens are only entitled to a payment if they meet certain criteria on the date that payment would be due. As the Government is able to adjust these criteria, there is no obligation or commitment to pay current recipients. The WGA therefore recognises state pension scheme payments as benefit expenditure when it is incurred, and that expenditure is funded from future tax revenues. In 2011-12, the total state pension payment was £78.1 billion (Note 6 to the WGA). The Office for National Statistics has estimated the total State Pension Scheme liability at £3.8 trillion, which will be met from future taxation.[84]

[84] Office for National Statistics, Pensions in the National accounts – A fuller picture of the UK's funded and unfunded pension obligations, 27 April 2012. http://www.ons.gov.uk/ons/rel/pensions/pensions-in-the-national-accounts/uk-national-accounts-supplementary-table-on-pensions--2010-/art-mainarticle.html accessed 21 June 2013

Figure 13

Total Commitments

Type of Commitment (*WGA note reference*)	**31 March 2010**	**31 March 2011**	**31 March 2012**
PFI (*30*)	131.5	144.6	149.4
Capital (*28*)	51.3	44.0	37.7
Operating Leases (*29.1*)	19.7	21.9	20.9
Finance Leases (*29.2*)	6.7	6.6	5.3
Other (*31*)	68.2	65.8	59.4
Total	**277.4**	**282.9**	**272.7**

All figures in £ billions

Source: NAO analysis of WGA 2011-12 and 2010-11

Government assets

1.54 The Government owns £1,268 billion of assets of which the largest category of £745 billion is property, plant and equipment (Note 14 to the WGA) (**Figure 14**).

Figure 14

Assets since 31 March 2010

	31 March 2010	**31 March 2011**	**31 March 2012**
Property, plant and equipment	712.8	714.0	745.1
Gold, cash and other financial assets	274.2	254.6	278.7
Trade and other receivables	139.4	145.1	141.9
Equity investment in the public sector banks	61.1	59.5	40.8
Intangible assets	36.3	34.8	35.0
Other physical assets	25.7	26.3	26.1
Total	**1,249.5**	**1,234.3**	**1,267.6**

All figures in £ billions

Source: NAO analysis of WGA 2011-12 and 2010-11

Property plant and equipment

1.55 The largest increase is to property, plant and equipment which includes assets acquired using the private finance initiative. At 31 March 2012, £39 billion or 5.2 per cent of property, plant and equipment had been procured through PFI and this proportion has increased slightly from £35.3 billion or 5.0 per cent at 31 March 2011 (Note 14.3 to the WGA). In the same period, the Government's contractual commitments to pay for PFI schemes have increased from £144.6 billion at 31 March 2011 to £149.4 billion at 31 March 2012 (Note 30.1 to the WGA).

Equity investments in public sector banks

1.56 Equity investment in the public sector banks reduced by £19 billion (Note 18 to the WGA) reflecting the fall in the share prices of Lloyds and Royal Bank of Scotland (as considered in my Report on HM Treasury's 2011-12 Resource Account[85]).

1.57 Since March 2012, the share prices of both the Royal Bank of Scotland and Lloyds Banking Group have increased which will lead to an increase in the value reported under 'Equity investments in the public sector banks' of £ 3.8 billion.[86] This increase will be reported as a gain and consequently a reduction in Net Expenditure in the 2012-13 WGA. While the Government remains committed to returning both banks to private ownership, a formal timetable for disposal has not yet been announced.

1.58 A Parliamentary Commission on Banking Standards was established in July 2012 to consider and report on the professional standards and culture of the banking sector and lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and for Government policy. The Commission's final report was published in June 2013 and the Chancellor of the Exchequer announced on 19 June 2013 that the Treasury will introduce amendments to legislation arising out of the Commission's work and consider further the recommendation that RBS should be split into a "good bank/bad bank". The Chancellor also announced that the Treasury was actively considering how to sell the shareholding in Lloyds Banking Group.

Trade and other receivables

1.59 Tax is the largest revenue source for the government but there will always be a period between revenue being earned by individuals and companies and cash being collected. Tax revenue is estimated from the expected level of taxable activity, and in 2011-12 the WGA shows £85.2 billion future taxation was accrued (Note 17 to the WGA). The period allowed by law for taxpayers to submit a tax return means this accrued revenue was not due to be paid by the taxpayer before 31 March 2012.

1.60 Note 17 to the WGA also shows a total of £26 billion of unpaid taxation owed to the Government as at 31 March 2012 and **Figure 15** shows how HMRC has managed their component of this debt in 2011-12. HMRC collected £37.9 billion of the £62.9 billion it managed during 2011-12 and wrote off £4.2 billion. Both of these figures are an improvement on the previous year.

1.61 As part of its policy of improving tax collection, the Government has signed a number of international agreements that will allow it to pursue those organisations and individuals who attempt to escape paying taxes by placing their funds overseas. On 6 October 2011, the UK and Swiss governments signed an agreement to tackle

[85] HM Treasury, Annual Report and Accounts 2011-12, Session 2012-13, HC 46, July 2012.

[86] HM Treasury, Annual Report and Accounts 2012-13, Session 2013-14, HC 34, July 2013.

offshore tax evasion. The agreement aims to settle the past tax liabilities of UK individuals who hold Swiss assets through a one-off payment covering liabilities and will also establish a new withholding tax to collect future amounts due.[87] Agreements have also been signed with the British Crown dependencies (Jersey, Guernsey and the Isle of Man) and most British overseas territories including the British Virgin Islands, the Cayman Islands, Anguilla, Montserrat and the Turks and Caicos Islands.[88]

Figure 15

The collection of debt from tax in 2011-12 and 2010-11

	2011-12	**2010-11**
Tax debt as at 1 April	15.0	17.9
Tax debt becoming due in the year	47.9	45.1
	62.9	**63**
Amounts collected	-37.9	-33.3
Amounts written off	-4.2	-4.7
Amounts remitted	-1.0	-0.8
Amendments, cancellations and other	-6.5	-9.2
Tax debt as at 31 March	**13.3**	**15**

All figures in £ billions. The tax debt is that element of tax debt under active management.

The £1 billion remitted in 2011-12 is in respect of debts that HMRC believed it could not collect cost effectively

Amounts remitted and written off (£5.2 billion in 2011-12) are part of the £7.1 billion tax write off figure in Figure 8. The £1.9 billion difference is due to write offs in benefits and BBC licence fees.
Source: HMRC, Annual Report and Accounts 2011-12, Session 2012-13, HC 38, June 2012

Sale of assets

1.62 The Government disposed of two significant assets in 2011-12:

- Northern Rock plc was sold to Virgin Money at the end of 2011 incurring a loss of £527 million, of which £212 million was recognised as an impairment last year, and £315 million is recognised as a loss on sale within the 2011-12 WGA.[89] Further proceeds of £73 million were received in 2012-13.
- The Government sold the Horserace Totalisator Board (The Tote) to Betfred plc in June 2011 for £265 million. The Tote received £3.6 billion annually in 2010-11 from bets placed and spent the same figure in administrative overheads and winnings. Its sale, only three months into the year, accounts for some of the year on year variance shown in the WGA within sales of goods and services and other expenditure in the public corporation sector.

[87] HMRC Trust Statement, Annual Report and Accounts 2011-12, Session 2012-13, HC 38, June 2012

[88] HM Treasury, Chancellor welcomes huge step forward in global fight against tax evasion, 2 May 2013 https://www.gov.uk/government/news/chancellor-welcomes-huge-step-forward-in-global-fight-against-tax-evasion

[89] Comptroller & Auditor General, The creation and sale of Northern Rock plc, Session 2012-13, HC 20, National Audit Office, May 2012; Comptroller & Auditor General, Report on HM Treasury's Annual Report &Accounts 2011-12, July 2012.

Part Two: Meeting the WGA's Objectives

2.1 This part of my Report examines how the Treasury is meeting its objectives for the WGA, the use that is being made of the WGA, and explains why I have qualified my Audit Opinion on the 2011-12 WGA and the actions taken by the Treasury to address the issues identified in my Report on the 2010-11 WGA.[90]

HM Treasury's objectives for the WGA

2.2 HM Treasury set the following 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 WGA 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.

2.3 The Treasury is making good progress in meeting their objectives but there is still work to be done before the Treasury can assert that it has fully met its objectives (**Figure 16**).

Transparency

2.4 The WGA is based on accounting standards, specifically International Financial Reporting Standards adapted for use by the public sector, and so is based on standard accounting conventions. The WGA is presented in a format that is readily recognisable and is an accessible set of financial statements. The Management Commentary presented alongside the accounts provides insight into the key figures within the WGA and highlights key drivers in the public finances. In June 2013, the

[90] Comptroller and Auditor General, Report on the Whole of Government Account 2010-11, October 2012

Treasury began to consult the users and potential users of the WGA to get a clearer understanding of what the WGA could contain to aid users in making informed decisions.[91]

2.5 I consider that the WGA aids the transparency of public finances and improvements the Treasury plans to take forward have the potential to enhance this objective further.

Figure 16

HM Treasury's original objectives for WGA

Objective	Status	Progress
Transparency	Met	Improving
Accountability and confidence	Partly met	Improving
Completeness	Not yet met	No change
Consistency and comparability	Partly met	Improving
Complementary	Met	Improving

Source: National Audit Office

Accountability and confidence

2.6 This is the third year that I have audited the WGA and I have been able to report to Parliament that these accounts are a 'true and fair' presentation of the finances of the whole of government, although I have qualified my opinion on certain matters. In addition, the Committee of Public Accounts have taken an active interest in the use the Treasury is making of the WGA, and how it is exerting its role as the UK's Ministry of Finance in holding underlying bodies to account for the spending decisions they make. As the WGA becomes more mature, its users will be able to have increased confidence in the data presented to them.

2.7 The Treasury is taking action to allow me to remove my qualifications though more needs to be done before I will be able to remove these entirely.

Completeness

2.8 The WGA provides more information than is currently available from other sources, such as that presented by the Office for National Statistics. However, I conclude that the WGA is not yet complete as the government define the WGA's

[91] HM Treasury, Central government annual reports and accounts: consultation on simplifying and streamlining the presentation of annual reports and accounts, June 2013

boundary by reference to statistical, rather than accounting, standards leading to a number of government owned and controlled entities not being included, for example Network Rail. I have qualified my opinion on the 2011-12 WGA (paragraph 2.24) as a result and it is this that impacts on my assessment of the Treasury meeting this objective.

Consistency and Comparability

2.9 The WGA is presenting annual data that allows users to begin to compare the government's results over a number of years and on a consistent basis. Underlying bodies are also presenting their accounts on a more consistent basis, for example, local authorities have compiled their accounts on the same accounting basis as central government since 2010-11.

2.10 Although more needs to be done to ensure underlying data is presented on a more consistent basis (such as valuing the local authority infrastructure assets on the same basis as that applied by central government, paragraphs 2.31 to 2.37, and removing more intra-group transactions and balances, paragraphs 2.44 to 2.53), I consider that the Treasury has made good progress in meeting this objective.

Complementary information

2.11 Notwithstanding the boundary and the completeness of the WGA, the WGA does provide more complete information on the government's capital and long term financial position which complements other data prepared by the Treasury and other bodies, such as that produced by the Office for Budget Responsibility.

Timeliness

2.12 The original objectives set by the Treasury did not include timeliness. However, financial information must be presented on a timely basis to remain relevant for external accountability purposes and for internal decision-making. Delays in producing a robust and good quality WGA also limits the speed at which improvements can be made, for example, by the time 2010-11 WGA was completed, work was already underway on the 2011-12 WGA. Improving the WGA will take more than one year.

2.13 The 2011-12 WGA has been published earlier than in the past two years (some 3.5 months earlier than last year) and this is in line with the Treasury's ambitions. The Treasury plans to publish the 2012-13 WGA within the same timeframe as the 2011-12 WGA to allow it to fully implement a new IT system supporting the WGA and make further improvements. They are also considering the viability, in the longer term, of delivering future WGAs within nine months of the financial year end.

The WGA is beginning to be used

2.14 The Treasury provided guidance for their spending teams in March 2013 on how to use the WGA to inform spending decisions in the 2013 Spending Round. The Treasury has engaged with its spending teams, providing training on the WGA and its uses. The most significant use in the 2013 Spending Round was to highlight how the WGA can inform better asset management. The Treasury is looking to promote further the use of WGA data to assess the impact of policy changes on the Governments long term financial position and to improve the management of debt.

2.15 The WGA continues to be used by the Office for Budget Responsibility to help it form a baseline for their projections of future government spending and receipts, but is not the main source of their projections.

2.16 The Department for Communities and Local Government published an unaudited version of the 2010-11 WGA in April 2013 covering the English local government sector. This publication provides more segmental analysis on English local government activity than is currently shown in the WGA, though it is not designed to meet the requirements needed for a “true and fair” set of financial statements. The 2010-11 version allowed readers to see the impact of adopting International Financial Reporting Standards on the English local government sector.

International developments and the WGA

2.17 I highlighted in my Report on the first WGA[92], covering 2009-10, that the UK's WGA was more ambitious in scope than those produced by other key countries. While other nations produce consolidated accounts of government activity, the scope, measurement and timing of each consolidated account varies, which does not permit meaningful comparison between nations. The UK’s National Accounts produced by the Office for National Statistics, using internationally agreed economic and statistic standards, can be compared to those of other nations, but these are not audited and do not present as complete a picture as required by accounting standards.

2.18 In March 2013, the European Commission published a report calling for the alignment of public sector accounting standards in Member States based around International Public Sector Accounting Standards (IPSAS).

2.19 The UK Government’s accounting framework is based upon International Financial Reporting Standards (IFRS) adapted for public sector differences. IPSAS follow a similar logic, taking the IFRS as a starting point and adjusting them to the public sector specificities. Adjustments include recognising the concept of service potential in addition to economic benefits, rules on non-exchange transactions (for example grants) and disclosures comparing actual outturn against budget.

[92] Comptroller & Auditor General, Report on the Whole of Government Accounts 2009-10, November 2011

Qualifying the Comptroller and Auditor General's Audit Opinion

My obligations as auditor

2.20 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.

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

2.21 I have qualified my opinion on the 2011-12 WGA because in a number of significant areas, the WGA does not comply with International Financial Reporting Standards as adapted for the public sector context, and this has 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; and
- How the Treasury has accounted for income from the sale of 3G licences.

2.22 I have also limited the scope of my opinion on the 2011-12 WGA because of the following issues which meant I was unable to obtain sufficient and appropriate audit evidence on which to base my opinion:

- 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;
- There was a lack of evidence to support the completeness and accuracy of the value of schools' assets included in the Accounts; and
- Issues arising within the audit opinions of material accounts included in the WGA where auditors have limited the scope of their audit.

Qualified audit opinion relating to the WGA boundary

2.23 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 income and expenditure, assets and liabilities have therefore been left out of the financial statements.

2.24 I cannot quantify the impact of this on the WGA with certainty, as I do not have the 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 expenditure 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 material omissions from the WGA (**Figure 17**).

Accounting requirements

2.25 In my previous Reports[93], I noted that in determining the boundary for the whole of government, the Treasury has adopted the classifications of public bodies used by the Office for National Statistics, rather than apply accounting standards which 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'.[94]

2.26 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes Network Rail Ltd, which had net assets of £8.5 billion as at 31 March 2012 (£7.7 billion as at 31 March 2011). The Treasury has also not applied its own criteria consistently as 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[95] 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[96]; and
- other bodies that are partly or wholly owned by the Government, such as the Royal Bank of Scotland (**Figure 17**).

2.27 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 17**, where the Government has the ability to control their activities, should be included in the WGA.

Actions taken by the Treasury since 2010-11

2.28 The Treasury has made some progress in addressing the issues which have led to my qualifications. The introduction of the Clear Line of Sight initiative in 2011-12 has now led to more bodies being included in the WGA, such as the Financial Services Compensation Scheme and public railway companies (apart from Network Rail). The Treasury also plans to include UK Asset Resolution Ltd from 2013-14

[93] Comptroller & Auditor General, Report on the Whole of Government Accounts 2009-10, November 2011
Comptroller & Auditor General, Report on the Whole of Government Accounts 2010-11, October 2012

[94] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

[95] Annex 2 to the WGA

[96] Annex 3 to the WGA

which will bring both Northern Rock (Asset Management) and Bradford and Bingley into the WGA.

Figure 17

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

	Income	Expenditure	Impact on Net Expenditure	Assets	Liabilities	Impact on the net liability
2010-11 WGA (before restatement)	614.0	(708.4)	(94.4)	1,227.7	(2,421.1)	(1,193.4)
Total values of entities excluded from 2010-11 WGA	**85.4**	**(85.5)**	**(0.1)**	**2,654.7**	**(2,510.3)**	**144.4**
2011-12 WGA	616.6	(801.9)	(185.3)	1,267.6	(2,614.6)	(1,347.0)
Total values of entities excluded from 2011-12 WGA	**64.7**	**(67.1)**	**(2.4)**	**2,639.5**	**(2,490.9)**	**144.0**
2011-12 figures consist of:						
Network Rail Ltd	6.0	(5.2)	0.8	47.8	(39.3)	8.5
State-owned banks (temporary ownership)[1]	55.7	(60.4)	(4.7)	2,477.4	(2,354.7)	122.7
State-owned banks (longer-term ownership)[2]	1.8	(0.6)	1.2	95.4	(90.8)	4.6
of which already included in WGA	-	-	-	-	-	(4.6)
Financial services sector[3]	0.5	(0.5)	-	0.3	(0.3)	-
Further education institutions[4]	-	-	-	14.9	(5.4)	9.5
Transport sector[5]	0.3	(0.3)	-	1.3	(0.3)	1.0
Other[6]	0.4	(0.1)	0.3	2.4	(0.1)	2.3

NOTES

All figures in £ billions

1. Lloyds Banking Group plc and Royal Bank of Scotland Group plc.
2. Northern Rock (Asset Management) plc and Bradford & Bingley plc. Will be fully consolidated in the WGA from 2013-14. The net asset position is included in the WGA (Note 18: Equity investment in Public Sector Banks).
3. Financial Services Authority
4. 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 Note 9 to the WGA. Their assets and liabilities have been estimated from data provided by Skills Funding Agency and relate to 2010-11.
5. Trust Ports - figures have been estimated from available accounts for year-ended 31 December 2011.

6. NHS non-independent charities and London Councils. The figures for NHS charities have been estimated by the Department of Health from 2010-11 Charity Commission data.

The net assets of some of the entities are included in the WGA as equity investments, for example the state-owned banks are included in the accounts of the Treasury.

The 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.

Not all bodies have a March year-end, e.g. figures for the banks relate to the year ending 31 December 2011.

Source: NAO analysis of Note 37 to the WGA and published accounts.

Recommendations for further action

2.29 I continue to recommend that the Treasury should review its criteria for including bodies within the WGA. In addition, the Treasury should review changes in the control government exerts over English further education institutions following the passing of the Education Act 2011 and conclude whether this means this sector should now be included in the WGA under accounting standards.

2.30 The qualification of my opinion on this matter is likely to remain until all significant government controlled entities are included in line with accounting standards.

Qualification arising from disagreement relating to the inconsistent valuation of infrastructure assets

2.31 I have qualified my opinion because of the impact of the inconsistent application of the financial reporting framework.

The WGA accounting framework

2.32 The accounting framework that WGA must follow is set out in the Government Financial Reporting Manual which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, for 2011-12, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that are inconsistent with the requirements of the Government Financial Reporting Manual.[97]

2.33 Under accounting standards, 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 consistently in accordance with the financial reporting framework.[98] The Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2011-12. I do not have the information to fully quantify the effect of this limitation.

2.34 The one area of material misstatement identified is 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

[97] Annex 4 to the WGA

[98] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

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.[99] The Treasury estimates that this difference in accounting treatment has resulted in an understatement of asset value of at least £200 billion.[100]

Actions taken by the Treasury since 2010-11

2.35 The Chartered Institute of Public Finance and Accountancy (CIPFA) updates the *Code of Practice on Local Authority Accounting* annually. The Treasury has been working with CIPFA to move towards changing this Code so that depreciated replacement cost, rather than historic cost, can be applied as a basis to value infrastructure assets in local authorities own statutory accounts. The Treasury has been collecting draft data, which has been used to inform its discussions with the standards setters. The complexity involved in local government bodies changing the basis for accounting for infrastructure assets is significant because of the range of assets involved and their specialised nature. The Treasury has requested depreciated replacement cost data from local authorities as part of its 2012-13 WGA data collection exercise.

Recommendations for further action

2.36 The Treasury should continue to support CIPFA in helping local authorities to develop the quality of the data to support this change in valuation basis. It should also work closely with local authority standards setters in its considerations of the basis of valuing such assets for their own statutory accounts. It should also take steps to ensure that the data collected is sufficiently robust to be considered complete, reliable and auditable.

2.37 Should local government be able to make a successful transition to depreciated replacement cost for its highways infrastructure assets, which includes providing complete, robust, consistent and auditable data, I may be able to remove my qualification in this area in future years.

Qualification arising from disagreement in the accounting for 3G licences

2.38 I have qualified my opinion because I consider that the Treasury has not complied with the requirements for accounting for income from the sale of 3G licences in April 2000. The impact of this on the 2011-12 WGA is that income is understated by £1.3 billion, deferred income is understated by £9.0 billion (£10.3 billion in 2010-11) and the General Fund is overstated by £9.0 billion (£10.3 billion in 2010-11).

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

[100] Note 14.1 to the WGA: 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 2011 *National Accounts* estimated the value of the local government infrastructure assets at £266 billion as at 31 December 2011, implying a likely understatement of at least £200 billion.

Accounting requirements

2.39 In April 2000, the Government raised some £22.5 billion from the sale of five licences for the electromagnetic spectrum for third generation mobile phone services. Telecommunications companies paid for the licences in full in 2000 and the Consolidated Fund accounted for these proceeds on a cash basis in its 2000-01 account.

2.40 The accounting standard for revenue recognition requires income to be matched to expenditure.[101] Licence holders have the right to access the spectrum for 20 years and there is an on-going cost on the Government to maintain the airwaves. Therefore the correct accounting treatment is to recognise this income over the licence period rather than treat it all as income in the first year. The Treasury does not agree with this view and, as disclosed in Note 1 to the WGA, believes that there are no more material 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.

2.41 The balance of deferred income at 31 March 2011 was some £10.3 billion and therefore it has fallen by some £1.3 billion in the current reporting period. The issue therefore has a decreasing quantitative impact on the Account.

Recommendations for further action

2.42 This qualification will have increased relevance for the 2012-13 WGA as, following the auction of 4G licences in January 2013, 4G licences with a value of £2.4 billion have been awarded with an initial right to access the spectrum for 20 years. All licences were paid for in 2012-13 and receipts were surrendered in full to the Consolidated Fund.

2.43 The Treasury should, in my view, adjust the WGA for the 3G transaction in line with accounting standards. It should also consider the appropriate accounting treatment for the 4G licences that were auctioned in 2012-13.

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

2.44 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, between bodies included in the WGA.

Accounting requirements

2.45 The WGA is a consolidated account which is prepared by including the financial activities of around 3,000 government controlled bodies. Transactions and balances

[101] International Accounting Standard 18 – Revenue

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.

2.46 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.

2.47 The Treasury collects information from each of the bodies in the WGA on all intra-government transactions that are over £1 million with details of the relevant counter-party. The Treasury uses this data to match balances and transaction streams and removes them from the WGA. The scale of this task is challenging and the value of the transactions the Treasury eliminated in the preparation of the 2011-12 WGA presented for audit is significant (**Figure 18**).

Figure 18

Value of transactions removed from the financial statements

	Gross value	**Transactions**	**Net value**	**Balance removed**
Income	994	372	622	38%
Expenditure	1,243	436	807	35%
Net Expenditure for the year	249		185	
Assets	1,953	685	1,268	35%
Liabilities	3,269	655	2,615	20%
Net liabilities	2,687		1,347	

Gross and net values are in £ billions

Source: NAO analysis of WGA 2011-12 (Note 2)

2.48 Despite the work by the Treasury, there remains material uncertainty over some of the figures in the financial statements because the removal of these 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
- only one entity declares an intra-government transaction or balance (a particular issue between central and local government bodies); or
- neither body declares an intra-government transaction or balance.

2.49 Using the available evidence, I have estimated the level of uncertainty as being up to £16 billion (£22.6 billion in 2010-11) in gross income and expenditure and up to £5.1 billion (£10.4 billion in 2010-11) in gross assets and liabilities (**Figure 19**). The estimated errors reside mainly within individual primary statements. However, I estimate the maximum impact of these uncertain transactions on Net Expenditure reported in the Account could be up to £1 billion (£2.9 billion in 2010-11) (**Figure 19**).

2.50 I have qualified my opinion because of the significance of the estimated level of gross uncertainty, and therefore the potential gross overstatement of income, expenditure, assets and liabilities (rather than the potential impact onNet Expenditure or net liabilities).

2.51 Local government bodies make up the largest contribution to overall uncertainty:

- local government bodies are involved in £6.8 billion of the £10.4 billion error that can be linked to specific entities in the Consolidated Statement of Revenue and Expenditure;
- local government bodies are involved in £3.2 billion of the £4.9 billion error that can be linked to specific entities in the Consolidated Statement of Financial Position.

Figure 19

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

	Statement of Revenue & Expenditure	**Statement of Financial Position**
Entities declaring different intra-government transactions or balances	4.9	1.0
Only one entity declares an intra-government transaction or balance	5.5	3.9
Subtotal of errors that can be linked to specific entities	**10.4**	**4.9**
Neither entity within an expected relationship declares an intra-government transaction or balance	5.6	0.2
Impact on the financial statements (potential overstatement)	**16.0**	**5.1**

All figures in £ billions; Source: NAO analysis of WGA 2011-12

Actions taken by the Treasury since 2010-11

2.52 There has been a significant improvement in the elimination of counter-party transactions since I last reported on WGA, with the level of error falling in 2011-12 compared with the previous year. The Treasury has been proactive in encouraging bodies to agree intra-group transactions and as a result of its Clear Line of Sight initiative, the degree of departmental scrutiny of intra-departmental group transactions has increased. The Treasury also carried out extensive work on balances as part of its preparation of the WGA which has aided the elimination process.

Recommendations for further action

2.53 The Treasury should undertake further work to reduce the uncertainties in removing intra-government transactions. As local government is the largest sector of the remaining error, I recommend that further work is concentrated in this area, such as formal agreement of balances. If the Treasury can reduce the level of error sufficiently, I may be able to remove this qualification in future years.

Qualification arising from limitation on audit scope due to lack of evidence supporting the completeness and accuracy of the values of schools' assets included in the Accounts

2.54 I have qualified my opinion in respect to local authority maintained school assets because not all school assets are included in the WGA.

2.55 All local authority maintained schools are classified by the Office for National Statistics as public sector and hence fall within the Treasury's definition for inclusion within the WGA. Taking an approach based on accounting standards[102], I consider that these schools should be included within the WGA, when taking into account the controls that local authorities and the Secretary of State for Education can exert over such schools.

2.56 However, such schools have only been included in the WGA if their financial activities were included in the accounts of individual local authorities. A working group, led by the Chartered Institute of Public Finance and Accountancy (CIPFA), reported that not all schools were included within local authority accounts.[103]

2.57 In considering the impact of this treatment of the local authority maintained schools' sector on the WGA, I have concluded that I have insufficient evidence to support the completeness and accuracy of the value of these assets controlled by schools within the WGA. Although I have sufficient evidence over the treatment of community schools, which are accounted for within local authorities' accounts, I have been presented with no evidence to allow me to conclude that the assets of foundation, voluntary aided and voluntary controlled schools are all included within the WGA.

2.58 Based on the estimates I do have, the omissions are material to the WGA. **Figure 20** shows that up to £26 billion (2010-11: £32.5 billion) of assets used by voluntary aided and foundation schools and £8.5 billion (2010-11: £9.0 billion) of assets used by voluntary controlled schools may have been omitted from the accounts.

[102] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

[103] This is the correct treatment for the local authority accounts and there is no suggestion that the underlying opinions on any of these accounts are compromised.

Figure 20

Estimated net book value of local authority maintained schools, and whether these are included or excluded from the WGA

	Voluntary aided and foundation schools (not included in WGA)		**Voluntary controlled schools (may or may not be included in WGA)**	
	Number	**Amount (£m)**	**Number**	**Amount (£m)**
Primary Schools	4154	12,462	2458	7,374
Secondary Schools	900	13,500	78	1,170
Total	**5,054**	**25,962**	**2,536**	**8,544**

Estimates as at January 2012 based on typical carrying value of £3 million for primary schools and £15 million for secondary schools as estimated by CIPFA. These estimates may be overstated as some schools may lease their assets rather than owning them. There is no information available to take account of this.
FRAB (108) 11: Consideration of the code of practice on Local Authority Accounting 2011/12 and 2012/13
http://www.hm-treasury.gov.uk/d/frab108_11.pdf and Tables 15 a and 15b of the schools, pupils and their characteristics
https://www.gov.uk/government/publications/schools-pupils-and-their-characteristics-january-2012

2.59 In addition to the above, the value of land and buildings brought into the academy accounts (at £12.3 billion) does not agree to the book value of assets disposed from local authorities' accounts (£6.5 billion). Some of this difference relates to new buildings provided to Academies from the private and third sectors on establishing the academy under private finance arrangements. The Treasury has not provided me with sufficient evidence for me to confirm these values nor have I received sufficient evidence over the Academies' land and buildings opening balances.

Actions taken by the Treasury since 2010-11

2.60 For 2011-12, the Treasury amended the returns local authorities are required to submit to it to include numbers and valuations of land and buildings for local authority maintained schools that are not included in the local authorities' balance sheets. However, this information is not audited and I have been unable to obtain sufficient assurance that this information is accurate and complete.

2.61 The Treasury is working with CIPFA in leading a working group to understand the definitions of public sector control following revised group accounting standards, which are expected to come into force from 1 April 2014, in the context of public sector schools.

2.62 For 2011-12, I concluded that the population of buildings within academies' reported assets included some properties which academies may not own. I therefore believe that the values of academy assets are likely to be overvalued but I am unable to conclude on the extent of the overstatement of assets.

2.63 The Treasury has made progress on the academies issue since I last reported as all but 42 Academies (out of 1,665 as at 31 March 2012) are now included within the WGA. However, I have been unable to obtain sufficient assurance that the data submitted by Academies is representative of the income and expenditure they incurred in 2011-12.

2.64 For 2012-13, academies will be consolidated into the Department for Education. The Education Funding Agency will be carrying out further work to prove that the Academies' accounts, which have an August year end, are a suitable proxy for the information required to be consolidated into the WGA, with its March year end. There were 1,665 academies operating on 31 March 2012, with 3,128 operating on 1 July 2013. The quality issues with underlying data are increasing in importance as the population affected increases until the sector stabilises in size and composition.

Recommendations for further action

2.65 The Treasury should undertake work to ensure that the data collected relating to local authority maintained schools in the first year of implementation is sufficiently robust to be considered true and fair. Once sufficient robust data is available in support of the completeness and valuation of voluntary aided, voluntary controlled and foundation schools I may be able to remove my qualification in future years.

2.66 I recommend that the Treasury continues to work with the Education Funding Agency to make the Agency's consolidation methodology robust so that there is adequate information to support the account balances.

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

2.67 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 ‘true and fair’ qualifications on my opinion on the WGA. In 2011-12, external auditors qualified their opinions of some 24 accounts (23 accounts in 2010-11).

2.68 The most significant of these qualifications relate to the resource accounts of the Ministry of Defence and the Cabinet Office: Civil Superannuation for 2011-12. Given these accounts have a material impact on the WGA, I have also qualified my opinion on the WGA.

2.69 Further details can be found in my audit opinions and within the annual accounts of the Ministry of Defence[104] and Cabinet Office: Civil Superannuation.[105]

[104] Ministry of Defence Annual Report and Accounts 2011-12, Session 2012-13, HC 62, December 2012.

[105] Cabinet Office: Civil Superannuation Accounts 2011-12, Session 2012-13, HC 600, January 2013.

Activity since WGA 2010-11

2.70 Progress is being made by both departments to improve their systems for capturing and reporting robust information. I have, though, qualified my opinion on the 2012-13 Ministry of Defence's accounts[106] and I will report on the progress the Cabinet Office has made during 2012-13 in addressing my qualification once I have completed my audit.

Recommendations for further action

2.71 The Treasury should consider how it can support both the Ministry of Defence and the Cabinet Office to help remove these long standing qualifications.

Other issues on which I have not qualified my opinion

2.72 There are two other issues that I wish to draw attention to, although I have not qualified my opinion for these issues:

- I have included an emphasis of matter paragraph in my audit certificate relating to the uncertainties in estimating costs of the liabilities of the Nuclear Decommissioning Authority. This value has been calculated based on reasonable assumptions, but could change with future events.

- The external auditor of some 30 accounts (22 in 2010-11) included in the WGA, qualified their audit opinions owing to the material existence of irregular spending;[107] that is, using resources not in accordance with Parliamentary intentions. Of these, two are of significance to the WGA and cover error and fraud in benefit payments and tax credit payments. These irregularities have led me to qualify my regularity opinion on the accounts of the Department for Work and Pensions since 1988-89 and the Trust Statement of HM Revenue and Customs 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

15 July 2013

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

[106] Ministry of Defence Annual Report and Accounts 2012-13, Session 2013-14, HC 38, July 2013.

[107] Included in this number are four accounts qualified on a 'true and fair' basis as explained in paragraph 2.67.

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 a number 1 or 2 by their name. Entities with a number 1 have had qualifications on their financial statements and those with a number 2 have had their accounts qualified on regularity[107] and may be considered in the WGA Governance Statement. In addition, ten entities with a number 3 by their name had their WGA returns qualified. WGA returns translate the underlying statutory accounts into the WGA format and report transactions and balances with other WGA entities.

Central Government

Central government entities are listed by UK government departments and by devolved administrations.

UK central government entities

Cabinet Office

Advisory Committee on Business Appointments
Civil Service Commission
Civil Service Appeal Board
Commission for the Compact Limited
Commissioner for Public Appointments
Committee on Standards in Public Life
House of Lords Appointments Commission
Main Honours Advisory Committee
[2]Parliamentary Boundary Commission for England
Parliamentary Boundary Commission for Wales
Security Vetting Appeals Panel
Senior Salaries Review Body

Charity Commission

The Crown Prosecution Service

Department for Business Innovation and Skills

Accountancy and Actuarial Discipline Board Limited
Advantage West Midlands
Advisory, Conciliation and Arbitration Service
AEA Insurance Ltd
Arts and Humanities Research Council
[1]Biotechnology and Biological Sciences Research Council
Business Link West Midlands
Capital for Enterprise (GP) Limited
Capital for Enterprise Fund Managers Limited
Capital for Enterprise Ltd
Central Arbitration Committee
Centre for Integrated Photonics
Certification Officer
[1]Chief Executive of Skills Funding (Skills Funding Agency)
Co2 Sense Ltd
Competition Commission
Competition Service
Construction Industry Training Board
Diamond Light Source Ltd
Directions Finningley
Director of Fair Access to Higher Education
East Kent Spatial Development Co Ltd
Economic and Social Research Council
Engineering and Physical Sciences Research Council
Engineering Construction Industry Training Board
Enterprise Development North East Limited
Estuary Management Company Ltd
Financial Reporting Council Limited
Higher Education Funding Council for England
Insolvency Practitioners Tribunal
Learn Direct Solutions Limited
Learning and Skills Improvement Service
Local Better Regulation Office
[1]Medical Research Council
MRC Technology Ltd
National Consumer Council
National Endowment for Science, Technology and the Arts
Natural Environment Research Council
National Measurement Office
NESTA Investment Management LLP
NESTA Kinetique LLP
NESTA Partners Ltd
North East Regional Aggregation Body LLP
North East Regional Investment Fund Three Limited
North West Business Link Limited
NorwePP (NWDA Subsidiary) Limited
NW VCLF HF LLP
ONE North East
RCUK Shared Service Centre
Research Councils Pension Scheme
Regional Industrial Development Boards
[1]Rural Payments Agency
Rural Regeneration Cumbria Ltd

[107] A regularity opinion is on whether the transactions recorded in the financial statements are in accordance with Parliamentary or other authority.

Ryde Business Park Management Co. Ltd
Science and Technologies Facilities Council
South East England Properties Ltd
South West Regional Development Agency
STFC Innovations Ltd
Student Loans Company Limited
Technology Strategy Board
The East Midlands Development Agency
[2]The East of England Development Agency
The North East Regional Investment Fund Partner Limited
The North West Development Agency
The South East Development Agency
United Kingdom Atomic Energy Authority
United Kingdom Commission for Employment and Skills
University for Industry Limited
Victoria Place Management Company (Leeds) Limited

Department for Communities and Local Government

AWM (Subsidiary) Ltd
Bristol and Bath Science Park Estate Management Company Limited
Building Regulations Advisory Committee
Commission for Local Administration
emEP Limited
English Partnerships (LP) Limited
[1,2]FiReBuy
High House Production Park Limited
Homes and Communities Agency
Independent Housing Ombudsman Limited
Infrastructure Planning Commission
The Leasehold Advisory Service
London Thames Gateway Development Corporation
ONE North East General Partner Limited
Standards Board for England
Tenant Services Authority
Thurrock Development Corporation
Valuation Tribunal for England
Valuation Tribunal Service
West Northamptonshire Development Corporation

[1]**Department for Culture, Media and Sport**

Advisory Committee on National Historic Ships
Arts Council of England
Advisory Council on Libraries
Artco Trading Ltd
BBC
BIG Lottery Fund
British Film Institute
British Library
British Museum
Broadcasters' Audience Research Board Ltd
British Museum Great Court Limited
British Tourist Authority
Caversham Lakes Trust Limited
Churches Conservation Trust
Children in Need Ltd
Sport England
English Tourist Authority
English Heritage
Football Licensing Authority
Gambling Commission
Geffrye Museum Trust Ltd
The Historic Buildings and Monuments
Horniman Public Museum and Public Park Trust
Horniman Museum Enterprises Limited
Horserace Betting Levy Appeals Tribunal for England and Wales
Horserace Betting Levy Board
Imperial War Museum
Iveagh Bequest
Joint Industry Grading Scheme Ltd
London Organising Committee for Olympic Games
Museum of Science and Industry in Manchester
The Museums, Libraries and Archives Council
Media Applications Technologies Ltd
MLA West Midlands: the Regional Council for Museums, Libraries and Archives
Mortimer Productions Ltd
National Gallery
National Heritage Memorial Fund
National Lottery Commission
National Maritime Museum
National Museums and Galleries on Merseyside
National Portrait Gallery
Natural History Museum
Olympic Delivery Authority
Olympic Lottery Distributor
Registrar of Public Lending Right
Reviewing Committee on the Export of Works of Art
[2]Royal Armouries Museum
S4C
Science Museum
Sir John Soane's Museum
Stratford Village Development (GP) Ltd
Tate Gallery
Tate Gallery Projects Limited
Theatres Trust
The Commonwealth Broadcasting Association
The Dame Helen Gardner Bequest
The Development Fund

The Number 3 Trust Fund
The Portrait Fund
The Sports Council Trust Company
Treasure Valuation Committee
UK Anti-Doping
The UK Film Council
UK Sport Council
Victoria and Albert Museum
VisitBritain
Wallace Collection

[2,3]Department for Education

[1,2,3] Academies[108] [109]
Children's Workforce Development Council
Children and Family Court Advisory and Support Service
General Teaching Council for England
National College for Leadership of Schools and Children's Services
Partnerships for Schools
Qualifications and Curriculum Development Agency
School Food Trust
School Teachers' Review Body
The Children's Commissioner
Training and Development Agency for Schools
[2]Young People's Learning Agency (Education Funding Agency from 1 April 2012)

[2]Department of Energy and Climate Change

Carbon Reduction Commitment Trust Statement
Civil Nuclear Police Authority
Coal Authority
Committee on Climate Change
Committee on Radioactive Waste Management
Dounreay Site Restoration Limited
EU Emissions Allowance Trust Statement
Fuel Poverty Advisory Group
International Nuclear Services Ltd
Low Level Waste Repository Ltd
Magnox Limited
National Non-Food Crops Centre
Nuclear Decommissioning Authority
Nuclear Liabilities Financing Assurance Board
Office for Nuclear Regulation (ONR)
Research Site Restoration Limited
Sellafield Limited
Standards and Testing Agency

[1, 2]Department for Environment, Food and Rural Affairs

Advisory Committee on Hazardous Substances
Advisory Committee on Packaging
Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees (England)
Agricultural Land Tribunals (England)
Agricultural Wages Board for England and Wales
Agricultural Wages Committees for England
Agriculture and Horticulture Development Board
Air Quality Expert Group
Commission for Rural Communities
Consumer Council for Water
Environment Agency
Farm Animal Welfare Council
Forestry Commission
Gangmasters Licensing Authority
Independent Agricultural Appeals Panel
Inland Waterways Amenity Advisory Council
Joint Nature Conservation Committee
Marine Management Organisation
National Forest Company
Genetic Resources
Natural England
Royal Botanic Gardens, Kew
Science Advisory Council
Sea Fish Industry Authority
Veterinary Products Committee
Veterinary Residues Committee

[3]Department of Health

Strategic Health Authorities
NHS Direct
NHS Trusts[110]
NHS Foundation Trusts[111]
Primary Care Trusts[112]

Advisory Committee on Antimicrobial Resistance and Healthcare Associated Infection
Advisory Committee on Dangerous Pathogens
Advisory Group on Hepatitis
Administration of Radioactive Substances Advisory Committee

[108] Academies as established under section 1 of the Academies Act 2010.
[109] There were 29 academies (2%) that received qualified audit opinions, and one received an adverse opinion. In addition, 31 academies (2%) received regularity reports from auditors that highlighted exceptions.

[110] as established under section 25 of the NHS Act 2006
[111] as established under section 30 of the NHS Act 2006
[112] as established under section 18 of the NHS Act 2006

Appointments Commission
[1]Animal Health and Veterinary Laboratories Agency
Care Quality Commission
Committee on Carcinogenicity of Chemicals in Food, Consumer Products and the Environment
Committee on the Medical Aspects of Radiation in the Environment
Committee on the Medical Effects of Air Pollutants
Committee on the Mutagenicity of Chemicals in Food, Consumer Products and the Environment
Council for the Regulation of Healthcare Professionals
Expert Advisory Group on AIDS
Expert Group on Vitamins and Minerals
Gene Therapy Advisory Committee
General Social Care Council
Genetics and Insurance Committee
Health Protection Agency
Health Research Authority
Human Genetics Commission
Human Fertilisation and Embryology Authority
Human Tissue Authority
The Information Centre
Joint Committee on Vaccination and Immunisation
Monitor
NHS Commissioning Board
National Institute for Health and Clinical Excellence
National Patient Safety Agency
National Treatment Agency for Substance Misuse
NHS Business Services Authority
NHS Institute for Innovation and Improvement
NHS Litigation Authority
Skipton Fund Ltd

[2]Department for International Development
Commonwealth Scholarship Commission in the United Kingdom
The Independent Commission for Aid Impact

Department for Transport
British Transport Police Authority
Commission for Integrated Transport
CTRL Section 1 Finance Plc
Directly Operated Railways
Disabled Persons Transport Advisory Committee
Driver and Vehicle Licensing Agency Trust Statement
Government Car and Dispatch Agency
High Speed Two (HS2) Limited
LCR Finance Plc
London and Continental Railways
Passengers' Council
Traffic Commissioners/ Licensing Authorities
Vehicle Excise Duty

[2]Department for Work and Pensions
Child Maintenance and Enforcement Commission
Disability Living Allowance Advisory Board (DLAAB)
Equality 2025
Health and Safety Executive
Health and Safety Laboratory (HSL)
Independent Living Fund (2006)
Industrial Injuries Advisory Council
Jobcentre Plus
Ombudsman for the Board of the Pension Protection Fund
The Pensions Advisory Service Limited
The Pension, Disability and Carers Service
Pensions Ombudsman
Pensions Regulator
Social Security Advisory Committee

Export Credits Guarantee Department
Export Guarantees Advisory Council

Food Standards Agency

Foreign and Commonwealth Office
Diplomatic Service Appeal Board
Foreign Compensation Commission
The Great Britain-China Centre
Marshall Aid Commemoration Commission
The Westminster Foundation for Democracy Limited

Government Actuary's Department

HM Procurator General and Treasury Solicitor

[2]HM Revenue and Customs
HM Revenue and Customs Trust Statement
Valuation Office Agency

HM Treasury
Asset Protection Agency
Money Advice Service
Financial Reporting Advisory Board
Financial Services Compensation Scheme
Office for Budget Responsibility
Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations
Royal Household
UK Debt Management Office
UK Financial Investments Ltd

Home Office
Criminal Records Bureau
The Advisory Council on the Misuse of Drugs

Animal Procedures Committee
The Commission for Equality and Human Rights
Her Majesty's Inspectorate of Constabulary
Identity & Passport Service
Independent Chief Inspector of the UK Border Agency
Independent Police Complaints Commission
Independent Safeguarding Authority
Investigatory Powers Tribunal
Migration Advisory Committee
National DNA Database Ethics Group
National Fraud Authority
National Policing Improvement Agency
Office of Surveillance Commissioners
Office of the Immigration Services Commissioner
Police Advisory Board for England and Wales
Police Appeals Tribunal
Police Arbitration Tribunal
Police Negotiating Board
Security Industry Authority
Serious Organised Crime Agency
Technical Advisory Board
United Kingdom Border Agency

[1,2,3] Ministry of Defence

ABF: the Soldiers' Charity
Advisory Committee on Conscientious Objectors
Advisory Group on Military Medicine
Armed Forces Pay Review Body
Army Benevolent Fund
Central Advisory Committee on Pensions and Compensation
Commonwealth War Graves Commission
Council of Reserve Forces and Cadet Associations
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
Independent Monitoring Board for the Miiltary
National Army Museum
National Employer Advisory Board
National Museum of the Royal Navy
Nuclear Research Advisory Council
Review Board for Government Contracts
Royal Air Force Museum
Royal Hospital Chelsea
Science Advisory Committee on the Medical Implications of Less-Lethal Weapons
War Pensions Committees

[1]Ministry of Justice

Advisory Committee on Civil Costs
Administrative Justice and Tribunal Council
Advisory Committees on Justices of the Peace in England and Wales
Advisory Council on National Records and Archives
Advisory Panel on Public Sector Information
Assessor for Compensation of Miscarriages of Justice
Civil Justice Council
Civil Procedure Rule Committee
Commission on a Bill of Rights
Court Funds Office
Criminal Cases Review Commission
Criminal Injuries Compensation Authority
Criminal Procedure Rule Committee
Crown Court Rule Committee
Family Justice Council
Family Procedure Rule Committee
Her Majesty's Courts and Tribunal Service
Independent Advisory Panel on Deaths in Custody
Independent Monitoring Boards of Prisons, Immigration Removal Centres and Immigration Holding Facilities
Insolvency Rules Committee
Judicial Appointments Commission
Judicial Appointments and Conduct Ombudsman
Judicial Communications Office
Judicial Office
Judicial Studies Board
Law Commission
Legal Services Board
[2]Legal Services Commission
Legal Services Ombudsman
Magistrates' Courts Rules Committee
Office of HM Inspectorate of Prisons
Office of HM Inspectorate of Probation
Office of the Judge Advocate General
Office for Judicial Complaints
Office of Legal Complaints
Office of the Information Commissioner
Office of the Legal Services Ombudsman
Office of the Public Guardian
Official Solicitor and Public Trustee
Parole Board for England and Wales
Prisons and Probation Ombudsman
Prison Service Pay Review Body
Probation Trusts
Restraint Advisory Board
Sentencing Council for England and Wales
Tribunal Procedure Committee
Victims Advisory Panel
Victims' Commissioner
Youth Justice Board for England and Wales

The National Archives

Office of Fair Trading

Office of Gas and Electricity Markets

Office of Rail Regulation

Office for Standards in Education, Children's Services and Skills

[2]Postal Services Commission

Scotland Office

Wales Office

Security and Intelligence Agencies

[2]Serious Fraud Office

UK Statistics Authority

UK Trade & Investment

Central Funds

Consolidated Fund
Contingencies Fund
Debt Management Account
Exchange Equalisation Account
National Insurance Fund
National Loans Fund
National Savings and Investments
Public Works Loans Board

Other Funds

Heritage Lottery Fund
Insolvency Service
Insolvency Service Investment Accounts
National Lottery Distribution Fund
National Lottery: UKSC Lottery
Nuclear Liabilities Fund
Olympic Lottery Distribution Fund

Superannuation Schemes (England and Wales)

Armed Forces Retired Pay, Pensions etc
[1,2] Cabinet Office: Civil superannuation
Department for Business, Innovation and Skills: UKAEA pension schemes
Department for International Development: Overseas Superannuation
Ministry of Justice: Judicial Pensions Scheme
[3]NHS Pension Scheme
Teachers' Pension Scheme (England & Wales)

Northern Ireland central government entities

Northern Ireland Office

Boundary Commission for Northern Ireland
Northern Ireland Human Rights Commission
Regulation and Quality and Improvement Agency
RBG Kew Enterprises Limited
Northern Ireland Events Company Limited

Agrifood and Biosciences Institute of Northern Ireland
Armagh Planetarium and Observatory
Arts Council of Northern Ireland
Arts Council of Northern Ireland Lottery Distribution Account
[2]Belfast Education & Library Board - Northern Ireland
[2]Business Services Organisation
Charity Commission for Northern Ireland
Comhairle na Gaelscolaiochta
Commissioner for Victims and Survivors for Northern Ireland
Commissioner for Children and Young People for Northern Ireland
Community Relations Council for Northern Ireland
Council for Catholic Maintained Schools
Criminal Justice Inspection Northern Ireland
Department for Employment and Learning - Northern Ireland
Department for Regional Development - Northern Ireland
[2]Department for Social Development - Northern Ireland
[1]Department of Agriculture and Rural Development - Northern Ireland
[1]Department of Culture Arts and Leisure - Northern Ireland
[2]Department of Education - Northern Ireland
Department of Enterprise Trade and Investment - Northern Ireland
Department of Finance and Personnel - Northern Ireland
Department of Health Social Services & Public Safety
Department of Justice - Northern Ireland
Department of the Environment - Northern Ireland
DFP - Superannuation & Other Allowances - Northern Ireland
Economic Research Institute of Northern Ireland
Equality Commission for Northern Ireland
General Consumer Council for Northern Ireland
General Teaching Council for Northern Ireland
Governors of the Armagh Observatory and Planetarium
Health and Safety Executive for Northern Ireland
Health and Social Care Regulation and Quality and Improvement Agency (Northern Ireland)
HPSS Superannuation Account - Northern Ireland
Ilex Urban Regeneration Co Ltd
Invest Northern Ireland

Livestock and Meat Commission
Local Government Staff Commission for Northern Ireland
National Museums and Galleries of Northern Ireland
[2]North Eastern Education and Library Board - Northern Ireland
Northern Ireland Authority for Utility Regulation
Northern Ireland Blood Transfusion Service
Northern Ireland Consolidated Fund
Northern Ireland Council for the Curriculum, Examinations and Assessment
Northern Ireland Council for Integrated Education
Northern Ireland Fire and Rescue Service
Northern Ireland Fishery Harbour Authority
Northern Ireland Guardian ad Litem Agency
Northern Ireland Judicial Appointments Commission
[1,2] Northern Ireland Legal Services Commission
[1] Northern Ireland Library Authority
Northern Ireland Local Government Officers Superannuation Committee
Northern Ireland Memorial Fund
Northern Ireland Museums Council
Northern Ireland Medical and Dental Training Agency
[2] Northern Ireland National Insurance Fund
Northern Ireland Police Fund
Northern Ireland Policing Board
Northern Ireland Practice and Education Council for Nursing and Midwifery
Northern Ireland Screen Commission
Northern Ireland Social Care Council
Northern Ireland Tourist Board
Northern Ireland Water Limited
North West Regional Waste Management Group
[2]Office of the First Minister and Deputy First Minister - Northern Ireland
Patient and Client Council
Police Ombudsman for Northern Ireland
Police Pension Scheme - Northern Ireland Office
Police Service of Northern Ireland
Probation Board for Northern Ireland
Public Prosecution Service - Northern Ireland
Regulation and Quality Improvement Authority
Royal Ulster Constabulary George Cross Foundation
[2]South Eastern Education and Library Board - Northern Ireland
[2]Southern Education and Library Board - Northern Ireland
Southern Waste Management Partnership (SWaMP2008)
Sports Council for Northern Ireland
Sports Council for Northern Ireland Lottery Distribution Account
Staff Commission for Education and Library Boards
Teachers Superannuation Scheme Statements - Northern Ireland
Ulster Supported Employment Limited - Northern Ireland
[2]Western Education and Library Board - Northern Ireland
Youth Council for Northern Ireland

Northern Irish Health and Social Care Trusts

Belfast Health and Social Care Trust
NI Ambulance Service HSS 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

Scotland Central Government Entities

Creative Scotland
Highlands and Islands Enterprise
National Galleries of Scotland
National Library of Scotland
National Museums of Scotland
National Records of Scotland
Royal Botanic Garden, Edinburgh
Scottish Childrens Reporter Administration
Scottish Commission for the Regulation of Care
Scottish Consolidated Fund
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Funding Council
[3]Scottish Government
Scottish Legal Aid Board
Scottish Natural Heritage
Scottish NHS Pension Scheme
Scottish Police Services Authority
Scottish Qualifications Authority
Scottish Social Services Council
Scottish Teachers Pension Scheme
Skills Development Scotland
Sport Scotland
Visit Scotland

Wales Central Government Entities

Arts Council of Wales
Arts Council of Wales National Lottery
Care Council for Wales
Countryside Council for Wales
Children’s Commissioner for Wales
Estyn - Her Majesty’s Inspectorate for Education and Training in Wales
Higher Education Funding Council for Wales

National Library of Wales
National Museums and Galleries of Wales
Sports Council for Wales
Welsh Assembly Government
Welsh Centre for Health
Welsh Consolidated Fund
Welsh Language Board
Welsh Levy Board

Welsh National Health Service Trusts

Velindre
Welsh Ambulance Services
Public Health Wales NHS Trust

Public Corporations and Public Financial Corporations

Audit Commission
Bank of England
Bank of England Asset Purchase Facility
BBC Children in Need Appeal Ltd
BBC Free to View (Satellite) Ltd
BBC Free to View Ltd
BBC News Ltd
BBC Property Development Ltd
BBC Property Investment Ltd
BBC Property Ltd
British Council
British Waterways Board
Caledonian Maritime Assets Ltd
Central Office of Information
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 Agency - Northern Ireland
Driving Standards Agency
FCO Services
Fire Service College
Forensic Science Service
Forest Enterprise Agency
General Lighthouse Fund
Greater Manchester Passenger Transport Executive
Guaranteed Export Finance Corporation
Horserace Totalisator Board
Intellectual Property Office
Land Registry
Medicines and Healthcare Products Regulatory Agency
Meteorological Office
National Employment Savings Trust
National Nuclear Laboratory Ltd
NHS Blood and Transplant
NHS Professionals
[2] Northern Ireland Housing Executive
Northern Ireland Transport Holding Company
Ordnance Survey
Registers of Scotland
Remploy Ltd
Royal Mail Holdings plc
Royal Mint
Scottish Water
The Office of Communications (OFCOM)
UK Hydrographic Office
Vehicle and Operator Services Agency

Local Government – England

Adur District Council
Allerdale Borough 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 Unitary Authority
Bedfordshire and Luton Fire Authority
Bedfordshire Police Authority
Bexley London Borough Council
Birmingham City Council
Blaby District Council
Blackburn with Darwen Unitary Authority
Blackpool Unitary Authority
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
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
Carlisle City Council
Castle Point Borough Council
Central Bedfordshire Unitary Authority
Charnwood Borough Council
Chelmsford Borough Council
Cheltenham Borough Council
Cherwell District Council
Cheshire East Unitary Authority
Cheshire Fire Authority
Cheshire Police Authority
Cheshire West and Chester Unitary Authority
Chesterfield Borough 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
Copeland Borough Council
Corby Borough Council
Cornwall Unitary Authority
Cotswold District Council
County Durham and Darlington Fire and Rescue Authority
County Durham Unitary Authority
Coventry City Council
Craven District Council
Crawley 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
Devon & Somerset Fire and Rescue Authority
Devon and Cornwall Police Authority
Devon County Council
Doncaster Metropolitan Borough Council
Dorset County Council
Dorset Fire Authority
Dorset Police Authority
Dover District Council
Dudley Metropolitan Borough Council
Durham Police Authority
Ealing London Borough 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
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 Combined Authority
Greater Manchester Fire and Rescue 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
Kensington and Chelsea Council
(Royal Borough of)
Kent and Medway Fire and Rescue Authority
Kent County Council
Kent Police Authority
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
Maidstone Borough Council
Maldon District Council
Malvern Hills District Council
Manchester City Council
Mansfield District Council
Mayor's Office for Policing and Crime
Medway Towns Unitary Authority (The)
Melton Borough Council
Mendip District Council
Merseyside Fire and Civil Defence Authority
Merseyside Integrated Transport Authority
Merseyside Police Authority
Merseyside Waste Disposal Authority
Merton Borough 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
[3]Newham London Borough Council
Norfolk County Council
Norfolk Police Authority
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 Somerset Council
North Tyneside Metropolitan Borough Council
North Warwickshire Borough Council
North West Leicestershire 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 National Park Authority
Northumberland Unitary Authority
Northumbria Police Authority
[3]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
Oxford City Council
Oxfordshire County Council
Peak District National Park Authority
Pendle Borough 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
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

Sandwell Metropolitan Borough Council
Scarborough Borough Council
Sedgemoor District Council
Sefton Metropolitan Borough Council
Selby District Council
Sevenoaks District Council
Sheffield City Council
Shepway District Council
Shropshire and Wrekin Fire Authority
Shropshire Unitary Authority
Slough Borough Council
Solihull Metropolitan Borough Council
Somerset County Council
South Bucks District Council
South Cambridgeshire District Council
South Derbyshire District Council
South Downs National Park
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 Somerset District Council
South Staffordshire District Council
South Tyneside Council
South Yorkshire Fire and Civil Defence Authority
South Yorkshire Integrated 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 Unitary Authority
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 Unitary Authority
Tameside Metropolitan Borough Council
Tamworth Borough Council
Tandridge District Council
Taunton Deane Borough 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
[3]Thurrock Unitary Authority
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 Integrated Transport Authority
Tyne and Wear Fire and Civil Defence Authority
Uttlesford District Council

Vale of White Horse District Council
Wakefield City Council
Walsall Metropolitan Borough Council
Waltham Forest London Borough Council
Wandsworth London Borough 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
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 Integrated Transport Authority
West Midlands Police Authority
West Oxfordshire District Council
West Somerset District Council
West Sussex County Council
West Yorkshire Fire and Civil Defence Authority
West Yorkshire Integrated 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 Police Authority
Wiltshire Unitary 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
ARC21 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 Council
Craigavon Borough Council
Derry City Council
Down District Council
Dungannon and South Tyrone Borough Council
Fermanagh District Council
Larne Borough Council
Limavady Borough Council
Lisburn City 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
Forth Estuary Transport Authority
Glasgow City Council
Grampian Fire and Rescue Service
Grampian Police
Highland Council
Highlands & Islands Fire Brigade
Inverclyde Council
Lothian & Borders Fire and Rescue Service
Lothian & Borders Police
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-East of Scotland Transport Partnership (SESTRAN)
South Lanarkshire Council
Stirling Council
Strathclyde Fire and Rescue Service
Strathclyde Partnership for Transport
Strathclyde Police
Tay Road Bridge Joint Board
Tayside Fire and Rescue Services
Tayside Police
West Dunbartonshire Council
West Lothian Council
Western Isles Council (now Comhaile Eilean Siar)

Local Government – Wales

Blaenau Gwent County Borough Council
Bridgend County Borough Council
Caerphilly County Borough Council
[3]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

Annex 2: Entities that are not consolidated in WGA

The accounting policy for the WGA boundary set out in Note 1.3 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.

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:

- Audit Scotland
- The Crown Estate
- Electoral Commission
- Independent Parliamentary Standards Authority
- National Assembly for Wales
- National Audit Office
- Northern Ireland Assembly
- Northern Ireland Audit Office
- Parliamentary Ombudsman
- Scottish Parliament
- Wales Audit Office
- Westminster Parliament

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 Royal Bank of Scotland, Lloyds Banking Group, 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.

Northern Rock (Asset Management) plc and Bradford and Bingley plc are proposed to be consolidated into WGA from 2013-14, 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:

- Financial Services Authority – to be abolished and replaced in 2013 by two new regulatory bodies – the Prudential Regulation Authority, which will be a subsidiary of the Bank of England which is consolidated in WGA, and the Financial Conduct Authority, which is expected to be established early 2013 and consolidated in WGA
- Further Education Institutions – were being considered for consolidation after being reclassified to the government sector by ONS in October 2010, however following legislative changes they were reclassified back to the private sector by ONS from 2012-13 and therefore no further work to consolidate was carried out
- Higher Education Institutions – classified to the private sector by ONS
- 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 – not separately designated as the net public sector pension liability is included within the accounts of local authorities
- Maintained Schools – not separately designated as net assets, income and expenditure are usually included by local authorities
- Municipal Ports – pragmatic exclusion as net assets are immaterial to WGA and the expenditure is reflected in WGA
- NHS Charities – will be consolidated from 2012-13
- 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 –pragmatic exclusion as net assets are immaterial to WGA

Network Rail

HM Treasury, consistent with the legislative WGA framework, has determined 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 Infrastructure 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 £27.3 billion (2010-11: £25.1 billion) at 31 March 2012. 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 2011-12 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 Infrastructure Limited's Accounts for the Year Ended 31 March 2012

	2011-12 £bn	2010-11 £bn
Total income	6.0	5.7
Profit before taxation	0.5	0.4
Tax on profit of ordinary activities	0.3	(0.1)
Profit for the year	**0.8**	**0.3**
Total assets	47.8	43.3
Total liabilities	(39.3)	(35.6)
Net assets and shareholder funds	**8.5**	**7.7**

Annex 3: Minor entities excluded from the consolidation

There are a number of entities within the public sector that are relatively small in size. These small entities that are not consolidated in underlying accounts are deemed minor entities and are considered too small to have any material impact on WGA and are therefore not consolidated in WGA. In order to be minor, they must satisfy certain tests which are reviewed annually, as described in Note 1.22.1. The number of minor bodies has reduced in 2011-12 following the implementation of the Clear Line of Sight reforms which expanded the consolidation boundary of government departmental accounts resulting in many minor bodies being consolidated in underlying accounts and so included within WGA. The entities listed below have not been consolidated into WGA for 2011-12 as they met the minor entity criteria.

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
Architects Registration Board	2,997	456	1,758
Brecon Beacons National Park Authority	6,555	3,449	(1,658)
Children's Commissioner for Wales	1,637	36	368
CITB-Construction Skills Northern Ireland	3,337	2,156	5,471
Competition Appeal Tribunal	714	-	-
Council for Healthcare Regulatory Excellence	2,716	162	289
Covent Garden Market Authority	17,760	6,444	9,902
Fleet Air Arm Museum	2,671	7,560	11,366
General Teaching Council for Wales	7,986	54	511
Labour Relations Agency	3,483	321	349
Legal Services Ombudsman	17,304	1,418	17,751
Office for Fair Access	707	0	19
Patient and Client Council	1,915	12	218
Police Complaints Commissioner for Scotland	936	215	295
Queen Elizabeth II Conference Centre	7,727	2,220	9,178
Risk Management Authority	1,082	21	100
Scottish Criminal Cases Review Commission	1,063	28	207
Sports Council for Wales National Lottery	11,462	122	9,872
Supreme Court of the UK	12,991	28,076	(7,304)
Amounts excluded from WGA in 2011-12	**92,052**	**24,674**	**58,692**
Amounts excluded from WGA in 2010-11	**412,117**	**57,001**	**109,114**

Annex 4: List of departures from the 2011-12 Government Financial Reporting Manual

These financial statements are prepared in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2011-12 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 Financial Policy Team.

One such instance arises 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 HM Treasury has 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 applied IFRIC 4 '*Determining whether an Arrangement Contains a Lease*' to all of its contracts. It is believed that a limited number of significant, largely single source contracts, particularly strategic procurement arrangements with key contractors, would meet the IFRIC 4 definition of containing a lease if they were reviewed against IFRIC 4; and that some of these leases would meet the definition of a finance lease per IAS 17 '*Leases*'. The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position.Consequently, the Comptroller & Auditor-General qualified his opinion on the 2011-12 accounts of the Ministry of Defence on the basis that a material value of assets and liabilities was omitted from its Statement of Financial Position.Further information is available in the Ministry of Defence's 2011-12 Annual Report and Accounts.

The Department of Health's 2011-12 Annual Report and Accounts include a number of departures from the FReM as agreed with HM Treasury, but these have no material impact on consolidation in these accounts. Some NHS organisations whose accounts are consolidated into the Department's Annual Report and Accounts receive donations that are held on trust. For 2010-11 and 2011-12, HM Treasury has agreed that NHS bodies should not consolidate in its accounts the NHS charitable funds for which they are trustees.Instead the transactions between the NHS bodies and the NHS charitable funds are consolidated in these accounts.

Inconsistencies in accounting frameworks that led to departures in the FReM

Local Government Entities

Local authority accounting complies with the Code of Practice on Local Authority Accounting in the UK developed by the CIPFA / LASAAC Board. The Local Authority Code (LA Code) is based on international accounting standards.

The most significant difference between the FReM and the LA Code arises from the accounting treatment of highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical 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 2011 National Accounts estimated the value of the road network at £266 billion (2010-11: £260 billion) as at 31 December 2011[113]. Infrastructure assets are likely to be understated by at least £200 billion.

Local authorities value the bulk of housing stock within the Housing Revenue Account under the valuation method 'Existing Use Value for Social Housing', which is defined by the Royal Institution of Chartered Surveyors Valuation Standards 6th Edition. This is in accordance with current CIPFA and HM Treasury guidance. However, this method of valuation is not recognised under IFRS and is a departure from IFRS and FReM.

Under the disclosure requirements in the 2011-12 LA Code, 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 separately disclose vehicles. As a result, 'plant and machinery' in Note 14 include vehicles held by local authorities.
- Local authorities under the LA Code 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 historical cost in its accounts, rather than replacement cost per the FReM. An adjustment has been made of £38 billion (2010-11: £35 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.

Specific WGA departures from the FReM

PFI disclosures

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 off-balance sheet contracts in their accounts in different ways in 2011-12, 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 30 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, local authority accounting requirements disclose exit packages at different cost bands to those required to be disclosed in the FReM, and this has been reflected in the cost bands disclosed in Note 7.4. 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 3,000 entities

[113] UK National Accounts, The Blue Book, 2012, Table 10.9 'Other Structures'

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: 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.

Clear Line of Sight (CLoS)
A Government driven project to simplify central government financial reporting to Parliament by reporting in a more consistent way, in line with the fiscal rules. Also refer to: http://www.hm-treasury.gov.uk/psr_clear_line_of_sight_intro.htm

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.

Equity instruments
An 'equity instrument' is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities, eg ordinary shares.

Estimates
Estimates for central government departments are presented to the House of Commons to seek Parliamentary authority for expenditure, specifically the voted element of spending plans set out in Spending Reviews and Budgets. Estimates are presented on a budgetary basis, the means by which the Treasury monitors and controls departmental spending.

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 Asset
Any asset that is cash; an equity instrument of another entity; a contractual right to receive another financial asset or exchange financial assets or liabilities on potentially favourable term; or certain types of contract which will or may be settled in the entity's own equity instruments.

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

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.

Financial Liabilities
Any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or certain types of contracts which will or may be settled in the entity's own equity instruments

Fiscal policy
The use of government spending and tax policy to affect changes in the economy.

FReM
The 2011-12 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.

National Non Domestic Rates
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.

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 for 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 0.0 per cent, 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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about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk

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