Presented pursuant to National Loans Act 1968, c.13 s.21(1).

National Loans Fund Account 2007-2008

LONDON: The Stationery Office
HC 1022

21 November 2008
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Contents

Foreword

Background to the National Loans Fund

The Consolidated Fund (CF) was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'.

In order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other, the National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending, which were until then accounted for on the CF. The accounts for the CF and NLF are now published separately.

Both the CF and NLF are administered by the Treasury, with the bank accounts maintained at the Bank of England. The CF can therefore be regarded as central government's current account, whereas the NLF can be regarded as central government's main borrowing and lending account. Most of the NLF's borrowing needs are now met indirectly through borrowing on its behalf by the Debt Management Office (DMO) and National Savings and Investments (NS&I).

The NLF was not party to any lending to Northern Rock during 2007-2008. Lending to Northern Rock in 2007-2008 was undertaken by the Bank of England and was guaranteed by HM Treasury. For further details please see the HM Treasury 2007-2008 Departmental Report and Resource Accounts and the Annual Report and Accounts of the Bank of England.

The DMO was established as an executive agency of the Treasury on 1 April 1998. Its aim is 'to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way'. Its operations are managed through the Debt Management Account (DMA), which is a bank account at the Bank of England, linked closely with the NLF as described below. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts, on which the return is linked to movements in the Retail Price Index. They are issued from the NLF, sold initially to the DMA and then sold from the DMA by the DMO to the market. In addition, the DMO issues Treasury Bills from the DMA and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt and Reserves Management Report 2008-2009 published by the Treasury in March 2008 (ISBN: 978-1-84532-433-9).

The Exchange Equalisation Account (EEA) was established in 1932 to provide a fund that could be used, when necessary, to regulate the exchange value of sterling. It holds the UK's reserves of gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights. Combined with the UK's Reserve Tranche Position (RTP) with the IMF, these assets comprise the UK's official holdings of international reserves (the 'official reserves'). The RTP is an asset of the NLF. The Bank of England acts as the Treasury's agent in the day-to-day management of the EEA. It also acts as the Treasury's agent for foreign currency liability management, including the issuance of foreign currency debt to finance some of the reserves. This debt is issued by, and is an obligation of, the NLF under the National Loans Act 1968, since it is that Act (rather than the Exchange Equalisation Act 1979) which provides the powers for the Government to issue foreign currency securities. The foreign currency raised by issuing foreign currency debt is transferred from the NLF to the EEA in exchange for sterling. The Bank manages the foreign currency assets and liabilities associated with the official reserves of the NLF in conjunction with those of the EEA as the Treasury's agent. This allows the foreign currency assets and liabilities associated with the reserves, and the risk exposures therein, to be managed collectively in an efficient way.

National Loans Fund Activities

The NLF's main role is to meet the finance needs of the Consolidated Fund to the extent that taxation and other receipts are insufficient to meet the CF's outgoings. To this end the NLF undertakes borrowing and uses the proceeds to meet any deficits on the CF; conversely, any net surpluses on the CF are passed to the NLF to reduce the latter's need to borrow or to increase the amount that it can lend. The NLF finishes every day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the DMA.

The NLF's borrowing operations include the temporary borrowing of balances in various government bank accounts that are surplus to immediate requirements. Such borrowing minimises the amount that the NLF needs to borrow from other sources. Where the money borrowed in this way already counts as Exchequer money, interest is not paid. For the rest of its borrowing, however, the NLF normally has to pay interest and finance repayments when required. However, if the NLF's interest income is less than the interest it pays on its borrowings (which it generally is), the shortfall is met by a transfer from the CF.

The NLF provides finance for both the DMA and the EEA as required. It also makes loans to various statutory public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB) for its loans to prescribed bodies, mainly Local Authorities. The profits of the Issue Department of the Bank of England are paid to the NLF. NS&I's savings products, other than the Ordinary Account, are liabilities of the NLF. In-year surpluses and deficits of the DMA and the EEA are income and expenditure of the NLF respectively, and the net assets of the DMA and the EEA are assets of the NLF.

By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF.

Summary of outturn for 2007-2008

The net operating cost of the Fund decreased from £24.8 billion in 2006-2007 to £22.3 billion in 2007-2008. This was mainly due to increases in the net income of the EEA of £3.3 billion and the DMA of £1.6 billion. Against this, finance costs of borrowing increased by £2.4 billion during the year.

Total gross liabilities increased by £58.8 billion from £602.2 billion to £661.0 billion. The main factor behind this rise was an increase of £36.7 billion in the Fund's liability in respect of marketable gilt-edged stock, but there was also a significant increase of £5.9 billion in NS&I liabilities. The Fund's liability to the Bank of England Issue Department was reduced by £6.0 billion while its liability to the DMA increased by £13.8 billion. Also, balances in government accounts increased by £5.1 billion and temporary investments placed on deposit with the Fund increased by £3.1 billion.

The NLF's total gross assets increased by £6.9 billion to £89.8 billion. The main changes were an increase of £2.5 billion in advances made to the PWLB and an increase of £3.3 billion in the net assets of the EEA. There was also an increase of £0.6 billion in the value of the UK's Quota Subscription to the IMF, due to exchange rate movements.

As a result of these changes, the net liabilities of the Fund increased from £519.3 billion to £571.2 billion. As explained above, this is matched by a corresponding claim on the CF. The NLF lends to and borrows from other parts of the public sector. For example it makes advances to the PWLB and borrows directly from a range of public sector bodies (as described in note 10). In addition, some of the gilts it has issued are held in the public sector, including by the DMA which retains a portfolio of gilts as collateral for its money market activities. Therefore, the NLF's net liabilities do not equate to the Public Sector Net Debt ("PSND"), which is a calculation of the net debt of the whole of the public sector after eliminating intra-public sector balances. Figures for PSND are published jointly by HM Treasury and the Office for National Statistics in the monthly "Public Sector Finances First Release", which can be found on the Treasury website.

Forward look

The Debt Management Remit for 2008-2009 was published by the Treasury with the Budget on 12 March 2008. On the basis of a Central Government Net Cash Requirement forecast of £59.3 billion for 2008-2009, the published gross financing requirement was £82.8 billion (after taking account of gilt redemptions of £17.3 billion, transactions with the official foreign currency reserves of £2.0 billion and a short-term financing adjustment of £4.2 billion). NS&I were forecast to contribute £4.0 billion to financing, leaving a forecast net financing requirement for the DMO of £78.8 billion together with a requirement to repay £7.0 billion of the Ways and Means Deposit from the Bank of England. This is to be met by total gilt sales of £80.0 billion and Treasury Bill sales of £5.8 billion.

On 21 April 2008, the Bank of England launched its Special Liquidity Scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for Treasury Bills. Treasury Bills for this purpose are issued with a maturity of nine months by the NLF and sold to the DMA which makes them available to be borrowed by the Bank of England. The scheme was launched with an initial issuance by the NLF of £50 billion. More details of the scheme are available from the Bank of England's website.

Preparation of the Account

The Account is prepared under section 21 (1) of the National Loans Act 1968. The Act requires the Treasury to prepare an account for the NLF for each financial year in such form and containing such information as the Treasury considers appropriate.

Audit

The NLF Account is audited by the Comptroller and Auditor General under the requirements of the National Loans Act 1968.

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

Authorisation for the Account to be issued

The Account was authorised by me for issue on 18 July 2008.

Nicholas Macpherson 14 July 2008
Accounting Officer
HM Treasury

Statement of Accounting Officer's responsibilities

Under section 21 (1) of the National Loans Act 1968 HM Treasury is required to prepare an account relating to the National Loans Fund for each financial year in such form and containing such information as the Treasury considers appropriate.

The National Loans Fund Account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and of the net operating cost and the cash flows for the financial year.

The Treasury has appointed its Permanent Secretary as Accounting Officer for the Fund, with overall responsibility for its operation, for preparing the annual account and for transmitting it to the Comptroller and Auditor General for audit.

In preparing the Account the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Managing Public Money'.

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the National Loans Fund, I have responsibility for maintaining a sound system of internal control to support the achievement of the Fund's policies, aims and objectives, whilst safeguarding the public funds and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money'. I am also obliged to conduct a review of the effectiveness of the system of internal control. This review covers all controls, including financial, operational and compliance controls and risk management. The National Loans Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resource allocation and utilisation and the management of risks across the Treasury's business. In addition, there are further controls that are specific to the management of the National Loans Fund, as detailed below.

The National Loans Fund is managed by the Treasury Accountant and his managers within the Exchequer Funds and Accounts (EFA) Team of HM Treasury.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the National Loans Fund's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place throughout the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Risk management is key to all processes within EFA, including business continuity resilience planning for those public funds for which EFA is responsible.

EFA staff working on the National Loans Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Guidance on risk management is available to all staff on the intranet and individuals' objectives reflect the need to manage risks, particularly those related to business continuity. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes.

The risk and control framework

The key risks in managing the National Loans Fund are

- incorrect accounting and irregularity of transactions;
- failure of IT systems;
- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counterparties to provide agreed services.

The risk management strategy includes periodic horizon scanning to update the risk register and identify any changes in risk exposure, to evaluate the change and identify appropriate mitigating actions.

The controls in place for the management of the National Loans Fund include

- clear separation of duties enforced by appropriate user permissions within the Accounting System and payment approval panels;
- up to date policy and procedures manuals including job instructions that are readily accessible to all operational staff;
- computer-generated payment instructions derived from underlying transaction records, to minimise the risk of keying errors;
- clear and comprehensive audit trail in the IT system, to which the National Audit Office Exchequer Section has real time access;
- to ensure business continuity resilience in key areas, staff within EFA are trained to do a range of jobs and are required to swap jobs periodically to keep their knowledge up to date;
- well developed Service Level Agreements covering financial relationships, standards and requirements for the interchange of information with all principal counterparties;
- the existence of application controls within the IT system used to manage financial transactions and account for receipts and payments on the National Loans Fund;
- risks that impact upon EFA's key stakeholders are managed by their involvement in business continuity planning and testing;
- measures that could enable essential payments business to continue in the event of the normal arrangements for granting credit being disrupted; and
- the regular review and maintenance of a consolidated business continuity plan and developing further business continuity arrangements within the framework of the Treasury's corporate Business Continuity Plan facilities.

Separately, the Comptroller and Auditor General, through the National Audit Office Exchequer Section, authorises National Loans Fund payments in advance and reconciles Fund transactions on a daily basis.

EFA AIMS to identify possible areas for operational risk reduction and control improvements. In 2007-2008 EFA has continued to invest in its staff and systems. EFA has also worked closely with its key external stakeholders, such as the Bank of England, the National Audit Office, the Debt Management Office and Her Majesty's Revenue & Customs to ensure business continuity plans are joined-up and resilient. This included a joint test with various organisations operating from their own contingency sites concurrently.

The Exchequer Funds Audit Committee is responsible for supporting me as Accounting Officer in matters relating to oversight of the governance, internal control and risk management. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, the Public Works Loan Board, the Commissioners for the Reduction of the National Debt, the Exchange Equalisation Account, the National Loans Fund, the Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reports directly to me. The current membership of the Committee is

- Colin Price, Chair, non-executive member of the Debt Management Office's Managing Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the Debt Management Office's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, until June 2008 Director General – Finance and Strategy at the Department for Business, Enterprise and Regulatory Reform.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of Exchequer Funds Internal Audit who provided positive assurance as to the management and control of the National Loans Fund in 2007-2008 and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Exchequer Funds Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2007-2008 accounts in draft and provided me with its views before I formally signed the accounts. The system of internal control was effective with no significant control issues identified in 2007-2008.

Nicholas Macpherson 14 July 2008
Accounting Officer
HM Treasury

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2008 under the National Loans Act 1968. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparation of the Foreword, the Statement on Internal Control and the financial statements in accordance with Section 21 (1) of the National Loans Act 1968 and in the form prescribed by HM Treasury. The Accounting Officer is also responsible for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury. I also report whether, in my opinion, the information included in the Foreword is consistent with the financial statements. I also report whether in all material respects the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if other information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the National Loans Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of HM Treasury's corporate governance procedures or its risk and control procedures.

I read the information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Loans Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that, in all material respects, the financial transactions have been applied to the purposes intended by Parliament and conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury, of the state of affairs of the National Loans Fund as at 31 March 2008 and of the net operating cost and cash flows for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury; and
- information included in the Foreword is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

TJ Burr
Comptroller and Auditor General

18 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Operating Cost Statement for the year ended 31 March 2008

	Notes	**2007-2008 £m**	2006-2007 £m
Finance costs of borrowing	2	**31,966**	29,614
Income from lending operations	3	**(3,138)**	(3,704)
(Gains)/losses on foreign exchange transactions	4	**(58)**	(147)
Other expenditure	5	**4**	802
Other income	5	**(6,496)**	(1,744)
Net operating cost		**22,278**	24,821

There are no recognised gains and losses other than those included in the Operating Cost Statement.

The notes on pages 14 to 30 form part of this Account.

Balance Sheet as at 31 March 2008

	Notes	**31 March 2008 £m**	Restated 31 March 2007* £m
Assets			
Advances	8	**52,703**	50,688
IMF Quota Subscription	7	**8,881**	8,271
Loans	6	**3,001**	3,054
Other assets	9	**25,180**	20,859
Total assets		**89,765**	82,872
Liabilities			
Gilt-edged stock	13	**489,955**	453,734
National Savings and Investments products	12	**84,430**	78,548
Liabilities to the IMF	7	**8,320**	7,651
Other debt payable in sterling	10	**76,754**	60,696
Other debt payable in foreign currencies	11	**1,534**	1,555
Total liabilities		**660,993**	602,184
Net liabilities		**571,228**	519,312
Liability of the Consolidated Fund to the National Loans Fund	14	**571,228**	519,312

The notes on pages 14 to 30 form part of this Account.

* The restatement of the 2007 comparatives is explained in note 1i and note 10.

Nicholas Macpherson
Accounting Officer
HM Treasury

14 July 2008

Cash Flow Statement for the year ended 31 March 2008

	Notes	**2007-2008 £m**	2006-2007 £m
Net cash inflow/(outflow) from operating activities	15(i)	**0**	0
Net cash inflow/(outflow) from financial investment	15(ii)	**(2,115)**	(845)
Net cash inflow/(outflow) from financing	15(iii)	**2,115**	845
Net cashflow		**0**	0

The notes on pages 14 to 30 form part of this Account.

Notes to the Accounts

1 Accounting policies

i Accounting convention

The National Loans Fund Account has been prepared under the historical cost convention and in accordance with applicable accounting standards and generally accepted accounting practice in so far as they are relevant to transactions and balances within the National Loans Fund. These include FRS 26 'Financial Instruments: Recognition and Measurement' and FRS 29 'Financial Instruments: Disclosures' (with the exception of Appendix E 'Capital Disclosures' which is not relevant to this Account). The 2007 balance sheet comparatives have been restated due to the accrued interest previously disclosed as creditors or debtors now being disclosed with the balances to which the accruals relate. There have been no changes to any of the underlying numbers in the 2007 balance sheet. There have been no restatements to the Operating Cost Statement.

ii Basis of presentation

This Account includes the results and transactions of the National Loans Fund and National Savings and Investments products with the exception of the Ordinary Savings Account, which is not a liability of the National Loans Fund. The NLF is the Government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is mainly met by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

iii Recognition of finance income and costs

Premium Bond prizes are recognised in the period to which they relate. Other interest income and costs of financing are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. The calculation takes into account premiums or discounts on acquisition or issue of financial assets and liabilities. The calculation takes into account all the contractual terms of the financial instrument. The majority of the NLF's financial assets and liabilities have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

iv Financial assets and liabilities

The assets and liabilities of the NLF are all accounted for as financial assets and liabilities except for assets arising from the net assets of the Exchange Equalisation Account and the Debt Management Account, which are accounted for as explained in accounting policy (vii). The NLF's financial assets are all designated as loans and receivables. Financial assets and liabilities are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method. There are no impairment losses. Directly related issue costs for assets and liabilities are negligible and are written-off as incurred.

The distinction between loans and advances derives from the legislation that governs the operation of the NLF. On loans interest must be charged at a rate that at least covers the cost that the Fund would have to bear if it were to borrow the same sum for the period of the loan, plus the Treasury's own administration costs. There is no such requirement for advances, although interest is charged on advances to the Debt Management Account.

The fair values of the financial assets and liabilities are disclosed in note 17. They are calculated by reference to market prices where instruments are traded on an active quoted market, or, where this is not the case, as the net present value of future cash flows.

v Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Liabilities to the IMF are denominated in sterling, but are subject to a revaluation adjustment reflecting the SDR/£ sterling exchange rate movement.

vi Administration expenditure

These financial statements reflect the activity through, and the financial position of, the National Loans Fund. The costs of gilts registration, listing fees and foreign currency debt issuance are met by the National Loans Fund. Administration costs, such as departmental staff costs and bank charges, are borne by both National Savings and Investments and the Treasury and are accounted for through their respective resource accounts.

vii Exchange Equalisation Account and Debt Management Account

The net assets of the Exchange Equalisation Account (EEA) and the Debt Management Account (DMA) are assets of the NLF. Changes in the net assets are reported in Other Assets (Note 9) and recognised in the Income and Expenditure Account as Other Income (Note 5). The NLF's assets and income are the result of the activity in the EEA and DMA during the year and the various accounting policies applied by them to that activity.

2 Finance costs of borrowing

	2007-2008	2006-2007
	£m	£m
Gilt-edged stock		
Marketable	**25,474**	23,754
Non-marketable	**37**	971
Total	**25,511**	24,725
National Savings and Investments products	**3,325**	2,843
Other finance costs		
Payable in sterling	**3,097**	2,012
Payable in foreign currencies	**33**	34
Total	**3,130**	2,046
Total finance costs on borrowing	**31,966**	29,614

3 Income from lending operations

	2007-2008 £m	2006-2007 £m
Interest on loans advanced by the National Loans Fund to		
Public corporations	**87**	90
Central government bodies	**117**	119
	204	209
Interest on loans by the Public Works Loan Board financed by NLF advances	**2,934**	3,081
Interest on funding advanced to the Debt Management Account	**0**	414
Total income from lending operations	**3,138**	3,704

4 (Gains) and losses on foreign exchange transactions

	2007-2008 £m	2006-2007 £m
(Gains)/losses on foreign currency borrowing		
Canadian dollar	**0**	(1)
US dollar	**(20)**	(205)
	(20)	(206)
(Gain)/loss on Reserve Tranche Position at the IMF	**(38)**	59
Net (gain)/loss on foreign currency transactions	**(58)**	(147)

5 Other income and expenditure

	2007-2008 £m	2006-2007 £m
Other expenditure		
Debt management administration costs*	**3**	4
Expenditure in respect of depreciation of Issue Department Assets**	**1**	0
Deficit on the Debt Management Account	**0**	798
Total: Other expenditure	**4**	802
Other income		
EEA net income	**(3,315)**	(20)
Profits of the Bank of England Issue Department**	**(2,327)**	(1,719)
Surplus on the Debt Management Account	**(846)**	0
Written off gilt-edged stock	**(1)**	0
Miscellaneous receipts	**(7)**	(5)
Total: Other income	**(6,496)**	(1,744)
Net total	**(6,492)**	(942)

* Debt management administration costs mainly comprise amounts paid to the Gilts Registrar for administering the gilt-edged stock register. They also include the Bank of England's costs relating to the issue of foreign currency borrowing.

** Under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the National Loans Fund. A sum of £2,327 million in respect of these profits was credited to the Operating Cost Statement in 2007-2008 (£1,719 million in 2006-2007). In addition, the Bank of England Issue Department is required by the Currency and Bank Notes Act 1928 to hold investments equal to the value of bank notes in issue. Periodically these investments are revalued to market value. If the market value is less than the value of notes in issue, legislation requires the National Loans Fund to pay an amount equal to the deficiency to the Issue Department to finance the purchase of additional investments. Conversely, if the market value of the assets exceeds the value of the notes in issue, the Issue Department sells investments to the value of the surplus and pays the proceeds to the National Loans Fund

6 Loans and commitments to lend

Loans		**2007-2008**				2006-2007
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Principal outstanding at 1 April	**1,364**	**1,658**	**3,022**	1,409	1,555	2,964
Loans advanced	**74**	**100**	**174**	218	217	435
Loans repaid	**(104)**	**(121)**	**(225)**	(263)	(114)	(377)
Principal outstanding at 31 March	**1,334**	**1,637**	**2,971**	1,364	1,658	3,022
Accrued interest	**12**	**18**	**30**	13	19	32
Total asset outstanding	**1,346**	**1,655**	**3,001**	1,377	1,677	3,054

Commitments to lend		**2007-2008**				2006-2007
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Undrawn commitments to lend						
Maturity period						
less than one year	**590**	**159**	**749**	569	159	728
one year and over	**600**	**0**	**600**	600	0	600
	1,190	**159**	**1,349**	1,169	159	1,328

7 IMF Reserve Tranche Position

The United Kingdom's relationship with the International Monetary Fund impacts on the National Loans Fund, the UK's Foreign Exchange Reserves and the Exchange Equalisation Account (EEA). The UK's Quota Subscription to the IMF, 10,738.5 million Special Drawing Rights (SDRs) (£8,881 million at 31 March 2008), was paid from the National Loans Fund and is recognised as a NLF asset. Part of the Subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS). A small undrawn sterling cash balance is held in an IMF account at the Bank of England. The IMF's sterling holdings in the UK in the form of its NLF NIBS and its sterling balance at the Bank of England represent an NLF liability to the IMF.

The difference between the gross quota subscription and the NLF's sterling liability to the IMF is the UK's Reserve Tranche Position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value, in SDR terms, of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May.

The table below sets out the composition of the RTP at 31 March 2007 and 31 March 2008, and shows the make-up of changes over the year.

The RTP represents an SDR asset that can be drawn on by the UK if needed. Because the RTP is a net asset of the NLF it is therefore also considered as part of the UK's Foreign Exchange Reserves. Sterling transactions by the IMF impact on the level of NIBS, and hence on the RTP. Under current policy, changes in the RTP lead to adjustments in the composition of other Reserve Assets, in order to keep the portfolio composition of the Reserves in line with plan.

Interest is payable by the IMF on the RTP balance in excess of SDR 700 million. This interest is retained in the EEA. The EEA also holds the UK's allocation of SDRs (SDR 1,913 million at 31 March 2008), as a liability to the IMF, and retains an asset in the form of the UK's holdings of SDRs (SDR 213 million at 31 March 2008).

NLF Assets and Liabilities: Composition of the Reserve Tranche Position

	Asset		Liabilities			Reserve Tranche Position
	IMF Quota Subscription	Non- interest-bearing securities	Sterling balances at Bank of England	Valuation adjustment	Total liabilities	
	£m	£m	£m	£m	£m	£m
Balances at 1 April 2007	8,271	(8,044)	(20)	413	(7,651)	620
Exchange rate gains/(losses) for the year on the Quota subscription	610	0	0	0	0	610
Change in year-end valuation adjustment	0	0	0	(1,045)	(1,045)	(1,045)
Change in loan notes as a result of the valuation settlement	0	474	0	0	474	474
Change in cash on No 1 account	0	0	(1)	0	(1)	(1)
Net (increase)/decrease in loan notes	0	(97)	0	0	(97)	(97)
Balances at 31 March 2008	8,881	(7,667)	(21)	(632)	(8,320)	561

8 Advances

	PWLB £m		**DMA £m**		**EEA £m**		**Total £m**	
	2007-2008	2006-2007	**2007-2008**	2006-2007	**2007-2008**	2006-2007	**2007-2008**	2006-2007
Principal outstanding at 1 April	**48,111**	47,124	**0**	0	**1,805**	2,005	**49,916**	49,129
Advances	**10,000**	12,354	**0**	15,000	**1,125**	2,500	**11,125**	29,854
Advances repaid	**(7,358)**	(11,367)	**0**	(15,000)	**(1,600)**	(2,700)	**(8,958)**	(29,067)
Principal outstanding at 31 March	**50,753**	48,111	**0**	0	**1,330**	1,805	**52,083**	49,916
Accrued interest	**620**	772	**0**	0	**0**	0	**620**	772
Total advances outstanding	**51,373**	48,883	**0**	0	**1,330**	1,805	**52,703**	50,688

9 Other assets

		At 31 March 2008 £m		At 31 March 2007 £m
Exchange Equalisation Account net assets		**23,528**		20,213
Debt Management Account net assets		**890**		43
National Savings and Investments' cash holdings:				
from sale of investment products	**598**		400	
for repayment of principal	**117**		137	
for payment of interest and prizes	**26**		46	
NS&I Total		**741**		583
Reserve Tranche sterling balances at Bank of England		**21**		20
Total other assets		**25,180**		20,859

10 Other debt payable in sterling

	At 31 March 2008 £m	Restated At 31 March 2007 £m
Debt Management Account	**49,140**	35,339
Bank of England Issue Department	**7,403**	13,430
Balances from government accounts at the Bank of England	**16,288**	11,227
Temporary deposits from public sector bodies	**3,473**	327
Other	**450**	373
Total other debt payable in sterling	**76,754**	60,696

These items reflect borrowing by the NLF. The first two reflect deficit funding from the DMA and previously the Issue Department of the Bank of England. The third item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at the Bank of England. Balances at 31 March 2007 have been restated by the inclusion of accrued interest.

11 Other debt payable in foreign currencies

	At 31 March 2008 £m	At 31 March 2007 £m
HMG US $3 billion 2.25% Bond 2008	**1,509**	1,530
Accrued interest	**25**	25
Total foreign currency debt	**1,534**	1,555

12 National Savings and Investments products

	2007-2008 £m	2006-2007 £m
Principal outstanding at 1 April	**77,260**	71,981
Cash repayments from the NLF	**(10,049)**	(8,862)
Principal cash received in the NLF	**14,326**	13,012
Capitalised interest and other returns to savers	**1,462**	1,083
Change in cash holdings for principal	**178**	46
Principal outstanding at 31 March	**83,177**	77,260
Accrued interest and other returns to savers	**1,253**	1,288
Total principal and accrued interest outstanding	**84,430**	78,548

13 Gilt-edged stock

	At 31 March 2008 Outstanding liability (including accrued interest) £m	At 31 March 2007 Outstanding liability (including accrued interest) £m
Marketable Securities		
Conventional	**344,141**	328,932
Index-Linked	**145,242**	123,765
	489,383	452,697
Non-Marketable Securities		
Conventional	**572**	1,037
Index-Linked	**0**	0
	572	1,037
Total gilt-edged stock	**489,955**	453,734

14 Liability of the Consolidated Fund to the National Loans Fund

	2007-2008 £m	2006-2007 £m
Liability of the Consolidated Fund to the NLF at 1 April	**519,312**	483,836
Net cash paid to the Consolidated Fund	**49,028**	30,552
Payment from the Consolidated Fund to the NLF for the cost of debt servicing during the year	**(19,390)**	(19,897)
Net operating cost	**22,278**	24,821
Liability of the Consolidated Fund to the NLF at 31 March	**571,228**	519,312

15 Notes to the Cash Flow Statement

	2007-2008 £m	2006-2007 £m
i Net cash flow from operating activities		
Interest received	**3,290**	3,644
Other receipts	**2,327**	1,718
Finance costs on borrowing	**(25,484)**	(25,128)
Other flows	**477**	(131)
Transfer from the Consolidated Fund for the cost of debt servicing	**19,390**	19,897
Total net cash flow from operating activities	**0**	0

	2007-2008 £m	2006-2007 £m
ii Net cash flow from financial investment		
Net change in advance to the Public Works Loan Board	**(2,642)**	(987)
Net change in loans	**52**	(58)
Net change in advance to the EEA	**475**	200
Total net cash outflow from investing activities	**(2,115)**	(845)

	2007-2008 £m	2006-2007 £m
iii Financing		
Net issuance of government stock	**31,257**	3,826
Net issuance of National Savings products	**4,277**	4,150
Other net sterling borrowing	**15,986**	23,010
Net transfers of IMF non-interest bearing securities	**(377)**	411
Net transfer to the Consolidated Fund	**(49,028)**	(30,552)
Total net cash flow from financing activities	**2,115**	845
Total net cashflow	**0**	0

16 Contingent liabilities

The NLF has a contingent liability to the Bank Of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This contingent liability was £34,344 million at 31 March 2008 (£29,240 million at 31 March 2007).

The NLF also has a contingent liability in respect of unclaimed dividends from the Commissioners for the Reduction of the National Debt (CRND). This stood at £50.1 million at 31 March 2008 (£47.2 million at 31 March 2007).

17 Fair Values

Carrying Value and Fair Value of NLF assets and liabilities as at 31 March 2008

	Values at 31 March 2008	
	Carrying value	**Fair value**
Assets	**£m**	**£m**
Loans		
Principal	**2,971**	**3,333**
accrued interest	**30**	**30**
IMF quota subscription	**8,881**	**8,881**
Advances		
PWLB	**50,753**	**59,453**
EEA	**1,330**	**1,330**
accrued interest	**620**	**620**
Other assets	**25,180**	**25,180**
Total assets	**89,765**	**98,827**
Liabilities		
Other sterling debt		
DMA	**49,140**	**49,140**
Issue Department of Bank of England	**7,403**	**7,403**
Government balances	**16,288**	**16,288**
Temporary deposits	**3,473**	**3,473**
Other	**450**	**450**
Foreign debt		
US$ bond	**1,509**	**1,508**
accrued interest	**25**	**22**
National Savings & Investments	**83,177**	**82,093**
accrued interest	**1,253**	**1,224**
IMF liabilities	**8,320**	**8,320**
Gilts		
Marketable	**489,383**	**525,936**
Non-marketable	**572**	**580**
Total liabilities	**660,993**	**696,437**

Carrying Value and Fair Value of NLF assets and liabilities as at 31 March 2007

	Values at 31 March 2007	
	Carrying Value	Fair Value
Assets	**£m**	**£m**
Loans		
Principal	3,022	3,320
accrued interest	32	32
IMF quota subscription	8,271	8,271
Advances		
PWLB	48,111	53,189
EEA	1,805	1,805
accrued interest	772	772
Other assets	20,859	20,859
Total assets	**82,872**	**88,248**
Liabilities		
Other sterling debt		
DMA	35,339	35,339
Issue Department of Bank of England	13,430	13,430
Government balances	11,227	11,227
Temporary deposits	327	327
Other	373	373
Foreign debt		
US$ bond	1,530	1,505
accrued interest	25	25
National Savings & Investments	77,260	76,013
accrued interest	1,288	1,259
IMF liabilities	7,651	7,651
Gilts		
Marketable	452,697	469,951
Non-marketable	1,037	1,026
Total liabilities	**602,184**	**618,126**

The NLF's assets are financial assets except for the net assets of the EEA and DMA. The carrying value of financial assets (all of which are designated as loans and receivables) is £65,347 million (2007 – £62,616 million) and their fair value is £74,409 million (2007 – £67,992 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to market prices where instruments are traded on an active quoted market, or, where this is not the case, as the net present value of future cash flows.

The fair value of advances to the PWLB are calculated as the net present value of future cash flows. Loans by the PWLB are usually at a fixed rate of interest and so their fair value increases or decreases according to changes in the difference between the fixed rate of interest earned on the loan and current market values. Differences between the fair and book value will not be realised as the PWLB loans are not traded by the NLF.

The fair value of gilts is calculated by reference to their market prices. Gilts are generally left in issue until they are very close to maturity and so the difference between their fair value and book value will normally not be realised in the NLF accounts.

18 Financial risks related to the NLF

The Government's debt management policy is set out in the annual Debt and Reserves Management Report. The debt management policy remains

'to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy'.

The debt management policy objective is achieved by

- pursuing an issuance policy that is open, transparent and predictable;
- issuing gilts that achieve a benchmark premium;
- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs;
- developing a liquid and efficient gilt market; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments.

Through these means, the Government seeks to choose a strategy that minimises the expected average debt cost over the longer term, and ensures that the chosen strategy is robust against different economic outturns.

For cash management, the aggregate balance on government accounts is swept daily to the National Loans Fund, and then to the Debt Management Account. The Debt Management Office deals with the financial markets to manage the daily cash surplus or deficit on the Debt Management Account relative to its target overnight balance, lending when there is a surplus and borrowing when there is a deficit.

The National Loans Fund's liabilities include conventional and index-linked gilt-edged securities and a wide range of National Savings and Investments products. There is a wide spread of maturities. NLF liabilities also include some foreign currency debt and deposits from several other public sector accounts.

NLF assets include advances to the Public Works Loan Board and the Exchange Equalisation Account. The UK's gross subscription to the IMF is also an asset of the National Loans Fund, and is denominated in Special Drawing Rights (SDRs).

Set out below are certain risk factors that could affect the National Loans Fund's operations.

Interest rate, inflation and foreign currency risks

The NLF's liabilities have a range of interest rate arrangements. Some borrowing and lending is at variable rate, while other assets and liabilities have fixed, or zero, interest rates. The interest paid (and redemption sums) on index-linked gilts vary in line with changes in the Retail Price Index since the initial issue of each stock. National Savings and Investments product liabilities and the assets represented by Public Works Loan Board lending can be at variable or fixed interest rates.

A small portion of the NLF's assets and liabilities is denominated in foreign currencies.

The following analyses set out the interest rate and foreign currency characteristics of NLF assets and liabilities. The timebands show the time after the balance sheet date that the items reprice. The weighted average interest rate relates to the total balance sheet amount for each item. Variable rate assets and liabilities generally all reprice within one month. Because of the long-dated nature of some fixed rate items, the weighted average time to their repricing is also shown in the table. This is, in effect, the time to their maturity as the rates on these items are fixed until maturity.

Interest rate and foreign currency risk analysis as at 31 March 2008

Assets

	Up to 1 Month/ repayable on demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total assets	Fixed rate lending: Weighted average interest rate	Fixed rate lending: Total fixed rate	Fixed rate lending: Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Loans	1	17	265	2,688	0	30	3,001	6.6	2,971	15.4
Advances	51	666	3,223	46,806	0	1,957	52,703	5.5	50,671	29.5
Other assets	0	0	0	0	0	25,180	25,180	0	0	0
Sterling assets	52	683	3,488	49,494	0	27,167	80,884	3.8	53,642	28.7
IMF quota subscription (SDR)	0	0	0	0	0	8,881	8,881	0	0	0
Total Assets	**52**	**683**	**3,488**	**49,494**	**0**	**36,048**	**89,765**	**3.5**	**53,642**	**28.7**

Liabilities

Currency	Up to 1 Month/ repayable on demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total liabilities	Fixed rate borrowing: Weighted average interest rate	Fixed rate borrowing: Total fixed rate	Fixed rate borrowing: Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Sterling debt										
Gilts										
Conventional	0	18,428	78,393	241,447	2,884	3,561	344,713			
Index-Linked	145,242	0	0	0	0	0	145,242			
Gilt edged stock	145,242	18,428	78,393	241,447	2,884	3,561	489,955	4.9	341,152	14.8
National Savings and Investments	70,155	1,295	11,721	0	0	1,259	84,430	3.8	13,016	2.0
Other debt payable in sterling	63,630	0	0	0	0	13,124	76,754	3.1	3,426	0.2
IMF liabilities	0	0	0	0	0	8,320	8,320	0	0	0
Sterling debt	279,027	19,723	90,114	241,447	2,884	26,264	659,459	4.3	357,594	14.2
Debt in foreign currency										
US$	0	1,509	0	0	0	25	1,534	2.3	1,509	0.3
Total liabilities	**279,027**	**21,232**	**90,114**	**241,447**	**2,884**	**26,289**	**660,993**	**4.3**	**359,103**	**14.2**
Period Gap	**278,975**	**20,549**	**86,626**	**191,953**	**2,884**	**(9,759)**	**571,228**			
Cumulative Gap	**278,975**	**299,524**	**386,150**	**578,103**	**580,987**	**571,228**				

Interest rate and foreign currency risk analysis as at 31 March 2007

Assets

	Up to 1 Month/ repayable on demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total assets	Fixed rate lending: Weighted average interest rate	Fixed rate lending: Total fixed Rate	Fixed rate lending: Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Loans	8	28	209	2,777	0	32	3,054	6.8	3,022	15.6
Advances	139	703	3,073	43,995	0	2,778	50,688	5.9	47,734	27.5
Other assets	0	0	0	0	0	20,859	20,859	0	0	0
Sterling assets	147	731	3,282	46,772	0	23,669	74,601	4.1	50,756	26.8
IMF quota subscription (SDR)	0	0	0	0	0	8,271	8,271	0	0	0
Total assets	**147**	**731**	**3,282**	**46,772**	**0**	**31,940**	**82,872**	**3.7**	**50,756**	**26.8**

Liabilities

	Up to 1 Month/ repayable on demand	1-12 Months	1-5 Years	Over 5 years	Undated	Zero rated	Total liabilities	Fixed rate borrowing: Weighted average interest rate	Fixed rate borrowing: Total fixed Rate	Fixed rate borrowing: Weighted average time for which interest rate is fixed
Currency	£m	£m	£m	£m	£m	£m	£m	%	£m	Years
Sterling debt										
Gilts										
Conventional	0	32,027	82,959	208,667	2,931	3,385	329,969			
Index-Linked	123,765	0	0	0	0	0	123,765			
Gilt edged stock	123,765	32,027	82,959	208,667	2,931	3,385	453,734	5.1	326,584	13.8
National Savings and Investments	63,720	729	12,753	0	0	1,346	78,548	3.9	13,482	2.1
Other debt payable in sterling	50,917	0	0	0	0	9,779	60,696	2.5	326	0
IMF liabilities	0	0	0	0	0	7,651	7,651	0	0	0
Sterling debt	238,402	32,756	95,712	208,667	2,931	22,161	600,629	4.5	340,392	13.3
Debt in foreign currency										
US$	0	0	1,530	0	0	25	1,555	2.3	1,530	1.3
Total liabilities	**238,402**	**32,756**	**97,242**	**208,667**	**2,931**	**22,186**	**602,184**	**4.5**	**341,922**	**13.2**
Period Gap	**238,255**	**32,025**	**93,960**	**161,895**	**2,931**	**(9,754)**	**519,312**			
Cumulative Gap	**238,255**	**270,280**	**364,240**	**526,135**	**529,066**	**519,312**				

Liquidity risk

NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments across a wide time period into the future. The longest stock in existence at 31 March 2008 matures in 2055. A small number of stocks are undated and can be redeemed by the Treasury at a time of its choosing. Deposits in the NLF have a shorter maturity profile, since they can change on demand. However, in practice, balances change only slowly due to re-investment. The NLF is the Government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is met mainly by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

Undiscounted contractual maturity of financial liabilities

The following table shows the undiscounted contractual maturity of the NLF's liabilities. The amounts shown are the cash flows arising from the NLF's financial liabilities during the period up to and including maturity. This is in contrast to the basis on which the balance sheet amounts are calculated. As described in note 1, items on the balance sheet are valued at fair value upon initial recognition and subsequently held at amortised cost. Therefore totals in the following table will not agree to the balance sheet.

The treatment of coupon payments is of particular significance. The table includes contractual coupon payments for the period to maturity based on interest rates or, in the case of index-linked gilts, the retail price index at 31st March 2008. Because of the many coupon payments to be made for longer dated gilts the table below reports coupon cash flows of £289,430m whereas the Gilts liability in the balance sheet contains accruals to the balance sheet date of £10,616m. Undated Gilts do not have a contractual maturity date and so coupon payments on them (currently £96m per annum) are not included in the table below.

The cash flows reported in the table will be funded by replacement debt issues, the proceeds of assets or by finance from the Consolidated Fund.

At 31 March 2008

	Up to 1 month £m	**1-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Undated £m**	**Total £m**
Liabilities							
Conventional Gilts							
Principal	0	0	18,472	78,059	238,394	2,884	337,809
Coupons	17	4,506	12,884	59,273	170,539	0	247,219
Index-Linked Gilts							
Principal	0	0	0	21,649	119,881	0	141,530
Coupons	199	329	2,665	11,527	27,491	0	42,211
Total Gilts	**216**	**4,835**	**34,021**	**170,508**	**556,305**	**2,884**	**768,769**
NS&I	83,552	95	158	736	5	0	84,546
IMF	8,320	0	0	0	0	0	8,320
Temporary Deposits	1,138	2,226	136	0	0	0	3,500
Other debt payable in sterling	73,281	0	0	0	0	0	73,281
Other debt payable in foreign currencies	0	0	1,534	0	0	0	1,534
	166,507	**7,156**	**35,849**	**171,244**	**556,310**	**2,884**	**939,950**

The maturity of liabilities after five years is

	5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Conventional Gilts						
Principal	73,929	58,576	54,598	39,575	11,716	238,394
Coupons	53,458	66,160	33,548	13,390	3,983	170,539
Index-Linked Gilts						
Principal	45,606	42,060	24,891	1,497	5,827	119,881
Coupons	10,599	11,590	3,878	841	583	27,491
NS&I	5	0	0	0	0	5
	183,597	**178,386**	**116,915**	**55,303**	**22,109**	**556,310**

As at 31 March 2007

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Undated £m	Total £m
Liabilities							
Conventional Gilts							
Principal	0	0	31,931	82,746	205,623	2,931	323,231
Coupons	18	4,160	12,840	54,924	151,302	0	223,244
Index-Linked Gilts							
Principal	0	0	0	20,658	99,990	0	120,648
Coupons	190	218	2,446	10,738	25,210	0	38,802
Total Gilts	**208**	**4,378**	**47,217**	**169,066**	**482,125**	**2,931**	**705,925**
NS&I	77,206	54	54	1,531	8		78,853
IMF	7,651	0	0	0	0		7,651
Temporary Deposits	328	0	0	0	0		328
Other debt payable in sterling	60,369	0	0	0	0		60,369
Other debt payable in foreign currencies	0	0	25	1,530	0		1,555
	145,762	**4,432**	**47,296**	**172,127**	**482,133**	**2,931**	**854,681**

The maturity of liabilities after five years is

	5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Conventional Gilts						
Principal	58,089	52,640	56,584	26,708	11,602	205,623
Coupons	48,561	57,925	29,032	11,346	4,438	151,302
Index-Linked Gilts						
Principal	35,066	35,858	23,256	997	4,813	99,990
Coupons	10,019	10,476	3,561	613	541	25,210
NS&I	8	0	0	0	0	8
	151,743	**156,899**	**112,433**	**39,664**	**21,394**	**482,133**

Credit risk

Due to the nature of its borrowers, the NLF is not exposed to significant credit risk. In respect of loans financed by the NLF, the financial relationship with the borrower is managed by the department responsible for the relevant public corporation. The sponsoring department performs due diligence on the borrower and proposes the loan. The Treasury reviews the proposal and, if the proposal is approved, the NLF will make the loan. The NLF is not allowed to accept losses on its loans. Any such losses can only be written off by primary legislation; however, in 1990 the Treasury gave an undertaking to the Public Accounts Committee that it would not seek Parliament's approval to such a course except as part of a reconstruction of the borrower's finances prior to privatisation. In other cases the Treasury would look to the borrower's sponsor department to cover any losses from its resource account.

In the case of advances to the Public Works Loan Board for loans to Local Authorities, the PWLB manages the financial relationship with the borrower, though the credit risk is borne by the NLF.

In the context of NLF loans issued to trading organisations at market rates, under the Commercial Lending policy, the terms and interest rates are designed to reflect the terms on which a private sector lender, such as a commercial bank, would lend to the borrower if the borrower were a wholly private sector body, rather than a government body.

Ceilings on total lending from the NLF to specific bodies are prescribed in the statutes governing each loan. The PWLB is allowed to lend up to an aggregate amount of £55 billion. For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

Derivatives and hedging

The NLF itself does not use derivatives or hedging. However, as explained in more detail below, some of the risks on the NLF are offset by hedging and other activities of the Debt Management Account and the Exchange Equalisation Account.

National Savings & Investments have issued a number of Guaranteed Equity Bonds that expose the NLF to equity index risk. The Debt Management Office have hedged this exposure through derivatives that are held on the DMA. For the Government overall (and the NLF) this ensures that the risk is negated.

The Exchange Equalisation Account Act constrains how the Exchange Equalisation Account (EEA) may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold to the EEA for sterling. While the NLF remains exposed to the interest rate and exchange rate risks from the foreign currency debt it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps.

19 Post Balance Sheet Events

On 21 April 2008, the Bank of England launched its Special Liquidity Scheme to allow banks to swap temporarily their high quality mortgage-backed and other securities for Treasury Bills. Treasury Bills for this purpose are issued with a maturity of nine months by the NLF and sold to the DMA which makes them available to be borrowed by the Bank of England. The scheme was launched with an initial issuance by the NLF of £50bn. More details of the scheme are available from the Bank of England's website.

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