



HM Treasury

Annual Report and Accounts 2012-13



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Foreword

By the Chancellor of the Exchequer, the Rt Hon George Osborne MP

This is an important time for the UK economy. There remain significant challenges: the situation in the Eurozone remains fragile and Britain's deficit remains too high. While there are signs that the British economy is healing, the Government continues to take decisive action to secure the recovery.

Over the last year, the Government has taken action to maintain fiscal credibility. Cyclically adjusted general government net borrowing – an internationally comparable measure of the structural deficit – is now forecast by the IMF to have been reduced by 4.3 per cent since 2009, a larger reduction than any other country in the G7. Government departments have over-delivered in making savings in 2012-13, and the Government took action at the Autumn Statement 2012 and the Budget 2013 to reduce resource spending in order to increase growth-enhancing capital investment.

Tight fiscal policy has allowed for active monetary policy, helping keeping interest rates low and provide support to the economy. The Funding for Lending scheme launched jointly with the Bank of England last year has reduced bank funding costs, and mortgage rates have fallen significantly.

To ensure the Bank of England have all the tools they need to maintain price stability and secure economic recovery, the Government has provided the Bank of England with a new remit that takes account of innovations in monetary policy. The Monetary Policy Committee will report back in August on the use of forward guidance and intermediate thresholds, under the new Governor of the Bank of England, Mark Carney.

The Government has continued to undertake structural reform, implementing its *Plan for Growth*, and Lord Heseltine's *No Stone Unturned* recommendations. Investment in infrastructure is a key part of the Government's economic plan, and we have supported private sector investment through the launch of the UK Guarantee scheme. The first guarantee, underpinning a £75 million loan for the biomass conversion of the Drax power station in North Yorkshire, was signed in April, and we have since confirmed support for the Mersey Gateway as well as announcing that Hinkley Point is eligible for a Guarantee.

The Spending Round published in June set out public spending plans for 2015-16. To ensure we continue to reduce the deficit, spending will continue to fall in real terms at the same average rate as it is falling today. But within this, the Government has chosen to prioritise spending on health, schools and our armed forces, and will make £5 billion pounds of savings by reducing the cost of Government. And we set out our commitment to invest even more in our country, with £50 billion pounds of capital investment in 2015-16 and over £300 billion of capital spending guaranteed to the end of the decade. This includes the biggest investment in our roads since the 1970s and £9 billion investment in our railways.

Reforming the UK tax system to make it more efficient fair and competitive has continued at pace. In the Budget, we made a historic commitment to raise the personal allowance to £10,000 by 2014 – taking three million of the lowest paid out of income tax altogether. Our reforms to corporation tax mean that by April 2015, Britain will have a 20 per cent rate of corporation tax – the lowest business tax of any major economy in the world. Alongside this, we

introduced a new Employment Allowance, taking the first two thousand pounds off the employer National Insurance bill of every company.

Through its Presidency of the G7 and G8, the UK has worked to secure international agreement to a fairer and more effective global tax system, to tackle tax avoidance and to new free trade rules to support global growth.

A stable financial system is vital for a healthy economy. The Financial Services Act 2012 came into force on 1 April, introducing a new coherent and comprehensive regulatory framework, which replaced the failed tripartite system in place during the financial crisis. The Banking Reform Bill was introduced to Parliament in February and implements many of the recommendations of the Independent Commission on Banking, including ring-fencing everyday banking activities from investment banking activities so taxpayers are better protected when things go wrong. And the Government has confirmed that we will start to plan for our exit from government share ownership of our biggest banks, the Royal Bank of Scotland, and Lloyds Banking Group.

We continue to work closely with our international partners in response to global economic risks while ensuring the UK's interests are protected. The Treasury's response to the recent financial crisis in Cyprus tested and validated the progress we have made on contingency planning since 2011, providing effective support to the Cypriot authorities.

The Ministerial team continue to receive support and advice of the highest standard. I would like to thank them for their continued dedication and hard work. I would also like to thank the Non Executive Board Members – Baroness Sarah Hogg, Dame Amelia Fawcett, Dame Deirdre Hutton and Michael O'Higgins – for the challenge and support they provide to the department.

A handwritten signature in black ink that reads "George Osborne". The signature is written in a cursive, flowing style.

The Rt Hon George Osborne MP

Lead Non Executive Board Member's Report

By Baroness Sarah Hogg

2012-13 has seen the Treasury deliver a significant amount on both the economics and finance ministry sides of the Department: from supply side interventions to increase the flow of credit to the real economy; more robust frameworks for spending control; and on the ground assistance to the Cypriot authorities in the first days of their banking crisis. The Treasury has been working hard to ensure Ministers receive a quality service while, as a central government department, continuing to implement increasing cost savings.

I have been delighted to lead my fellow Non Executives in another year of work with the Department on this demanding agenda. While the full formal Board has met infrequently, it has provided useful strategic direction to our monitoring of Treasury effectiveness, with periodic assessment of the department's strengths and weaknesses from Ministers' perspective. Meanwhile, the Board Sub-Committee of Non Executives and the Executive Management Board has proved an effective forum for regular engagement with, and challenge of, the leadership team responsible for implementing policy and managing the Treasury.

My Non Executive colleagues and I have also, this year, taken greater opportunity to extend our challenge function by contributing to work such as micro and macro horizon scanning sessions, the LIBOR retendering process, internal senior pay committees and the provision of advice on individual policy areas, such as growth. Senior management has encouraged and welcomed this and we look forward to maintaining this additional oversight in the coming year.

Our Board effectiveness evaluation this year recognised good progress across five review headings, while highlighting a number of areas to be brought under greater focus in 2013-14.

Strategic clarity

The Treasury continues to demonstrate best practice on the theme of strategic clarity, with a third year of comprehensive, bottom up, business planning. This work examines and challenges all areas of spend in the Department, and the Board has assisted officials and Ministers in rigorously examining options for prioritising or discontinuing work in order to match reducing resources to priorities.

At our March Board meeting Ministers, officials and Non Executives met to consider the 2013-14 business plan, with discussion of the tradeoffs on prioritisation and scaling back of work required if the Treasury is to reach a headcount of 1000FTE while still producing quality support to Ministers on key areas.

Ministers have welcomed this approach to business planning, and have tasked Non Executives with continuing to challenge and support the Executive Management Board on resource allocation, delivery capacity and capability, and ideas generation.

Commercial sense

At the time of writing there are now 11 tenants in the Treasury's 1 Horse Guards Road building. This move to space sharing has, thus far, generated some £12 million pounds of savings for the Department, and with moves in the coming year to increasingly shared services, it is clear to Non Executives the Treasury is taking a positive and commercial approach to delivery.

Non Executives are encouraging of genuine cost saving measures while remaining concerned that an excessively restrictive pay structure may compromise the Department's capability.

Michael O'Higgins, as chair of the Audit Committee, has examined the proposal to move internal procurement and commercial capacity to the Government Procurement Service. His focus was to ensure the appropriate service level and contingency arrangements are in place should the Department need to engage advisers out of hours in response to a crisis. The Audit Committee are comfortable with the level of preparation underway and will receive updates through the year on progress.

Talented people

One of the key challenges set in my 2011-12 Lead Non Executive's Report was for the Department to focus on its people, highlighting retention, pay constraint and succession planning as areas for attention in the coming year. My colleagues and I have been pleased to see progress on the Treasury's people strategy this year with the adoption of, and healthy moves towards, a turnover target, the introduction of a medium term pay strategy to match median Whitehall salaries and clear evidence of internal succession plans coming to fruition. We will watch with interest the impact of these new policies over the year.

The senior management team has seen considerable change over the year, with four changes to the Executive Management Board. Appointees are a welcome mix of internal and external candidates with both public and private sector experience, several of whom have come through the Treasury ranks but supplemented this with time away from the centre. The EMB has, as a result, ended the year stronger than it started. The Non-Executives continue to urge Treasury management to recruit private-sector talent to broaden the department's skills and experience.

Management information

Treasury senior management and officials have continued to take feedback from Non Executives on the presentation of management information to the Board. The risk and performance data reviewed by the Sub-Committee on behalf of the main Board has been combined into a single report directly linked to the Department's work programme objectives. It is accompanied by a summary assessment and forward look. This further alignment of risk, performance and delivery progress has been welcomed and Members agree the information as presented is valued and valuable. Non Executives are, however, keen to push the Department further into producing a single set of Key Performance Indicators that will enable effective monitoring of Treasury activity in real time.

Results focus

Results focus is an area of increasing importance as the Treasury moves from a policy development to a policy implementation phase in many areas of its work. The successful closure this year of legacy interventions such as the Credit Guarantee Scheme and the Asset Protection Agency has proved the Department's capability on delivery. But with a not inconsiderable amount of policy still to deliver, such as the completion of the Equitable Life Payment Scheme and the new UK Guarantees Scheme, it is important the Department remains results focused. Ministers have asked Non Executives to make scrutiny of the Treasury's progress on delivery one of their key areas of focus in 2013-14.

Forward look

Sir Callum McCarthy stood down from the Board in July 2012 after four years service as a Non Executive Board Member. I would like to thank him for his time and his professional insight while welcoming Dame Amelia Fawcett to the Board. Dame Amelia has extensive professional

experience and a long history of working with, and challenging, the Department, having played a key role in the first capability review of the Treasury in 2007.

I would like to end with thanks to my Ministerial, Non Executive and Executive Board colleagues for their leadership of and support to such an important central government institution. We are looking forward to the demands of the year ahead.

A handwritten signature in black ink that reads "Sarah Hogg". The signature is written in a cursive style with a horizontal line underlining the name.

Baroness Hogg

1

Introduction

1.1 The Treasury's aim is to be an effective economics and finance ministry focussed on its core purpose, while operating as a high performing organisation and working effectively with its operational partners. Within this over-arching aim, for the course of the current Parliament, the Government has set three strategic priorities for the Treasury:

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

1.2 The Department must deliver against these priorities while meeting the challenges set by the 2010 Spending Review, which required a 33 per cent reduction in the Treasury Group net resource budget; the Autumn Statement 2012, which announced a further reduction in departmental plans of one per cent in 2013-14 and two per cent in 2014-15; and Budget 2013 which introduced a further one per cent reduction in plans for 2015-16.

Delivering the resource challenge

1.3 To ensure the Department can continue to deliver its core economics and finance ministry functions, and consistent with the Government's broader Civil Service Reform Plan¹, the Treasury has been engaged in a wide ranging programme of reform:

- the **2010 Strategic Review** led to structural and cultural changes to enable the Treasury to live within its challenging 2010 Spending Review settlement. This involved finding real economies (by stopping work in certain areas) as well as genuine efficiencies (by designing improved ways to work), and in doing so, the Treasury has sought to be an exemplar to other Whitehall departments. As part of this review, the Treasury's Executive Management Board agreed to reduce headcount to 1000FTE (Full Time Equivalent) by March 2014;
- the **2012 Capability Action Plan** recognised the significant positive progress made since the Strategic Review, while also encouraging the Department to continue investing in staff capability; more consistently articulate the Department's direction internally and externally; enhance stakeholder management; and continue to set high standards to ensure rigorous analysis, evidence and customer insight underpin the policy-making process; and
- the **2012 Review of HM Treasury's Management Response to the Financial Crisis** recommended ways for the Treasury to strengthen its financial services and crisis management capability, and address wider organisational issues. The financial services groups have taken forward many of the specific recommendations, while the Department-wide recommendations have been captured and implemented

¹ www.civilservice.gov.uk/wp.../Civil-Service-Reform-Plan-acc-final.pdf?

through the Capability Action Plan: managing high turnover; valuing expertise and experience; encouraging more policy challenge; improving knowledge; and risk management.

1.4 Over the course of the year various strategic changes have been made within the Department to help make valuable resources work better, including:

- the merger of financial management and reporting teams with public spending groups;
- the prioritising, scaling back and time-limiting of activities where appropriate, and the use of project management techniques to deliver efficiencies;
- the sharing of some corporate services with the Cabinet Office; and
- the move to desk-sharing to accommodate additional tenants in 1 Horse Guards Road, generating £12 million of savings for the Department.

1.5 The 2012 staff survey results showed a positive increase in the Department's opinion of its ability to manage change, with the Treasury score for this theme 14 per cent higher than the Civil Service average. Further information on the Treasury's 2012 staff survey results can be found in Chapter 3.

Delivering the policy challenge

1.6 The Treasury is committed to delivering new policy in as open and transparent a way as possible. The creation of the contestable policy fund, administered by the Chief Secretary to the Treasury, Danny Alexander, and the Minister for Government Policy, Oliver Letwin, has been designed to open up policy development and bring in external knowledge and expertise on specific areas of interest to Ministers.

1.7 The Treasury is also committed to taking into consideration both statutory and government policy commitments in order to deliver measures that have been carefully evaluated and are fair to those they impact upon. During the development phase this will involve considering issues such as impact assessments, the Better Regulation agenda and sustainability.

Policy consultations and impact assessments

1.8 The Treasury publishes details of all formal and informal consultations conducted within the Department on the GOV.UK website². Examples of consultations conducted during 2012-13 include: *Including Real Estate Investment Trusts as Institutional Investors*; *A new approach to financial regulation, transferring consumer credit regulation to the Financial Conduct Authority*; *Consultation on Payroll Giving*; and *Deferring the payment of corporate 'exit charges'*.

1.9 Attached to public consultations are Impact Assessments (IA), a policy tool used to assess the impact, in terms of costs, benefits and risks of any proposed regulation which could affect businesses, charities or the voluntary sector. These are also published on the GOV.UK website³. The Treasury has guidance in place to assist officials with assessing the impact of measures, covering issues such as tax impacts, equalities and rural proofing⁴.

² https://www.gov.uk/government/publications?publication_filter_option=consultations

³ https://www.gov.uk/government/publications?keywords=&publication_filter_option=impact-assessments

⁴ Rural Proofing of policy is included in guidance accompanying the Treasury's Green Book. This guidance for Central Government sets out a framework for the appraisal and evaluation of all policies, programmes and projects. It describes how the economic, financial, social and environmental assessments of a proposal should be combined and aims to ensure consistency and transparency in the appraisal process throughout government.

Better Regulation

1.10 Ensuring regulation is no more burdensome to business than is necessary is a crucial part of the Government's growth agenda. The Treasury therefore has strong interest in promoting the Better Regulation agenda across Government. The Treasury is also responsible for insurance and financial services regulation, much of which comes from Europe. We apply principles of Better Regulation to this work as well, and seek to ensure it is not unnecessarily burdensome.

The Better Regulation agenda

1.11 The cumulative burden of new regulation has the potential to inhibit growth. The Government has increased its efforts to reduce these burdens. The One-In One-Out policy on new regulation, which has already reduced costs to business by almost £840 million a year, increased to a One-In Two-Out policy in January 2013.

1.12 The Red Tape Challenge has been given new targets for cutting red tape. The Government has already implemented reforms from the Red Tape Challenge which will save businesses over £155 million a year. By the end of 2013 the first phase of the Red Tape Challenge will have identified three thousand regulations to be abolished or simplified.

1.13 Budget 2013 announced a second phase of the Red Tape Challenge to be launched in the summer. It also announced that the Government will drive efficiency and reduce fees charged to businesses through additional budgeting controls placed on regulators in the 2015-16 Spending Round, and will make economic regulator appeals quicker, simpler and more efficient.

Better Regulation in the Treasury

1.14 The Treasury exceeded the One-In One-Out target by deregulating to save businesses £31.7 million a year, while only imposing £1.65 million a year in new regulatory costs. Alongside this, the Department has also introduced and revoked regulations that meet international or European obligations, or tackle systemic financial risk. These types of regulation are out of scope of One-In Two-Out.

1.15 New regulations require an Impact Assessment, quality assurance of which is provided by the independent Regulatory Policy Committee. Between January and August 2012, 89 per cent of Treasury Impact Assessments received "fit for purpose" opinions when first submitted to the Committee. This maintains the strong performance the Treasury achieved in 2011-12, when 89 per cent of impact assessments also received fit for purpose ratings. The average across Government in 2012 was 81 per cent.

1.16 On 8 March 2013 the Government launched the National Savings and Investments theme of the Red Tape Challenge. Through this exercise the Treasury and the Cabinet Office will look at how the regulations governing National Savings and Investments products can be simplified and improved.

1.17 The Treasury continues to implement alternatives to regulation wherever possible. For example:

- the Government recently requested the Financial Services Authority investigate regulatory barriers to entry and expansion in the UK banking sector. The subsequent report sets out significant changes to make it easier for new banks to enter the market and compete, as well as more proportionate regulatory requirements for smaller banks that do not pose a systemic risk. The amount of capital which new, non-systemic banks will be required to hold will now fall by around 80 per cent; and

- the Government previously announced it would be introducing further regulation in relation to circumstances where regulated mortgage contracts are sold on to unregulated firms. Following a review, the Government took the decision it would not be taking forward legislation at this point in time, but would instead keep the position of contracts sold to unregulated firms under review and return to legislation if there is evidence consumer detriment is taking place.

1.18 A high proportion of regulation the Treasury is responsible for originates in the EU. The Government has an objective of proportionate regulation for small and medium sized businesses in the EU. An example of the Treasury meeting this objective is the latest Single Euro Payments Area Regulation, adopted on 30 March 2012. During the negotiations the UK secured more time for the necessary changes to be made and an exemption for micro businesses from some requirements of the Regulation.

Regulating for stability

1.19 The Treasury has carried out a fundamental reform of the UK's financial regulation system to deliver more judgement-led, focussed and effective regulation of the financial services sector.

1.20 The Financial Services Act 2012, which came into force on 1 April 2013, has strengthened the financial regulatory structure through establishing:

- the Financial Policy Committee (FPC), a strong expert macro-prudential authority within the Bank of England, responsible for protecting and enhancing financial stability;
- the Prudential Regulation Authority (PRA), a new micro-prudential regulator with responsibility for ensuring effective prudential regulation of firms that manage complex risks on their balance sheets, which has been established as a subsidiary of the Bank of England; and
- a new independent conduct of business regulator, the Financial Conduct Authority (FCA), to ensure that business across financial services and markets is conducted in a way that advances the interests of all consumers and market participants. The FCA will also be responsible for the prudential regulation of non-PRA regulated firms.

1.21 The Government also introduced the Banking Reform Bill to Parliament on 4 February 2013. The Bill implements many of the recommendations of the Independent Commission on Banking (ICB), including establishing a ring-fence to separate important everyday banking activities from investment banking activities.

1.22 The Bill gives the PRA a new objective to promote the continuity of core banking services in the UK, protect banks from risks that could threaten continuity, and ensure that core banking services can be maintained in the event of bank failure. It also gives the Government power to regulate the way in which debt requirements are imposed on banks, to ensure that banks are more able to absorb losses during a crisis.

1.23 At European level, the Government is also pursuing measures that will enable it to impose higher capital requirements on large ring-fenced banks (beyond international minimum standards), through powers in the Capital Requirements Directive (CRD) IV and Capital Requirements Regulation (CRR).

Developing sustainable policy

1.24 The Treasury is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside the objectives of tackling climate change, and the sustainable use of natural resources. As part of its

role as the UK's economics and finance ministry, the Treasury is central to ensuring these aims are accounted for in policy appraisal and pursued through policies that deliver value for money and are affordable.

1.25 The Treasury also has a key role in supporting the work of other departments on sustainable development, working with BIS, DECC and others on, for example, the transition to a low-carbon economy and the sustainable use of resources across the economy.

1.26 In its Departmental Business Plan, the Treasury has committed to:

- assess and manage environmental social and economic impacts and opportunities in its policy development and decision making;
- deliver the actions in the business plan to increase environmental sustainability, including by increasing the proportion of revenue accounted for by environmental taxes;
- implement the Department's plan to deliver on the Greening Government Commitments; and
- procure from small businesses with the aspiration that 25 per cent of contracts should be awarded to SMEs.

1.27 The Treasury asks all departments to adhere to the Green Book guidance when providing a business case. The supplementary guidance covers the practical application of techniques for valuing environmental impacts in policy appraisal. It applies to all programmes, policies and projects – not just those policies with a specific environmental focus.

1.28 The Treasury is also committed to ensuring all policies with long term implications developed within the Department take into account the need to adapt to climate change.

1.29 In March 2010 each central government department published an adaptation plan explaining its proposed actions to meet the challenge of a changing climate. The table below charts the Treasury's progress against this plan.

Priority/Action	Progress	Deadline
Work with other Departments, seeking appropriate evidence on spending proposals to manage risks or mitigate impacts of climate change.	Treasury played a key role in ensuring that departmental evidence on spending proposals was of a quality and consistency to underpin decisions in the Spending Review.	Ongoing
Jointly with DEFRA as lead department: work with the insurance industry to ensure that climate change risks are borne in the most appropriate and efficient way following the ending of the current statement of principles in 2013	Treasury is supporting DEFRA as lead department in addressing flood risk impacted through climate change including through improving value for money in flood defence procurement, supporting the new partnership funding approach, and engaging with the insurance industry on arrangements for coverage.	Ongoing
Use Treasury Environment Network (TEN) events and external speakers to broaden knowledge and understanding of adaptation issues.	The questions raised by the need to adapt to climate change have been communicated and discussed across the areas of Treasury that they affect through the TEN.	Ongoing

Source: HM Treasury

Measuring success

1.30 In May 2012 the Treasury published an update to its Departmental Business Plan. This plan aimed to reflect progress made from the time of initial publication in November 2010 and to identify both developing and new work streams. A further iteration of the Departmental Business Plan was published during May 2013⁵. The Treasury will continue to make monthly progress reports against this plan.

1.31 Under its 2012-13 Structural Reform Plan the Treasury progressed 41 actions split between three Coalition priorities:

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

1.32 Actions to support the work towards each of these priorities are outlined within the business plan, progress against these actions is monitored and a summary of the latest position is shown on the Number 10 website.

1.33 A summary of the position at the end of March 2013 against each of these three priorities is shown in the following tables.

1. Reduce the structural deficit in a fair and responsible way.

Take action to tackle the deficit in a fair and responsible way, ensure that taxpayer's money is spent responsibly, and get the public finances back on track, whilst protecting growth.

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
2	2	0	0	0
Deadlines missed				
No deadlines have been missed against this priority.				
Source: HM Treasury				

1.34 At 31 March 2013, five actions against Priority 1 remained ongoing as they were planned to end after this date.

2. Secure an economy that is more resilient, and more balanced between public and private sectors and between regions.

Take action to boost enterprise, support green growth and build a fairer and more balanced economy to achieve a sustainable distribution of growth across the economy.

⁵ <http://transparency.number10.gov.uk/business-plan/8/76>

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
13	10	2	0	1
Deadlines missed				
<p>Action 2.9 (i) – due for completion in July 2012. The Independent Pay Review Bodies will report from July 2012 on how public sector pay can be made more responsive to local labour markets.</p>				
<p>Reason for delay Four independent Pay Review Bodies were tasked with considering the case for more local, market-facing pay by the Government. The NHS Pay Review Body, the Prison Service Pay Review Body and the Senior Salaries Review Body have now provided their reports to Government – these will be published in due course. The School Teachers Review Body, however – is considering a wide range of pay reform options, including local pay – and will provide its report in the autumn. <i>Explanation provided by HM Treasury and published by Number 10 in the July 2012 SRP update. Action now complete.</i></p>				
<p>Action 2.10(iii) – due for completion in November 2012. Support BIS to successfully award Business Finance Partnership funding allocated to BIS to proposals for the Business Finance Partnership.</p>				
<p>Reason for delay This action was completed via the Autumn Statement on 5 December 2012. <i>Explanation provided by HM Treasury and published by Number 10 in the December 2012 SRP update. Action now complete.</i></p>				
<p>Action 2.10 (iv) – due for completion in November 2012. Support BIS in delivering the Small Business focussed Business Finance Partnership strand.</p>				
<p>Reason for delay This action was completed via the Autumn Statement on 5 December 2012. <i>Explanation provided by HM Treasury and published by Number 10 in the December 2012 SRP update. Action now complete.</i></p>				
<p><i>Source: HM Treasury</i></p>				

1.35 At 31 March 2013, 13 actions against Priority 2 remained ongoing as they were planned to end after this date.

3. Reform the regulatory framework for the financial sector to avoid future financial crises.

Replace the current system of financial regulation with a framework that promotes responsible and sustainable banking, where regulators have greater powers to curb unsustainable lending practices and we take action to promote more competition in the banking sector.

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
4	2	0	0	2
Deadlines missed				
<p>Action 3.4 (i) – due for completion in March 2013. Legislate to enable financial mutuals greater flexibility to develop and expand by commencing the Co-operative and Community Benefit Societies and Credit Unions Act 2010.</p> <p>Reason for delay The Government needs to consult stakeholders and introduce secondary legislation to bring these measures into effect. It is currently considering when it would be most appropriate to do so. <i>Explanation provided by HM Treasury and published by No 10 in the March 2013 SRP update.</i></p> <p>Action 3.4 (ii) – due for completion in March 2013. Assess whether changes are required to update building societies legislation.</p> <p>Reason for delay The Government has consulted the building societies sector on potential measures to update building societies legislation. It is currently considering whether it is appropriate to proceed with these, and if so what would be the appropriate legislative vehicle for it to do so. <i>Explanation provided by HM Treasury and published by No 10 in the March 2013 SRP update.</i></p>				
<i>Source: HM Treasury</i>				

1.36 At 31 March 2013 four actions against Priority 3 remained ongoing as they were planned to end after to this date.

Performance indicators

1.37 The Treasury's May 2012 Business Plan quoted a number of impact and input indicators. These were refreshed from the 2010-11 original business plan and are now published on the GOV.UK website after each fiscal event. These are illustrative indicators to help the public judge whether policies and reforms are having the desired effect.

1.38 As illustrated in the following tables, during the 2012-13 financial year the Treasury reported against 11 indicators, three "input" and eight "impact".

Table 1.A: Indicators – Reduce the structural deficit in a fair and responsible way

Indicators	2012-13	2011-12	Notes
INPUT INDICATOR Administration cost of supporting tax and spending policy	£14.6m	£14.1m	
IMPACT INDICATOR Cyclically adjusted current deficit as a percentage of GDP	-4.2% (2011-12)	-4.4% (2010-11)	Data is given as a percentage of GDP. OBR forecast for the economy and the public finances, and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target. The forecast and outturn is updated at fiscal events.
IMPACT INDICATOR Public Sector debt as a percentage of GDP	71.8% (2011-12)	60.5% (2010-11)	Data is given as a percentage of GDP. Public sector net debt refers to the sum of money owed to the private sector by central government, local authorities, and public corporation. The Government uses a measure of PSND excluding the temporary effects of financial interventions but including the permanent ones (PSND ex). This PSND ex measure is intended to show the underlying state of the public sector finances without temporary distortions caused by financial interventions, but including any permanent effects from these interventions The forecast and outturn is updated at fiscal events
IMPACT INDICATOR Departmental DEL Outturn v forecast	1.3% (2011-12)	1.2% (2010-11)	DEL plans contained in the Budget are management information. DEL outturn data is a national statistic.
IMPACT INDICATOR Overall impact of spending, tax, tax credit and benefit changes on households in 2014-15 as a percentage of 2010-11 net income	Please see Chart 2. A within <i>Impact on households: distributional analysis to accompany Budget 2013</i> ⁶	Please see Chart B.5 Annex B <i>Impact on Households within Budget 2012</i> ⁷	The average loss to households as a result of this Government's spending, tax, tax credit, and benefit measures in 2014-15, as a proportion of 2010-11 net income. Update provided as a chart.

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188366/budget2013_distributional_analysis.pdf

⁷ http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/budget2012_documents.htm

Table 1.B: Indicators – Secure an economy growing sustainably, more resilient, and balanced between public and private sectors and between regions

Indicators	2012-13	2011-12	Notes
INPUT INDICATOR Administration cost of supporting macroeconomic and fiscal policy	£15.1m	£14.3m	
IMPACT INDICATOR GDP per capita – latest quarter growth on corresponding quarter of previous year	-0.8% (Q3 2012)	-0.1% (Q3 2011)	The chained volume measure of Gross Domestic Product (GDP) measures the level of total economic activity in the UK, adjusted for the effect of inflation (as a percentage of GDP) To express real GDP in per capita (or 'per head') terms, it is divided by the resident population of the UK.
IMPACT INDICATOR Business investment as a share of GDP	8.2% (Q4 2012)	8.1% (Q4 2011)	The current prices measure of Business Investment (as a percentage of GDP) measures the level of total business investment in the UK. To express business investment as a share of gross domestic product (GDP), it is divided by the nominal measure of GDP. Business investment data is frequently revised – the estimates here are based on data as published at 27/03/2012
IMPACT INDICATOR Employment Rate	71.5% (Nov-Jan)	70.4% (Q4 2011)	Provided as a three month moving average

Table 1.C: Indicators – Reform the regulatory framework for the financial sector to avoid future financial crises

Indicators	2012-13	2011-12	Notes
INPUT INDICATOR Administration cost of supporting international engagement and financial services policy	£7.0m	£7.0m	
IMPACT INDICATOR Government shareholdings in banks: RBS, Lloyds Banking Group	The Treasury has not purchased or sold any RBS or Lloyds Banking Group shares during 2012-13.		
<i>RBS</i>	The shareholding in RBS comprises of ordinary shares, B-shares and a single dividend access share		
Value of shareholding	£26.4bn	£26.9bn	
Cost of Shareholding:	£45.8bn	£45.8bn	
<i>Lloyds Banking Group</i>	The shareholding in LBG comprises of ordinary shares.		
Value of shareholding:	£13.4bn	£9.3bn	
Cost of Lloyds Banking Group shareholding	£20.5bn	£20.5bn	

Looking ahead

1.39 During 2013-14, the Treasury will deliver the 2015-16 spending round. It will issue the first tranche of infrastructure guarantees – with mortgage guarantees to follow. While the Treasury continues to monitor government shareholdings in banks, the Banking Reform Bill will progress through Parliament, and further action may follow the report of the Parliamentary Commission on Banking Standards.

1.40 With a challenging economic outlook and fiscal consolidation planned to continue well into the next Parliament, tax sustainability is an increasing focus. Internationally, the Treasury will continue to negotiate for the UK's economic interests in Europe within parameters set by the Prime Minister's recent speech, while the G7 and G8 Presidencies will be an opportunity for the UK to drive cooperative action to secure global economic recovery.

Ministerial responsibilities



1



2



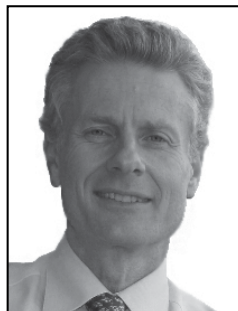
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6

1. The Rt Hon George Osborne MP Chancellor of the Exchequer

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

He is supported by:

- the Chief Secretary to the Treasury;
- the Financial Secretary to the Treasury;
- the Exchequer Secretary to the Treasury;
- the Economic Secretary to the Treasury; and
- the Commercial Secretary to the Treasury.

2. The Rt Hon Danny Alexander MP Chief Secretary to the Treasury

- Responsibility for public expenditure including:
 - spending reviews and strategic planning;
 - in-year spending control;
 - public sector pay and pensions;
 - Annually Managed Expenditure (AME) and welfare reform;
 - efficiency and value for money in public service;
 - procurement; and
 - capital investment.

3. The Rt Hon Greg Clark MP **Financial Secretary to the Treasury**

- Responsibility for financial services policy and overall strategic relationship with UK financial services including:
 - banking and financial services reform and regulation (at home and in the EU);
 - financial stability;
 - City competitiveness;
 - Bank lending and access to finance; and
 - the Financial Services Authority.
- EU budget.
- Cities policy.
- Support to the Chancellor on EU and wider international finance issues.

5. Sajid Javid MP **Economic Secretary to the Treasury**

- Taxation of transport, North Sea oil, gas and shipping.
- Climate change and energy issues.
- Excise duties and gambling, including excise fraud and law enforcement.
- Retail financial services, including consumer finance and financial advice and capability.
- Banking support, including responsibility for the Asset Protection Scheme and other schemes and UK Financial Investments.
- Personal savings and pension policy, Equitable life and the Government Actuary's Department.
- The Royal Mint, Crown Estate and Departmental Minister for HM Treasury Group.
- Tax credits and child poverty, and assisting the Chief Secretary on welfare reform and public service pensions.
- Charities, the voluntary sector and gift aid.

4. David Gauke MP **Exchequer Secretary to the Treasury**

- Strategic oversight of the UK tax system including direct, indirect, business and personal taxation.
- Corporate and small business taxation, with input from the Commercial Secretary.
- Departmental Minister for HM Revenue and Customs and the Valuation Office Agency.
- Overall responsibility for the Finance Bill.

6. Lord Deighton **Commercial Secretary to the Treasury**

- The Treasury spokesman in the House of Lords.
- Enterprise and productivity, including industrial strategy, better regulation, competition policy, infrastructure, and microeconomic reform.
- Corporate finance, including public corporations and public private partnerships.
- Assisting the Financial Secretary on financial services and banking policy.
- Working with the Financial Secretary to promote the Government's financial services policies and the competitiveness of the UK.
- Asset freezing and financial crime.
- Foreign exchange reserves and debt management policy, National Savings and Investment and Debt Management Office.

HM Treasury (at 31 March 2013)



HM Treasury

Executive Management Board

Nick Macpherson
Permanent Secretary

Tom Scholar
Second Permanent Secretary

John Kingman
Second Permanent Secretary

Sharon White Director General
Public Spending

Charles Roxburgh Director General
Financial Services

Director led Groups

Ministerial and Communications

Nick Macpherson, Permanent Secretary

Responsible for decision making, coordination and management of the department, and communications with media and the public

Strategy, Planning and Budget

James Bowler, Director

Responsible for defining forward strategy, work programme, the Budget, and short-term priority policy projects

Economics

Dave Ramsden, Director General

Responsible for UK economic analysis, surveillance, and professionalism

Business and International Tax

Mike Williams, Director

Responsible for business tax, indirect taxes and international tax

Financial Stability

Lowri Khan, Director

Responsible for ongoing stability issues and resolution of financial interventions

Personal Tax, Welfare and Pensions

Beth Russell, Director

Responsible for personal tax, welfare, labour market, and HMRC/DWP expenditure, pensions and savings

Financial Regulations and Markets

Nikhil Rathi, Director

Responsible for the financial services regulatory framework and for financial markets policy issues

International and EU

Peter Curwen, Director (Europe)
Shona Riach, Director (International Finance)

Responsible for advancing the UK's economic and financial interests internationally and in the EU

Financial Services

Alison Cottrell, Director

Responsible for policy with respect to financial services

Dave Ramsden Director General
Chief Economic Adviser

Indra Morris Director General
Tax and Welfare

Alison Cottrell Director
Corporate Services

Kirstin Baker Group Finance
Director

James Bowler Director
Strategy, Planning and Budget

Michael Ellam Director General
International and EU

Corporate Centre

Kirstin Baker, Group Finance Director
Alison Cottrell, Director Corporate Services

Enabling the Treasury to deliver by managing and developing corporate policies and processes including: correspondence and public enquiries, HR, estates, IT, domestic finances and commercial activities, as well as the implementation of departmental change programmes

Enterprise and Growth

Jeremy Pocklington, Director Enterprise and Growth
Geoffrey Spence, Chief Executive,
Infrastructure UK

Responsible for growth-related policy and expenditure including: infrastructure strategy and delivery, and public private partnerships (PPP)

Fiscal

James Richardson, Director

Responsible for fiscal strategy, funding and debt management, and monitoring fiscal position

Treasury Legal Advisors

Stephen Parker, Director

Responsible for provision of advisory and other legal services across the Treasury and certain other agencies and departments

Public Spending

Julian Kelly, Director

Responsible for public spending control and embedding good governance and financial management across Government

Public Services

Tamara Finkelstein and Lindsey Fussell,
Directors

Responsible for oversight of major public service expenditure

Treasury Group structure (at March 2013)

Core Department¹

HM Treasury, OTS and IUK

Nick Macpherson
Permanent Secretary

Executive Agencies of the Treasury²

DMO

Robert Stheeman
Chief Executive

Other Treasury bodies³

FSCS

Mark Neale
Chief Executive

MAS

Caroline Rookes
Chief Executive

RMAC

Adam Lawrence
Chief Executive of
the Royal Mint

UKFI

Robin Budenberg
Chairman

OBR

Robert Chote
Chairman

Sovereign Grant⁴

Sir Alan Reid
Keeper of Privy Purse
and Treasurer's Office

¹ Core Treasury includes HM Treasury, the OTS, IUK and IFUL.

² Executive Agencies of the Treasury. The UK DMO has its own set of NDPBs including the Public Works Loans Board. The Asset Protection Agency closed on 31 October 2012 (<http://www.hm-treasury.gov.uk/apa.htm>).

³ Other Treasury bodies. This includes a mix of HM Treasury sponsored NDPBs, and other Treasury sponsored bodies.

⁴ Sovereign Grant is managed by the Royal Household.

List of acronyms:

DMO – Debt Management Office

FSCS – Financial Services Compensation Scheme

IFUL – Infrastructure Finance Unit Ltd

IUK – Infrastructure UK

MAS – Money Advice Service

NDPBs – Non departmental public body

OBR – Office for Budget Responsibility

OTS – Office of Tax Simplification

RMAC – Royal Mint Advisory Committee on the Design of
Coins, Medals, Seals and Decorations

UKFI – UK Financial Investments Ltd

2

Governing the Treasury

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

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

2.3 The Treasury's management has a responsibility to ensure that the organisation remains as agile as possible, able to plan for risks that it can manage and foresee, as well as being able to respond flexibly and effectively to events and any changes in the Government's plans.

2.4 The Treasury faces many challenges as the UK's economics and finance ministry as well as a Whitehall department. This chapter sets out how the Treasury manages itself to address those challenges – its structures, management of risks and relationship with the wider Treasury Group. It aims to explain the systems of control, provide insight into the dynamics between the Ministerial team who decide policy and the civil servants who deliver it, and provide a narrative as to the stewardship of public funds.

Corporate governance and structures

2.5 Within every government department there is a clear split in responsibility and accountability between Ministers and civil servants.

Accountability – Ministerial team

2.6 The Chancellor of the Exchequer, the Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is accountable to Parliament for the exercise of powers on which the Treasury depends. The Chancellor has a duty to Parliament to account, and be held to account, for all the policies, decisions and actions of the Department, including its arms length bodies.

2.7 While Treasury civil servants may exercise the powers of the Chancellor, the Chancellor remains responsible to Parliament for decisions made under his powers. Within the Treasury, the Chancellor has chosen to devolve responsibility for a defined range of Departmental work to junior ministers. Ministerial responsibilities can be found on pages 20 and 21 of this report.

Accountability – civil servants

2.8 The Permanent Secretary of the Treasury, Nick Macpherson, is also its Principal Accounting Officer. In accordance with Chapter 3 of *Managing Public Money*¹, he is responsible and accountable to Parliament for the organisation and quality of management of the Department including the use of public money and stewardship of assets.

2.9 If the Permanent Secretary is directed by the Chancellor to take a course of action he believes is contrary to *Managing Public Money*, he may seek a written direction. Any written directions will be sent to the head of the National Audit Office, the Comptroller and Auditor General, who

¹ <https://www.gov.uk/government/publications/managing-public-money>

will inform the Committee of Public Accounts. The Treasury Board will also be informed and any direction that would be disclosed under the Freedom of Information Act will be published in the Annual Report and Accounts. The Permanent Secretary did not seek a direction in 2012-13.

2.10 While the Permanent Secretary has overall responsibility for the delivery of the aims and priorities of Ministers and decisions and actions made by Treasury officials, he also delegates responsibility as he sees fit. An annual business planning process sets the Department's priorities for the year ahead – focusing on the Treasury's core functions, Ministerial priorities, and identified risks.

2.11 The Permanent Secretary is supported by two Second Permanent Secretaries, John Kingman and Tom Scholar. Tom Scholar, Second Permanent Secretary since 2008, oversees the Department's finance ministry functions, including tax, spending, international and fiscal issues. He also has oversight of NS&I and the Debt Management Office. John Kingman returned to the Department on 1 October 2012, having previously served as Second Permanent Secretary until 2008. John has oversight of the economics ministry functions of the Treasury, including financial services, growth and infrastructure.

2.12 The Treasury has five Directors General who act as senior policy advisers to the Chancellor on specific areas: Michael Ellam, DG International and EU; Dave Ramsden, Chief Economic Advisor; Charles Roxburgh, DG Financial Services (formerly Jonathan Taylor, until 1 January 2013); Indra Morris, DG Tax and Welfare (formerly Edward Troup, until 1 September 2012); and Sharon White, DG Public Spending.

2.13 Directors General, alongside the Permanent Secretary and Second Permanent Secretaries, are the senior management team for the Department. To discharge their corporate responsibilities, they meet once a week as the Executive Management Board (EMB) alongside the Directors for Finance (Kirstin Baker, from 1 January 2013), Corporate Services (Alison Cottrell) and Strategy, Budget and Planning (James Bowler).

2.14 EMB focuses its time on the management and coordination of the Department as a whole, ensuring it delivers against its work programme and allocating its resources efficiently and effectively. The Principal Accounting Officer and his Executive team take personal and corporate responsibility for the operational success of the Department.

2.15 The Strategy and Capability Board (SCB), is a sub-committee of EMB established to support the senior management team in enhancing the Department's strategy, delivery and capability. Formed of the Directors for Finance, Corporate Services and Strategy, Budget and Planning, this Board meets weekly to discuss operational matters.

2.16 The Investment Approvals Committee (IAC), is a sub-committee of EMB established to support the senior management team, providing financial, commercial and business case approval for expenditure over £1 million.

2.17 The Treasury is divided into Director-led Groups. Each Director has responsibility delegated to them from the Executive Management Board for the specific management of risk within their Group. They are also responsible for ensuring that policy or operational risks in their Groups are shared across the Department to help actively manage the cross-cutting risks facing the Treasury. The Group structure and split of responsibilities as of 31 March 2013 can be found on pages 22 to 24 of this report.

2.18 The Central Funds (the Consolidated Fund, the National Loans Fund, the Contingencies Fund and the Exchange Equalisation Account) are reported on independently of the Treasury's Annual Report and Accounts, as are the Whole of Government Accounts. Nick Macpherson is the Accounting Officer for the Consolidated Fund and the National Loans Fund and has appointed Additional Accounting Officers for the Contingencies Fund (Sharon White), the

Exchange Equalisation Account (Dave Ramsden) and the Whole of Government Accounts (Sharon White). Each Accounting Officer produces an individual Governance Statement for their corresponding accounts².

Treasury Board and Committees

Treasury Board

2.19 The Enhanced Departmental Board, known as the Treasury Board, is the most senior of the Department's committees. It has been set up to support and challenge Ministers and officials on the effective running of the UK's economic and finance ministry and considers the long term strategy for the Department. It draws together Ministerial and Civil Service leaders with experts from outside Government to form a collective strategic and operational leadership group.

2.20 The Treasury Board draws on the experience of attendees to provide advice, support and challenge on the Department's performance and risk management, and progress against delivery of its objectives and priorities. The Board does not decide policy or exercise the power of Treasury Ministers; it does however advise on the operational implications and effectiveness of policy proposals and reflect on strategic plans. It also provides a forum for dialogue between Ministers and officials as to the service the Department provides the Ministerial team.

2.21 The Treasury Board is chaired by the Chancellor of the Exchequer in his role as lead minister in the Department. Membership of the Ministerial Board at 31 March 2013 was as follows:

Ministerial members:

- Rt Hon George Osborne MP – Chancellor of the Exchequer and Chair;
- Rt Hon Danny Alexander MP – Chief Secretary to the Treasury;
- David Gauke MP – Exchequer Secretary to the Treasury; and
- Sajid Javid MP – Economic Secretary to the Treasury (from 4 September 2012).

Executive Board members:

- Nick Macpherson – Permanent Secretary;
- John Kingman – Second Permanent Secretary (from 1 October 2012);
- Tom Scholar – Second Permanent Secretary;
- Dave Ramsden – Chief Economic Adviser; and
- Kirstin Baker – Group Director, Finance (from 1 January 2013).

Non Executive Board members:

- Baroness Sarah Hogg – Chair of the Financial Reporting Council; Senior Independent Director of BG Group; Non-executive director of John Lewis Partnership; and Chairman of the Frontier Economics Group (Lead Non Executive Board Member);
- Dame Amelia Fawcett (from 1 October 2012) – Non-Executive Chair of the Guardian Media Group plc; Chair of the Hedge Fund Standards Board; Non-Executive Director of State Street Corporation (Boston Massachusetts); and a Non Executive Director of Investment AB Kinnevik Stockholm Sweden);

² www.official-documents.gov.uk

- Dame Deirdre Hutton DBE – Chair of the Civil Aviation Authority; Non Executive Director of Thames Water; Non Executive Director Castle Trust; and former Chair of the Food Standards Agency; Pro-Chancellor, Cranfield University;
- Sir Callum McCarthy (until 31 July 2012) – Chairman of European Operations, JC Flowers; Non Executive Chairman Castle Trust; Non Executive Director, One Savings Bank, NICB, ICBC and Intercontinental Exchange; and former Chairman of the Financial Services Authority; and
- Michael O’Higgins – Chairman, Pensions Regulator; Chairman, NHS Confederation, Non Executive Board Member, Network Rail, Chairman, Investec Structured Products Calculus VCT plc.

2.22 During 2012-13 the Board membership changed due to some members leaving the Treasury or temporarily stepping down. On 4 September 2012 Chloe Smith MP became Parliamentary Secretary for the Cabinet Office and was replaced by Sajid Javid MP. Sir Callum McCarthy reached the end of his tenure at the end of July 2012 and was replaced by Dame Amelia Fawcett. Julian Kelly changed roles within the Treasury and was replaced by Kirstin Baker as Group Finance Director on 1 January 2013.

2.23 The Board is scheduled to meet quarterly. The Chair may convene additional sessions as necessary. The Board met twice during the 2012-13 financial year. All Members attended, with the exception of Dame Amelia Fawcett, who sent apologies to the December meeting and the Economic Secretary, who sent apologies to the March meeting.

2.24 To discharge the duties of the Board, the Chair has delegated responsibility for certain activities to several supporting committees. A summary of the work of each committee is provided below.

Treasury Board (Sub-committee)

2.25 The Non Executive Board Members meet six weeks either side of the Ministerial Board with the Executive Management Board as the Treasury Board (Sub-committee) to consider the Department’s performance and key risks.

2.26 During 2012-13 the Sub-committee’s membership changed due to some members leaving the Treasury Group or changing roles. Julian Kelly moved from Group Finance Director, to Director, Public Spending; Jonathan Taylor, DG Financial Services, left the Treasury in December 2012 to take on the role of Vice President at the European Investment Bank. They were replaced by Kirstin Baker and Charles Roxburgh respectively.

2.27 While Edward Troup, DG Tax and Welfare, left the Treasury on 31 August 2012 to become Tax Assurance Commissioner and Second Permanent Secretary at Her Majesty’s Revenue and Customs, he has been asked to remain on the Treasury Board (Sub-committee) by the Lead Non Executive and Permanent Secretary in a non executive capacity to strengthen the relationship between the two departments.

2.28 The Sub-committee met four times in 2012-13, accepting apologies from Dave Ramsden for the May 2012 meeting, Jonathan Taylor for the October 2012 meeting and Charles Roxburgh for the March 2013 meeting.

2.29 Over the year, the Treasury Board and Sub-committee focused on the Executive Management Board’s plans for:

- managing recruitment, retention and talent management, and succession planning;
- the effectiveness of contingency plans for dealing with potential changes in the external economic and international environment; and

- actions being progressed by the Treasury in meeting the Government's objectives for growth and fiscal consolidation.

2.30 The Treasury's Non Executive Board Members provide challenge to help shape the strategic thinking of Ministers and officials. They are experts from outside government but with significant experience of working with the public and/or third sectors and have strong commercial expertise. Using this expertise they influence and advise the Department, challenging where appropriate.

2.31 The Treasury has three main risk groups that report directly to the Board. These three groups focus on economic, fiscal and operational risks and are each chaired by a member of the Executive Management Board. Teams that monitor risks to public spending and tax, for example, report directly into these three groups.

Treasury Group Audit Committee

2.32 The Audit Committee supports the Permanent Secretary in his role as head of the Department and as the Principal Accounting Officer. It also supports the Treasury's Additional Accounting Officers in their responsibilities for managing risk, internal control and governance, related to the Central Funds, the Whole of Government Accounts, and the Group's Resource Account.

2.33 Members of the Committee are appointed by the Permanent Secretary for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary and is a Non Executive Member of the Treasury Board. The membership of the Committee at the close of 2012-13 was:

- Michael O'Higgins (Chair) – Chairman, Pensions Regulator; Chairman, NHS Confederation; Non Executive Board Member, Network Rail; Chairman, Investec Structured Products Calculus VCT plc;
- Mike Ashley – Head of Quality and Risk Management, KPMG Europe LLP; Board Member, KPMG Europe LLP³;
- Janet Baker – Crown Commercial Lead, Better Business Models, Cabinet Office; Non Executive Director, Remuneration Committee Chair and Audit Committee Member, Defence Support Group, MoD; Non Executive Board Member and Audit Committee Member, Rural Payments Agency;
- Bradley Fried (until 30 September 2012) – Managing Partner, Grovepoint Capital LLP; Non Executive Director of the Group Board, Investec plc; Non Executive Director and Audit Committee Chair, Investec Wealth and Investment Limited;
- Mary Hardy (from 1 December 2012) – Head of Risk Assurance at London Organising Committee of the Olympic and Paralympic Games (until 31 March 2013); Audit Committee Member, Institute of Chartered Accountants in England and Wales; Audit and Risk Committee Member, Glasgow 2014; and
- Abahai Rajguru (from 1 March 2013) – Non Executive Director, Leeds Building Society; Chairman, Alexander Rosse; Managing Partner, Pravara Capital LLP, Non Executive Director, Tollers LLP; Governor, Northampton College.

³ On 22 April 2013, it was announced Mike Ashley has been appointed as a Non-Executive Director of Barclays PLC with effect from 1 September 2013.

2.34 During 2012-13, Bradley Fried reached the end of his tenure as an Audit Committee Member and stepped down. An external recruitment campaign was held to find experienced replacements for both Bradley Fried and Janet Baker, whose term comes to an end in July 2013. A recruitment panel chaired by Michael O'Higgins and including Julian Kelly, Group Finance Director and Sharon White, DG Public Spending and Additional Accounting Officer, Whole of Government Accounts, met to consider candidates.

2.35 After considering a strong field of applicants, the panel recommended the appointment of Mary Hardy and Abhai Rajguru. Mary Hardy was appointed immediately and Abhai Rajguru was asked to join in March 2013 to facilitate an appropriate handover period. Both Mary and Abhai received an induction on joining the Committee.

2.36 Over the course of 2012-13 the Terms of Reference for the Audit Committee were updated to reflect changing responsibilities including those stemming from Clear Line of Sight changes, the alignment of risk and performance reporting within the Department, and the Committee's agreement to take on governance and assurance responsibilities in relation to Whole of Government Accounts.

2.37 The Audit Committee took the opportunity for pre-committee discussions with the National Audit Office and the Group Head of Internal Audit. The Committee met five times in 2012-13 and undertook an effectiveness assessment in the summer of 2012. The Chair accepted apologies from Brad Fried for the May 2012 meeting.

2.38 As well as scrutinising the Treasury's financial management and balance sheet risks including loans and assets, the Committee challenged the Principal Accounting Officer and senior management on the system of internal control which governs the Department. During the period under review, the Committee paid particular attention to: the Bilateral Loan to Ireland; the Equitable Life Payment Scheme; the UK Guarantees Scheme; the implications to the Department of Clear Line of Sight; the introduction of a shared services approach to internal audit; delivery of the Whole of Government Accounts; the Department's Risk Management Framework; and Business Finance Partnerships.

Group Internal Audit

2.39 The Head of Internal Audit has provided an annual report on the effectiveness of the risk management, control and governance processes for the Treasury Group to the Accounting Officer and Audit Committee. The Treasury's Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

2.40 The Group Head of Treasury Internal Audit is the nominated officer for the Treasury's whistle blowing policy and has direct access to the Chair of the Audit Committee and Accounting Officer. There have been no reported issues for action in 2012-13.

2.41 Government Internal Audit Standards require each Internal Audit Unit to have undertaken an external quality assurance review at least every five years. Treasury Group Internal Audit (TGIA) was restructured in April 2007 as part of the Group Shared Services Structure when the Finance, HR and IT departments of the Treasury and Office of Government Commerce merged. During 2011 a new Treasury Group Head of Internal Audit was appointed and performed an equivalent external quality assurance review.

2.42 It is noted from April 2013 TGIA have joined a cross-Whitehall internal audit shared service group covering BIS, CO, DCLG, DCMS, DECC, DfE and HM Treasury. This Group is called XDIAS, the Cross Departmental Internal Audit Service, and is led by a BIS Director, the Group Chief Internal Auditor.

2.43 A revised Internal Audit Quality Assessment Framework has been published for implementation across Government in April 2013. This will require five yearly external assessments to be performed by an independent contractor, and to be performed on the group service as a whole, with specific reference to a representative sample of bodies to which the group service is provided.

Nominations Committee

2.44 The Permanent Secretary meets with the Non Executive Board Members as the Nominations Committee. The Committee meets to consider succession planning within the Department and review the systems in place to identify and develop leadership potential. The Committee also considers the performance and remuneration of the senior management team. Meetings occur biannually in advance of mid and end year performance appraisals and the Director of Corporate Services may be asked to attend. The Nominations Committee had full attendance in 2012-13.

Board effectiveness

2.45 The Treasury strongly believes in the principles of the Corporate Governance Code. In May 2013 the Board undertook a self assessment of its performance during 2012-13, led by the Treasury's lead Non Executive Board Member. Baroness Hogg's foreword to this report sets out her conclusions to this assessment, including the Board's views on the quality of data used by the Board.

The Corporate Governance Code

2.46 As part of the preparation of this Annual Report, the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code. The Department complies fully with the principles of the Code.

2.47 Over the course of 2012-13 the Treasury considered what action it could take to make the corporate governance of the Department even more robust, and are now sharing Board management information with Audit Committee Members and taking update reports from the Chair of the Audit Committee. Following challenge by the Non Executive Board Members and the Public Accounts Committee, the Treasury Board agreed to meet four times in 2013-14, as per its terms of reference.

The 2012-13 challenge

2.48 The environment in which the Treasury has operated in 2012-13 has continued to be challenging with continuing uncertainty in the global economy, problems in the Eurozone and a sustained period of subdued growth. Across the world, recovery over the past three years has been slower than forecast, making the Department's objectives to reduce the deficit, rebalance the economy and restore stability even more demanding.

2.49 Despite these headwinds, the Department continues to work towards delivering its priorities. In doing so it must balance its responsibilities as a finance and economics ministry while delivering its own spending review settlement. A firmly established annual business planning process is managed systematically by the Executive Management Board, in consultation with ministers, and produces an agreed work programme. Progress against the plan is monitored on a quarterly basis, alongside an assessment of risks to delivery.

2.50 The Department also takes a planned approach to its delivery responsibilities, for example the UK Guarantees Scheme and the Equitable Life Payment Scheme, and the business planning process deliberately builds in capacity to respond swiftly to matters arising such as the reform of LIBOR and the provision of support and advice to Cyprus. The Department maintains

contingency plans to ensure that, regardless of any development, the Treasury is ready to respond rapidly with the appropriate resource, skills and experience.

2.51 The Department's ability to balance these policy and delivery responsibilities while mitigating risk is evident in the work undertaken through 2012-13 to assist the Government to deliver its priorities – both in the financial and economic spheres.

2.52 As part of the Treasury's finance ministry role, the Department has rolled out the Online System for Central Accounting and Reporting (OSCAR). Replacing the old COINS (Combined Online Information Service) database, this cross-government IT programme is critical to the Treasury's key functions, allowing the Department to monitor and control public spending, prepare robust analysis to inform ministerial decisions, and help produce Parliamentary Estimates.

2.53 To strengthen the finance ministry function further, a more robust and improved framework for spending control was introduced in April 2012⁴. Departments, devolved administrations, and their arms-length bodies are now required to monitor and manage information about spending more effectively and improve the skills needed to deliver their spending plans. By improving the Treasury's detailed knowledge the Department can help ensure the Government delivers their plan to reduce the deficit fairly.

2.54 Deficit reduction is also supported by the Treasury's economics ministry remit. The Department supports the Government's plan to stimulate the economy, delivering supply-side reform to support growth, ensuring monetary policy supports demand and keeps interest rates low, and taking action to help the UK compete with emerging economies. Through 2012-13 the Treasury has addressed this challenge by:

- the publication of the *Review of the monetary policy framework*⁵, an analytical paper which, for the first time in fifteen years, took stock of Britain's monetary policy regime;
- the development and launch of several new interventions to increase the supply of credit to the real economy, including Funding for Lending, and Help to Buy;
- overseeing the closure of several legacy interventions, the Asset Protection Scheme and the Credit Guarantee Scheme;
- helping foster economic growth by supporting the implementation of Lord Heseltine's *No Stone Unturned*⁶ recommendations and restating the commitment to the *Plan for Growth at Budget 2013*⁷; and
- enabling private sector investment to be supported by the strength of the UK balance sheet through the launch of the UK Guarantee scheme.

2.55 Whether economic or fiscal, the Treasury must look long term at policies with impact beyond the Parliamentary cycle. Horizon scanning is therefore an important part of the Treasury's risk management framework. The Department uses its own forecasts and those of the OBR to consider fiscal sustainability in its spending and tax raising policies. The Department also works closely with the Debt Management Office (DMO) and National Savings and Investments (NS&I) to manage the country's debt and borrowing.

2.56 The Treasury recognises that its main resource is its people. It is therefore important that the headcount reductions required by the Spending Review settlement are managed in a way that is

⁴ *Improving Spending Control* <https://www.gov.uk/government/publications/improving-spending-control>

⁵ <https://www.gov.uk/government/publications/review-of-the-monetary-policy-framework>

⁶ <https://www.gov.uk/government/publications/governments-response-to-the-heseltine-review-into-economic-growth>

⁷ <https://www.gov.uk/government/publications/plan-for-growth-implementation-update-march-2013>

sensitive to their impact on staff. In times of pay constraint the Treasury looks for other ways to reward its people. Training, both structured, for example the expanded Foundation Skills and Tax Development programmes, and unstructured, for example, through access to a stimulating variety of policy and delivery challenges, helps to show staff the Treasury realises and appreciates its strengths come from the exceptional calibre of its people.

2.57 Building on lessons learned from recent reviews, such as the 2010 Strategic Review, the 2011 Capability Review and the *Review of HM Treasury's management response to the financial crisis*⁸, new guidance has been designed for officials to strengthen the policy approach to spending control, better manage the interplay with departments, and ensure consistent and professional working practices across spending Groups. The lessons learned from these reviews have been embedded, are enhancing the Department's financial crisis response capability and facilitated officials' capacity to assist the Cypriot authorities.

2.58 To strengthen our capability the Department has integrated Financial Management and Reporting professionals with Spending Control teams, bringing these functions together in a new Group structure. This merger, a significant internal change programme, has delivered a change in structure better to assist the delivery of a key business priority – ensuring financial management is at the core of spending decisions and management – while considering the needs and welfare of staff.

2.59 With specific reference to the recommendations of the *Review of HM Treasury's management response to the financial crisis*, Treasury Group Internal Audit concluded that good progress had been made and that work should continue to ensure initiatives become fully operational. The Permanent Secretary wrote to the Chair of the Public Accounts Committee and the Chair of Treasury Committee with the Department's initial response to the Review in July 2012, with a further update on progress scheduled for July 2013. Staff have been kept informed of progress within the Department on implementing recommendations, notably on turnover rates and secondment opportunities.

Equitable Life Payment Scheme

2.60 As part of the 2010 Spending Review settlement, the Government announced that around £1.5 billion would be available for the Equitable Life Payment Scheme, of which up to £1 billion would be paid out upfront over the three years of the Spending Review period.

2.61 Payments commenced in 2011 and by the end of the financial year 2012-13, approximately 407,000 payments totalling £577 million had been made to eligible policy holders. By the end of June 2013 the value of payments made had increased to £675 million.

2.62 The Scheme has been subject to both Treasury Internal Audit and National Audit Office review in 2012-13. The NAO in its report⁹ concluded that the Treasury, and its delivery partner NS&I, have had challenges in processing some payments, which has caused delays in payment for some policyholders. The report also outlines the risks facing the Treasury as it works towards making payments to all the eligible policy holders it can by April 2014. The NAO has made recommendations to mitigate these risks which include improving the planning of the remainder of the Scheme and continuing to improve customer service. The Department has accepted these recommendations in full and is in the process of implementing them.

⁸ <https://www.gov.uk/government/publications/review-of-hm-treasurys-response-to-the-financial-crisis-2007-09>

⁹ <http://www.nao.org.uk/report/administering-the-equitable-life-payment-scheme-2/>

Counter illicit finance policy and financial sanctions

2.63 The Treasury is responsible for managing the threat to the UK financial system from money laundering and for the regulatory framework for combating the financing of terrorism and proliferation of weapons of mass destruction. The Treasury co-chairs the Money Laundering Advisory Committee, alongside the Home Office, which provides a forum for Government, industry, consumer representatives and law enforcement agencies to develop their strategic approach to tackling money laundering in the UK. The Treasury also represents the Government at the Financial Action Task Force (FATF), the international standard-setting body for countering illicit finance.

2.64 The Treasury supports the Government's counter terrorism and broader foreign and security policy agenda through implementing and operating financial sanctions. This work has had increasing importance and corresponding pressures in the last year as a result of international developments, e.g. the situations in Syria, Iran and North Korea. The sanctions and counter illicit finance work undertaken by Government, in which the Treasury has a key role, has implications for both security and finance. The Treasury works closely with its operational partners across Government as well as in industry to manage the security, legal, operational and financial risks involved in this work.

Financial risks

2.65 The Treasury continues to carry a number of financial exposures on its balance sheets. The Resource Accounts provides a narrative of the main changes to the Treasury's stewardship responsibilities through this period.

Information and security risks

2.66 The Treasury is best served by an open flow of information amongst officials. However, the Department is mindful of the risks posed by the sensitive and increasing quantities of information to which officials are privy. All staff are bound by the rule of law, the Civil Service Code and the *HMG Security Policy Framework*¹⁰. In addition the Treasury's own propriety and ethics policies, which include guidance on conduct, insider information, fraud and security were updated over the course of 2012-13. Staff are regularly reminded of their obligations and security training is provided to new joiners at their induction.

2.67 The Treasury's preparations for the 2012 London Olympic Games resulted in the Department continuing to meet all its obligations relating to continuity of Government with no noticeable reduction in productivity. Preparations are underway within the Treasury for the introduction of the new Government Security Markings, with the Executive Management Board regularly updated on the programme.

2.68 Further information on the Department's security monitoring can be found in Chapter 3.

Governance of the wider Treasury Group and related bodies

2.69 Following the expansion of the Treasury Group under Clear Line of Sight principles, the Sovereign Grant, managed by the Royal Household, joins the Group for the first time. The Sovereign Grant is consolidated alongside other group members into the Treasury's accounts.

2.70 The Treasury Group now consists of HM Treasury, its Executive Agency the UK Debt Management Office, and related bodies: the Financial Services Compensation Scheme; the Money Advice Service; the Office for Budget Responsibility; the Office of Tax Simplification; the Royal Mint

¹⁰ <https://www.gov.uk/government/publications/security-policy-framework>

Advisory Committee on the Design of Coins, Medals, Seals and Decorations; the Sovereign Grant; and UK Financial Investments. The Asset Protection Agency closed on 31 October 2012.

2.71 Nick Macpherson, Principal Accounting Officer for the Treasury Group, and other senior officials hold regular meetings with all Group Accounting Officers to seek assurance on the running of their organisations. He is also responsible for the performance appraisals of certain Group Accounting Officers.

2.72 The Treasury's Finance Team work closely with all members of the Treasury Group, in some cases providing back office services to those organisations. For each member of the Treasury Group, the Treasury has established a policy link through sponsoring teams. Examples of oversight mechanisms include regular bilaterals, Treasury officials attending or sitting on the boards of Group members and memorandums of understanding.

2.73 The **Asset Protection Agency¹¹ (APA)** was set up to administer the Asset Protection Scheme (APS) following the bank recapitalisation programme in 2008 which bolstered Lloyds Banking Group (LBG) and the Royal Bank of Scotland (RBS). RBS publically stated they wished to exit the APS during the fourth quarter of 2012; they achieved this in October 2012, and the APS was closed. The Treasury has assisted the APA with this closure work, and the transfer of residual responsibilities from the APA to the Treasury.

2.74 The **Financial Services Compensation Scheme¹² (FSCS)** was set up by the Financial Services Authority (FSA) in accordance with Part XV of the Financial Services and Markets Act 2000 (FSMA). The FSCS is manager of a single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it. FSCS is operationally independent. However, the FSA¹³ took steps as necessary to ensure that the Scheme was, at all times, capable of exercising its function. Mark Neale who is the Chief Executive of the FSCS is also its Accounting Officer.

2.75 The **Money Advice Service¹⁴ (MAS)** was established under the Financial Services and Markets Act 2000 (FSMA) as an independent body. Its statutory duties are to enhance the understanding and knowledge of members of the public of financial matters (including the UK financial system) and the ability of members of the public to manage their own financial affairs. MAS is operationally independent. However, the FSA took steps as necessary to ensure that the Service was, at all times, capable of exercising its function.

2.76 Caroline Rookes was appointed as the new Chief Executive from 1 February 2013 and is also the Accounting Officer; previously this role and responsibility was held by Tony Hobman (until 31 December 2012). During January 2013 Lesley Robinson held the Accounting Officer responsibility.

2.77 The Principal Accounting Officer must balance the need to give MAS and FSCS autonomy, while ensuring that monies received by them by way of levy are properly accounted for in achieving high and reliable standards of propriety and regularity.

2.78 The **Office for Budget Responsibility¹⁵ (OBR)** was created in 2010 to provide independent and authoritative analysis of the UK's public finances. It is an NDPB sponsored by the Treasury. The legal underpinnings for the OBR are set out in the Budget Responsibility and National Audit Act 2011. The OBR's Chairman, Robert Chote, is also its Accounting Officer.

¹¹ <http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/apa.htm>

¹² <http://www.fscs.org.uk/>

¹³ From April 2013, the work of the FSA moved to the new Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA)

¹⁴ <http://www.moneyadviceservice.org.uk/>

¹⁵ <http://budgetresponsibility.independent.gov.uk/category/publications/annual-report/>

2.79 The **Office of Tax Simplification¹⁶ (OTS)** was created in 2010 to provide the Government with independent advice on simplifying the UK tax system. It is an independent office of the Treasury. The Non Executive Chair and Tax Director are responsible to Ministers for the OTS' work. The other two members of the OTS' Board, one each from the Treasury and HMRC, are senior full-time executives of their respective departments. Indra Morris, the Treasury's Director General for Tax and Welfare, is its Additional Accounting Officer.

2.80 The Royal Household is responsible for the upkeep of the Royal Finances and the **Sovereign Grant¹⁷** payment to support HM The Queen in Her official duties.

2.81 The Sovereign Grant was introduced from 1 April 2012 when the arrangements for the funding of The Queen's Official Duties changed. The new system of funding, referred to as the 'Sovereign Grant', replaces the Civil List and the three Grants-in-Aid (for Royal Travel, Communications and Information, and the Maintenance of the Royal Palaces) with a single, consolidated annual grant.

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

2.83 The **Royal Mint Advisory Committee¹⁸** was established in 1922. Its original purpose was to raise the standard of numismatic art and this remains its primary concern, being charged, on behalf of the Treasury and other government departments, with the recommendation of all new designs for UK coins and official medals. It is an advisory NDPB sponsored by the Treasury and the Royal Mint's Chief Executive, Adam Lawrence, is its Accounting Officer.

2.84 The **UK Debt Management Office (DMO)¹⁹** was established as an Executive Agency of the Treasury in 1998. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. The Chief Executive Officer, Robert Stheeman, is its Accounting Officer.

2.85 **UK Financial Investments Ltd (UKFI)²⁰** is a Companies Act Company and Treasury is its sole shareholder. It was established in 2008 as part of the UK's response to the financial crisis and is responsible for managing the Government's shareholdings in the Royal Bank of Scotland Group plc and Lloyds Banking Group plc. UKFI is also responsible for managing the Government's 100 per cent shareholding and loans in UK Asset Resolution Ltd and its subsidiaries.

2.86 Further information about the two Treasury sponsored NDPBs may be found within Public Bodies 2012²¹.

Statement by the Permanent Secretary

2.87 As Principal Accounting Officer, my review of the effectiveness of the system of internal control for 2012-13 was informed by assurances and feedback from executive managers across the Treasury Group through the system of internal accountability and escalation that is in place to support the scheme of delegation.

¹⁶ <https://www.gov.uk/government/organisations/office-of-tax-simplification>

¹⁷ http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/leg_sovereign_grant.htm

¹⁸ <http://www.royalmint.com/aboutus/advisory-committee>

¹⁹ http://www.dmo.gov.uk/index.aspx?page=publications/Annual_Reports

²⁰ <http://www.ukfi.co.uk/publications/>

²¹ <http://www.civilservice.gov.uk/about/resources/ndpb>

2.88 This is further supported by independent assurances through the work of the Non Executive Board Members, internal and external audit and other bodies such as the Office of the Civil Service Commissioners

2.89 In addition, a number of parliamentary committees have called witnesses from across the Treasury Group on key issues such as the Department's role as a finance ministry; the creation and sale of Northern Rock; and the standards and culture of the UK banking sector. The Treasury welcomes the oversight, challenge and scrutiny this process provides, responds positively to the recommendations it receives and implements them where appropriate, for example responding to the Commons Select Committee, the Independent Commission on Banking with the introduction in February 2013 of the Banking Reform Bill.

2.90 Most recently the Joint Select Committee, the Parliamentary Commission on Banking Standards has published its final report, *Changing banking for good*²², which the Treasury will initially respond to in July, with further amendments made to the Banking Reform Bill if required. Further details about the Treasury's interaction with Parliamentary Committees can be found in Chapter 3 of this report.

2.91 Particular assurances have been provided by:

- the Chief Executives of the Debt Management Office, Asset Protection Agency, Money Advice Service, Royal Mint Advisory Committee and Accounting Officers of the Office for Budget Responsibility, UK Financial Investments Ltd and the Royal Household;
- the Treasury's Executive Management Board;
- the Group Finance Director;
- the Head of the Treasury Legal Advisors, who has advised on outstanding legal and regulatory issues; and
- the Group Head of Internal Audit, who has provided reports on the effectiveness of the risk management, control and governance processes for the Treasury Group to me and the Audit Committee throughout the period. The Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

2.92 Alongside these assurances, I have placed reliance upon the Group Head of Internal Audit's view that, based on the internal audit work of his team throughout 2012-13, he is able to provide reasonable assurance over the risk management, control and governance processes relevant to the annual report and accounts; and that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Governance Statement.

2.93 The Treasury Group Resource Accounts are audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out in Chapter 7. The cost of the external audit is set out in Note 7.1 of the Resource Accounts.

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

²² <http://www.parliament.uk/bankingstandards>

2.95 I have considered the evidence that supports this Governance Statement and I am assured the Treasury has a strong system of controls to support the Department's achievement of its policies, aims and objectives, and this system operated effectively during 2012-13.

Nick Macpherson
Permanent Secretary
11 July 2013

3

Managing the Treasury

3.1 This chapter provides information on the way the Treasury manages itself, including people, infrastructure and relationship with Parliament. It does not include data relating to the Financial Services Compensation Scheme (FSCS), Money Advice Service (MAS), UK Financial Investments Ltd (UKFI) or Royal Household (Sovereign Grant) which are not consolidated into the Treasury group for management purposes¹.

People

3.2 As at 31 March 2013, the Treasury Group had 1,258 Full Time Equivalent (FTE) staff. The following tables describe the Treasury Group – its size and workforce dynamics.

Table 3.A: Treasury group – Staff Numbers²

Full time Equivalents (FTEs)	2011	2012	2013
Core Treasury			
CS Permanent	1,204	1,148	1,084
CS Casual	45	30	49
Gross Control Total	1,249	1,178	1,133
DMO			
CS Permanent	93	104	106
CS Casual	0	0	1
Gross Control Total	93	104	107
APA			
CS Permanent	35	29	0
CS Casual	0	1	0
Gross Control Total	35	30	0
OBR			
CS Permanent	0	16	16
CS Casual	0	1	2
Gross Control Total		17	18
HM Treasury group			
CS Permanent	1,332	1,297	1,206
CS Casual	45	32	52
Gross Control Total	1,377	1,329	1,258
<i>Source: HM Treasury</i>			

¹ Further information on each body can be found on their individual websites: FSCS <http://www.fscs.org.uk/> MAS <https://www.moneyadviceservice.org.uk/en> UKFI <http://www.ukfi.co.uk/> and Royal Household <http://www.royal.gov.uk/theroyalhousehold/overview.aspx>

² Staffing numbers for core Treasury, DMO and OBR are in accordance with ONS reporting requirements. The figures exclude contract and agency workers and staff who are on unpaid maternity leave, unpaid sick absence and career breaks.

Table 3.B: Treasury group – Payroll/Non-payroll staff³

	31 March 2013	31 March 2012
Payroll Staff		
Department and agencies	1,240	1,312
NDPBs and other bodies	1,276	1,346
Average Payroll Staff Costs (£) ⁴	£55,596	£54,231
Non-payroll staff		
Department and agencies	33.8	31
NDPBs and other bodies	33.8	33

Source: HM Treasury

Table 3.C: Treasury group – Number of Senior Civil Service staff by pay band

Range	31 March 2013	31 March 2012
F	69	82
G	16	22
H	8	8
Total	93	112

Source: HM Treasury

Table 3.D: Treasury group – Workforce

		31 March 2013	31 March 2012
Workforce Shape (%)	Administrative Assistants and Officers	8.3	7.4
	Executive Officers	11.2	11.1
	Higher and Senior Executive Officers	34.9	35.4
	Grade 7/6	27.2	27.9
	Senior Civil Servants	7.4	8.4
	Other grades	10.9	9.8
	Part Time	8.2	8.3
Workforce Dynamics	Recruitment Exemptions (number)	131	125
	Annual Turnover rate (%)	22	25.2
Attendance (AWDL)⁵	Actual (Days)	4.4	4.0

Source: HM Treasury

³ Non-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff

AWDL is for the period between January and December 2012 as this is calculated a quarter in arrears

⁴ 2011-12 average staff costs restated following closure of APA in October 2012 in order to ensure like for like comparison

⁵ AWDL – Average Working Days Lost, covers January to December 2012 as reported a quarter in arrears

Table 3.E: Off-payroll engagements at a cost of over £58,200 per annum that were in place as at 31 January 2012

	Main department (HM Treasury)	DMO	OBR	UKFI
No. In place on 31 January 2012	10	10	0	0
of which				
No that have since come onto the organisation's payroll	0	0	0	0
of which				
No. that have since been re-negotiated/re-engaged, to include contractual clauses allowing the department to seek assurance as to their tax obligations	2	1	0	0
No. that have not been successfully re-negotiated, and therefore continue without contractual clauses allowing the department to seek assurance as to their tax obligations	0	0	0	0
No. that have come to an end	8	9	0	0
Total	10	10	0	0
<i>Source: HM Treasury</i>				

Table 3.F: All new off-payroll engagements between 23 August 2012 and 31 March 2013, for more than £220 per day and more than six months

	Main department (HM Treasury)	DMO	OBR	UKFI
No. of new engagements	10	10	0	0
of which				
No. of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	10	8 ⁶	0	0
of which				
No. for whom assurance has been requested and received	6	6	0	0
No. for whom assurance has been requested but not received	4 ⁷	0	0	0
No. that have been terminated as a result of assurance not being received	0	0	0	0
Total	10	6⁸	0	0
<i>Source: HM Treasury</i>				

⁶ Of the two new engagements by DMO which do not include contractual clauses giving the department the right to request assurance, one has provided assurance and the other left before assurance was requested

⁷ All four left HM Treasury because they reached the end of their engagement, rather than as a result of assurance not being received

⁸ Two left before assurance was requested, rather than as a result of assurance not being received

Recruitment

3.3 Commercial Specialist is a new grade specifically related to IUK and recruitment took place within 2012-13. Therefore there is no comparable data for 2011-12.

Table 3.G: Treasury group – Recruitment 2012-13 (2011-12)

Range	Permanent appointments ⁹	Fixed-term appointments ¹⁰	Loans from other government departments	Secondments	Total
B	18 (9)	6 (2)	0 (0)	0 (0)	24 (11)
C	15 (13)	3 (1)	2 (0)	1 (0)	21 (14)
D	100 (126)	19 (4)	24 (30)	6 (4)	149 (164)
E	27 (27)	2 (7)	8 (23)	13 (17)	50 (74)
Commercial Specialist	2 (0)	3 (0)	0 (0)	4 (0)	9 (0)
SCS	5 (3)	0 (1)	5 (1)	1 (1)	11 (6)
Total	167 (178)	33 (15)	39 (54)	25 (22)	264 (269)

Source: HM Treasury

Diversity

3.4 The Treasury seeks to promote a culture which values difference and recognises that diversity enriches the economy and society. Over the last year the Treasury's internal Diversity Action Plan has delivered significant diversity initiatives aimed at developing and retaining a diverse workforce, in a working environment that fully reflects the Treasury's values.

3.5 These initiatives included: improving and embedding support for employees with disabilities; acting on the findings of extensive research to improve the representation of employees from Black and Minority Ethnic (BME) backgrounds at middle and senior management levels; and promoting alternative working patterns. The Treasury has continued to support and consult with its employee diversity networks and recognises their work is essential to progressing the Department's diversity agenda.

3.6 Diversity outreach work has continued during 2012-13. The Treasury is an active participant in the Civil Service Whitehall Internship Scheme, announced as part of the Government's Social Mobility Strategy in April 2011. The scheme aims to provide internships in every Whitehall Department for undergraduates and college students from under-represented groups. Treasury employees also participate as mentors in the National Mentoring Consortium, a successful mentoring programme providing support and experience to BME undergraduates planning managerial and professional careers.

3.7 In common with other government departments the Treasury has worked towards meeting its April 2013 targets (on the representation of women, employees from BME backgrounds and employees with disabilities). The Treasury participates in the civil service wide diversity agenda and over the coming year will revise its internal Diversity Action Plan and take active steps to promote equality of opportunity for all employees.

⁹ Including permanent transfers from other Departments

¹⁰ Excludes the 34 sandwich and placement students recruited via the Government Economic Service

Table 3.H: Diversity as at 31 March 2013 (31 March 2012)

Range	Women (per cent)	People from minority ethnic backgrounds (per cent)	People with disabilities (per cent)
B ¹¹	66.6 (69.0)	33.3 (36.0)	7.2 (10.0)
C	65.3 (69.0)	36.1 (31.6)	9.7 (9.7)
D	42.7 (43.0)	20.9 (19.9)	6.7 (5.4)
E	41.4 (38.0)	7.0 (5.4)	5.5 (4.9)
F, G, H	43.0 (46.0)	7.5 (7.0)	4.3 (2.0)
Total	47.0 (47.3)	18.5 (17.2)	6.5 (5.9)
<i>Source: HM Treasury</i>			

Reward and recognition

3.8 The Treasury Group has a policy to recognise those staff who have performed exceptionally in their roles through the payment of bonuses. Bonuses are paid in two circumstances:

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

3.9 Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. Therefore, bonuses paid in 2012-13 related to performance in 2011-12. Total performance bonuses paid in 2012-13 came to £541,819 (2011-12: £805,597) and special bonuses came to £168,812 (2011-12: £164,467).

Health, safety and well-being

3.10 The Treasury actively promotes the health, safety and well-being of its staff. This helps to boost morale and staff engagement which can result in achieving excellent performance.

3.11 Sickness absence in the Treasury continues to be low compared with the average for government departments which is 7.6. In the period Jan-Dec 2012 there were 4.4 average working days lost per staff year within the Treasury and its agencies (Jan-Dec 2011: 3.8 days).

3.12 For Core Treasury the figure was 4.2 days (Jan-Dec 2011: 3.8 days). The proportion of staff with no sickness absence recorded by the Treasury and its agencies was 64 per cent (Jan-Dec 2011: 68 per cent). For Core Treasury 66 per cent of staff had no recorded sick absence during the year (Jan-Dec 2011: 69 per cent).

3.13 The primary cause of long term sickness absences was stress, anxiety or depression. During the calendar year Jan-Dec 2012, a total of 1077 working days were lost to these causes, of which 864 days were long term absences. These figures are higher than Jan-Dec 2011 when 701 days were lost, of which 578 days were long term absences. The increase is linked to a small number of cases where individuals have long term medical conditions.

3.14 The number of working days lost to musculoskeletal disorders has dropped significantly from 451 in 2011 to 98 in 2012. Our Occupational Health (OH) provider has given medical support and advice linked to musculoskeletal issues, which has had a positive impact on the level of sickness absence for such conditions.

¹¹ Range B includes students

3.15 The Treasury was one of the first departments to participate in the Cross Government Harmonisation OH/EAP Tendering exercise to appoint a new OH supplier beginning 1 June 2013.

3.16 In the financial year 2012-13 there were 12 ‘Accident, near miss or work related ill health’ reports compared to 13 for the previous year. Three people were injured as a result of slips, trips and falls, compared to six incidents reported in financial year 2011-12. Seven reports were for other accidents or near misses for various reasons including injuries caused by falling or moving objects. A further two related to ill health caused by thermal comfort conditions. No incidents met the criteria for reporting to the Health & Safety Executive (HSE) under the Reporting of Injuries, Diseases or Dangerous Occurrences Regulations 1995.

3.17 In July 2012 a building Fire Risk Assessment was commissioned. The risk assessment recommendations made have been implemented. In addition, the manual evacuation chairs, which were not fit for purpose, have been replaced with suitable models. Personal Evacuation Plans were reviewed to ensure those with restricted mobility can evacuate safely. Revised evacuation plans were implemented for the Olympic period and remain in place. All actions taken ensure compliance with the Regulatory Reform (Fire Safety) Order 2005.

3.18 During 2012 the Treasury reviewed its Health and Safety risk assessment processes and put new arrangements in place, including training key staff to carry out the assessment locally. All groups now have a risk assessment with identified risk controls in place.

Civil Service People Survey

3.19 The 2012 Treasury Staff Survey was part of the fourth annual Civil Service People Survey (CSPS). 297,318 Civil Servants across 97 organisations took part making the CSPS the largest ever engagement survey carried out in the UK. The Treasury’s results for 2012 continue to build on the results from earlier surveys and a response rate of 89 per cent provides a high level of confidence in the results.

3.20 The Department’s staff engagement level of 66 per cent is up one per cent from last year and eight per cent higher than the Civil Service average. Our leadership and managing change scores have increased (after rounding) by five per cent this year, 14 per cent higher than the Civil Service average; at 78 per cent, our My work scores remain five percent higher than average; and the Department’s My Line Manager scores increased by four per cent, taking us one per cent ahead of the Civil Service average. A summary of the results compared with the 2011 survey is below and more detailed information on surveys going back to 2005 can be found on the Treasury pages of GOV.UK¹².

Table 3.1: Civil Service People Survey

		2012 Survey	2011 Survey
Engagement Index (%)		66	65
Theme Scores (%)	Leadership and Managing Change	55	51
	My Work	78	78
	My Line Manager	67	64
	Organisational Objectives and Purpose	82	82
<i>Source: HM Treasury</i>			

¹² <https://www.gov.uk/government/organisations/hm-treasury/series/staff-survey>

Common Areas of Spend

3.21 Common Areas of Spend costs are based on standard definitions developed by the Cabinet Office in conjunction with departments. These cover People, Estate Costs, Procurement, Major Projects, ICT, Corporate Services, Fraud Error and Debt, SME and VCS.

Table 3.J: 2012-13 Spending (£ million)

		2012-13	2011-12
Spend by Budget type ¹³	Voted resource DEL outturn, Sub-Total	(175)	160
	Voted resource AME outturn, Sub-Total	(18,321)	(18,404)
	Other expenditure outside DEL and AME	0	0
	Total Spend	(18,496)	(18,244)
Spend by type of internal operation	Cost of running the estate (net), Sub-Total	16.8	22.0
	Cost of running IT (net), Sub Total	7.6	9.3
	Cost of corporate services, Sub-Total	12.7	12.1
	Policy and policy implementation, Sub-Total (2011-12 restated)	97.8	98.0
	Other costs	0	0
	Total Spend	134.9	141.4
Spend by type of transaction	Procurement Costs, Sub-Total	80.0	95.5
	People costs, Sub-Total	68.1	77.0
	Grants, Sub-Total	37.7	1.7
	Other costs	0	0
	Total Spend	185.8	174.2

Source: HM Treasury

Security

3.22 The Department continues to monitor and assess its information and security risks in order to identify and address any weaknesses.

3.23 No protected personal data incidents were recorded in the Department during 2012-2013. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Table 3.K: Summary of Protected Personal Data Related Incidents formally reported to the Information Commissioner's Office in 2012-13

Date of Incident (month)	Nature of Incident	Nature of Data involved	Number of people potentially affected	Notification steps
Treasury has no incidents to report during 2012-13				
Further action on information risk	The Department will continue to monitor and assess its information risks in order to identify and address any weakness and ensure continuous improvement of its systems			

¹³ Excludes FSCS, MAS and Sovereign Grant expenditure for consistency with QDS

Table 3.L: Summary of Other Protected Personal Data Related Incidents in 2012-13

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures		
Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

Payment of suppliers

3.24 In May 2010, the Government introduced a five day target for SME suppliers to receive payment. This accelerated payment from the previous ten day target set in November 2008. During 2012-13, the Treasury group made 84.65 per cent of all supplier payments within five days against a target of 90 per cent (2011-12, 92.88 per cent).

Relationship with Parliament

House of Commons: Parliamentary Committees

Treasury Committee

3.25 The Treasury has maintained close links with the House of Commons Treasury Committee on a wide range of issues including the Budget, Autumn Statement and macro-prudential tools.

3.26 Details on specific evidence sessions before the Treasury Committee during the 2012-13 Parliamentary session (May 2012-May 2013) are below:

Table 3.M: Parliamentary Hearings in 2012-13 – House of Commons Treasury Committee

Date of Hearing	Subject
December 2012	Autumn Statement
December 2012	Money Advice Service
January 2013	Appointment of Paul Deighton
February 2013	Macro prudential tools
April 2013	Budget 2013

Source: House of Commons Treasury Committee

Committee of Public Accounts

3.27 The Treasury has attended hearings with the House of Commons Committee of Public Accounts on a wide range of issues including: creation and sale of Northern Rock; Whole of Government Accounts; and following up on Treasury Minute recommendations.

3.28 Details on specific evidence sessions before the Committee of Public Accounts during the 2012-13 Parliamentary session are listed below:

Table 3.N: Parliamentary Hearings in 2012-13 – House of Commons Committee of Public Accounts

Date of Hearing	Subject
June 2012	Assurance for high risk projects
July 2012	Off-payroll public pay arrangements
September 2012	The creation and sale of Northern Rock PLC
October 2012	HM Treasury's 2011-12 Accounts
October 2012	Managing budgeting in Government
January 2013	Whole of Government Accounts 2010-11
February 2013	Planning economic infrastructure
February 2013	Treasury Minute – follow-up on recommendations
April 2013	Integration of public services and Community Budgets
May 2013	Equitable Life

Source: Treasury Officer of Accounts

Parliamentary Commission on Banking Standards

3.29 The Commission 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.

3.30 The Treasury has worked closely with the Commission and will introduce any necessary amendments to legislation arising out of the Commission's work.

Table 3.O: Parliamentary Hearings in 2012-13 – Parliamentary Commission on Banking Standards

Date of Hearing	Subject
December 2013	Banking Standards
March 2013	Banking Standards

Source: Parliamentary Commission on Banking Standards

Parliamentary Questions

3.31 Treasury Ministers and officials are committed to providing timely and accurate responses to parliamentary questions. The Government has agreed to provide regular statistics to the House of Commons Procedure Committee. The latest statistics show that Treasury Ministers responded on or before the parliamentary deadlines in relation to 84 per cent of the 1,670 ordinary written questions; 77 per cent of the 1,184 named day questions; and 97 per cent of the 597 Lords written questions tabled to the Department in the 2012-13 parliamentary session. Whilst this compares favourably with the higher performing departments in Whitehall, the Department will continue to work towards improving its performance.

The Parliamentary Ombudsman

3.32 The Parliamentary and Health Service Ombudsman (PHSO) can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf. The number of complaints received by PHSO about HM Treasury increased from 22 in 2011 to 34 in 2012. However, none

of these were accepted for investigation by PHSO nor did they complete any investigations in 2012. The Treasury's own complaints procedure is outlined on GOV.UK¹⁴.

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

Sustainable development

3.34 In 2011 the Government established the Greening Government Commitment (GGC) targets to reduce Government's impact on the environment and use of finite resources. The Treasury's performance against these commitments is shown below.

3.35 Data is included for the Treasury Group which is defined for sustainability reporting purposes as including the Debt Management Office (DMO) and The Asset Protection Agency in Eastcheap Court, London (EC), Core Treasury in 1 Horse Guards Road, London (1HGR)¹⁵ and Rosebery Court for business travel data only.

3.36 The Cabinet Office leases space at 1 Horse Guards Road which is excluded from the Treasury data for reporting purposes. For 2012-13, any shared costs for 1HGR are apportioned between both departments on the basis of 0.64 of the total for HM Treasury and 0.36 for the Cabinet Office respectively. This is based on average occupancy for the year and data, including costs from our baseline, has been restated for comparative purposes.

Performance against GGC commitments

3.37 During 2013 the Treasury Group performed strongest against its reducing waste and paper target exceeding for the second year the targets set by the GGC up to 2015. The Treasury Group has also exceeded the 2015 target for emissions from its estate by 36 per cent with travel on track to meet its target.

3.38 Although there is no target for water reduction, consumption for this year remains above the government benchmark of 6m³ per FTE, at 13m³ p/FTE. Several factors have influenced this performance. Domestic flights have increased this year due to unavoidable business requirements.

Table 3.P: Summary of performance against Greening Government Commitments 2012-13

Key Target Area	Baseline	Target		Actual 2012-13
1. Reduce Greenhouse Gas Emissions	4,338.36 tCO ₂ e	25%	-36%	2760 tCO ₂ e
2. Reduce waste	485 t	25%	-57%	208 t
3. Reduce water consumption	14,738m ³	-	15%	16,992 m ³

Source: HM Treasury

Target 1: Reduce greenhouse gas emissions

3.39 Our reported greenhouse gas emissions include only those from our estate operations (gas, electricity and heating) and domestic travel as required by Greening Government commitments. Costs shown relate to the Treasury's 1 Horse Guards Road building other than travel which covers core Treasury and the DMO.

¹⁴ <https://www.gov.uk/government/organisations/hm-treasury/about/complaints-procedure>
¹⁵ Data for other Treasury group locations i.e. UKFI and OBR is included in the major occupier's sustainability reporting by DCMS and the Attorney General's Office in their own departmental Annual Reports and Accounts. Non-travel data for the Treasury's occupation of Rosebery Court Norwich is captured and reported by the Cabinet Office. In addition, the FSCS and MAS fall outside the sustainable reporting boundary for Treasury group purposes. Data for the APA is included up until October 2012 when the agency was disbanded.

Cut carbon emissions from central government offices

3.40 The Group has made an overall reduction of 36 per cent in its greenhouse gas emissions from its 2009-10 baseline figure of 4,338.36 tCO₂e. Greenhouse gas emissions include emissions from energy and official business travel. In line with DEFRA guidelines the Group has not weather corrected its building data. Conversion factors used to account for carbon are taken from the GOV.UK website.

Table 3.Q: Group energy and CO2 emissions

	2009-10	2010-11	2011-12	2012-13
Electricity (KWH)	6,392,364	4,802,029	4,265,481	4,117,942
Gas (KWH)	283,874	475,752	281,003	285,115
Whitehall Heating System (KWH)	2,715,132	1,813,158	1,228,902	1,832,525
Total CO2 Emissions (Tonnes)	4,189	3,088	2,615	2,682
<i>Source: HM Treasury</i>				

Table 3.R: 1 HGR energy costs (restated) (£)

	2009-10	2010-11	2011-12	2012-13
Electricity	367,789	342,566	361,986	362,108
Whitehall Heating System	159,704	206,579	155,004	227,578
Gas	2,278	1,950	1,894	2,042
Total	529,771	551,095	518,884	591,728
<i>Source: HM Treasury</i>				

Cut domestic business travel flights by 20 per cent by 2015

3.41 The Group saw a steady reduction in its travel between 2009 and 2012. During 2012-13 there was an increase in domestic travel. Savings in domestic travel during the Olympics in summer 2012 were counteracted by increased travel before and after the event. There was an increase in air travel to Scotland and Northern Ireland during this year with flights being the most appropriate method of travel for official business. The increase in Fleet costs represents a change in charging model for the Government Car Service rather than increased usage.

3.42 The Department continues to educate its staff on the use of video and audio conferencing in place of travelling to meetings where possible, and it continues to review its travel policies to ensure travel is not the first choice for engaging with its stakeholders.

Table 3.S: Group Travel and CO2 Emissions

	2009-10	2010-11	2011-12	2012-13
Fleet ¹⁶ (Km)	13,904	12,144	13,988	13,561
Domestic Rail (Km)	864,107	707,960	508,765	555,577
Domestic Flights (Km)	214,216	159,796	122,547	218,706
Taxis Standard ¹⁷ (Km)	22,408	45,859	34,357	12,535
Hybrid Taxis (Km)	-	-	-	4,329
No. of domestic flights	411	264	237	345
Total CO2 Emissions (Tonnes)	149	78	59	78
<i>Source: HM Treasury</i>				

Table 3.T: Group Travel costs

	2009-10 £000	2010-11 £000	2011-12 £000	2012-13 £000
Fleet (including Government Car Service)	608	296	168	214
Rail	509	378	329	358
Domestic flights	36	39	36	43
Taxis	221	104	83	53
Total	1,374	817	616	668
<i>Source: HM Treasury</i>				

Target 2: Reduce the amount of waste we generate by 25 per cent

3.43 During 2012-13 the Treasury saw a continued reduction in the amount of waste it produces, despite increased occupancy in the building. The Treasury Group has worked closely with its facilities provider to gain further insight into its waste hierarchy and the journey waste takes from 1 HGR to disposal, which will allow it to better engage with stakeholders on managing its waste.

Table 3.U: Group waste

	2009-10	2010-11	2011-12	2012-13
Waste incinerated with energy recovery;	225	133	87	81
Waste recycled	260	161	107	101
Waste sent for anaerobic digestion	-	8	8	6
ICT waste recycled	-	-	2	19
ICT waste reused	-	-	-	1
Total tonnes of waste	485	302	204	208
<i>Source: HM Treasury</i>				

3.44 The Group reduced its waste by 57 per cent to 207 tonnes from its 2009-10 baseline figure of 485 tonnes of waste generated. The Group sends no waste to landfill and all waste is recycled where facilities exist, or is sent for energy recovered incineration. The slight increase during this year is due to the disposal and replacement of redundant ICT.

¹⁶ Fleet emissions relate to private individuals cars used for business purposes. Emissions do not include the government car service.

¹⁷ Standard taxis include private hire, petrol or diesel and include people carriers or saloon cars. This does not include black cabs.

3.45 Initiatives during the year have included new recyclable paper cups, replacement of paper sugar sachets with sugar pourers, and engagement with staff on reducing waste.

Ensure that redundant ICT equipment is re-used or responsibly recycled

3.46 Treasury Group ICT waste is disposed of responsibly in line with government standards under its ICT contract using a take back scheme, or using a ‘call-off’ environmentally sound disposal contract with Remploy.

3.47 Treasury ICT is either recycled or sold for re-use externally as per government guidelines. The Department has undergone a large scale ICT refresh in the past few years and this year saw the final disposal of redundant assets, which has increased its waste for 2012-13.

Cut paper use and move to closed loop paper supply

3.48 The Group has reduced its paper consumption by 49 per cent to 13,716 reams from its baseline figure of 26,807 reams of paper.

3.49 In June 2012 the Department moved to a closed loop paper contract: used printer paper is recycled and sent back to the Department to reuse as printer paper.

3.50 The Treasury began providing printer paper to the Cabinet Office in 2012 following joint occupation of Horse Guards Road. Fluctuating floor occupation has impacted on the accuracy of paper consumption according to department. Going forward, the Department intends to find a more suitable method for measuring its own paper consumption.

Table 3.V: Group paper consumption

	2009-10	2010-11	2011-12	2012-13
Virgin paper A4 (reams)	26,584	10,122	11,452	3,467
Virgin paper A3 (reams)	223	230	198	281
Closed loop paper A4 (reams)	-	-	-	9,968
Total Paper (Reams)	26,807	10,352	11,650	13,716
<i>Source: HM Treasury</i>				

Target 3: Reduce water consumption

3.51 The Group’s water consumption, calculated by floor space per FTE equivalent (including contractors and visitors), increased to 13m³ per/FTE.

3.52 Estate rationalisation has meant increased occupancy in 1 HGR which has impacted heavily on consumption. The Department also experienced leaking pipes over the year leading to significant water loss. Measures have been implemented to reduce this water loss risk and a continued programme of works and engagement is in place going forward to address water consumption in the Horse Guards Road building.

Table 3.W: Group water consumption

	2009-10	2010-11	2011-12	2012-13
Total Water (m3)	14,738	11,854.16	11,192.73	16,992
FTE equivalent	1,862.7	1,581.67	1,532	1,292
Per FTE (m3)	8	7.5	7.3	13
Best Practice (m3)	6	6	6	6
<i>Source: HM Treasury</i>				

Table 3.X: Water (1HGR) (restated)

	2009-10	2010-11	2011-12	2012-13
Expenditure (£)	20,441	23,184	31,430	32,098
<i>Source: HM Treasury</i>				

Sustainable Procurement

3.53 Sustainable Procurement involves the management of internal demand, improving product and service specifications, selecting suppliers with robust sustainability credentials and working with existing and prospective suppliers to improve their performance. Specific examples over the past 12 months include:

- utilising Government Procurement Service (GPS) frameworks which include sustainability factors as a key criterion for award;
- where relevant, inclusion of sustainability measures in the tender evaluation criteria. Evaluation must include social and economic factors in addition to environmental factors;
- contributing to the growth agenda by developing SMEs work with HMT through a SME Action Plan, which includes holding supplier open days and highlighting contract opportunities suitable for SMEs on Contracts Finder;
- the award of a new closed loop paper contract;
- the award of a new contract for taxis using hybrid cars;
- the award of a new contract for the secure disposal of IT equipment which includes the secure processing, reuse and recycling of assets and components; and
- completion of the WWF survey to assess HM Treasury's Implementation of the UK Timber Procurement Policy. Completion of the survey was endorsed by Defra.

Internal Sustainability Plan

3.54 The Treasury Group has developed its Greening HMT Plan which addresses its GGC targets and lists a plan of works to meet these. The Plan is aligned with the pan-government strategy and will be endorsed by the Treasury's Executive Management Board.

3.55 The key elements of the Plan are:

- to develop internal corporate knowledge and engagement on climate change and sustainability;
- to realise Group financial savings by reducing the consumption of finite resources and energy; and
- to work with our suppliers to further reduce our environmental impact both at operational level and within the supply chain.

Nick Macpherson
Permanent Secretary
11 July 2013

4

Overview of Treasury's finances

Introduction

4.1 This chapter provides an overview of the finances of the Treasury and its agencies based around a set of common core tables which all departments produce. The data presented is consistent with HM Treasury's 2012-13 Resource Accounts, which are included in Chapter 8 of this document. In recognition of the impact the Department's financial stability work has on its performance data, this chapter provides a commentary on both ongoing 'business as usual' expenditure and the effect of financial stability interventions on the Department's finances. The financial stability interventions give rise to a number of financial instruments, which adds to the complexity of the resource accounts. Whilst the largest financial transactions and balances relate to financial instruments, the costs of running the Department, known as administration costs, are separately identified throughout this chapter and the resource accounts.

4.2 Throughout this chapter, the tables and narrative distinguish between expenditure against the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DELs are firm multi-year plans set in spending reviews. AME is more unpredictable, demand-led expenditure that cannot be made subject to plans set at spending reviews and is subject to review twice a year. Within DEL, the tables and narrative distinguish between administration costs and programme costs.

4.3 Table 4.A compares 2012-13 outturn figures against the original and final budgetary control limits. Reasons for changes to the budgetary control limits and differences between budget and outturn are explained. Outturn against the administration costs limit best represents the Treasury's financial performance on its business as usual running costs. For 2012-13, the Treasury has a net income figure for its programme control limit. This is because of a change the government made in the year to require financial services regulatory fines to be paid to the Treasury. At the time of finalising the Supplementary Estimate in January the Financial Services Authority had received £220 million in LIBOR fines which were payable to the Treasury.

4.4 Table 4.B summarises total expenditure by the Department and its agencies, including both resource and capital expenditure, for the years 2008-09 to 2012-13 and planned expenditure for the years 2013-14 and 2014-15. Table 4.C reconciles current and prior year expenditure per table 4.B to the Resource Accounts.

4.5 Table 4.D provides a more detailed analysis of administration costs included in table 4.B by type of expenditure and by body.

4.6 Table 4.E analyses the capital employed by the Treasury and its agencies and reconciles to the Statement of Financial Position in the Resource Accounts. It also shows as a separate line the capital employed by the Department's NDPBs and other bodies to give total capital employed by the Treasury Group.

4.7 An overview of financial stability interventions, new schemes launched during 2012-13 and other significant financial transactions follows the core tables.

Treasury finances

Outturn against budgetary control limits

4.8 Table 4.A below shows the 2012-13 DEL outturn against the original and final budgetary control limits.

4.9 The budget and outturn figures include the costs of funding the Treasury's NDPBs and other bodies, but doesn't include the expenditure of the Financial Services Compensation Scheme (FSCS) or Money Advice Service (MAS) which are levy funded. Their expenditure is consolidated in the resource accounts and further details on their financial performance can be found in their own annual reports and accounts. Table 4.C provides a reconciliation between expenditure reported in this chapter and the Resource Accounts.

Table 4.A: Budgetary control limits 2012-13

£ million	Paragraph ref	Original DEL budget	Final DEL budget	Outturn
Resource DEL	4.10	192	(45)	(175)
of which administration costs	4.12	157	140	135
Capital DEL	4.14	26	27	18

4.10 The original DEL budget was reduced by £237 million to a net income budget of £45 million. Of this reduction, £220 million relates to a reduction in the programme budget to reflect expected fine income relating to LIBOR manipulation received by the FSA which will be paid over to HM Treasury. The remaining £17 million reduction in the DEL budget reflects plans for lower administration costs. Of the £17 million reduction in the administration budget, £4 million has been carried forward to 2013-14's budget making use of the Budget Exchange scheme.

4.11 The Department and its agencies under-spent by £130 million against the final resource DEL budget. Of this under-spend, £5 million related to administration costs and £125 million to programme costs.

4.12 The £5 million administration variance is largely due to difficulties in estimating the amount due in backdated VAT payments. The administration budget at the Supplementary Estimate included £7 million in relation to backdated VAT payments, whereas the outturn was £4 million less.

4.13 Against the programme budget, the most significant variance was £122 million of additional FSA LIBOR fine income. This was caused by the FSA imposing further LIBOR fines after the time of the Supplementary Estimate, bringing the total fines payable to HM Treasury to £342 million. Further details on FSA fines are included in paragraph 4.93. In addition to the LIBOR fine income, HM Treasury redeemed its shares in Partnerships UK which resulted in gains of £3 million being transferred from reserves to be included against the resource outturn.

4.14 Capital DEL expenditure was £9 million less than the final budget. Of this, £3 million is due to loan facilities made available through the Infrastructure Finance Unit Ltd (IFUL) not being fully drawn down. A further £6 million relates to capital receipts received from the Partnerships UK share redemption.

Resource and capital expenditure

4.15 Table 4.B below provides detail on actual and planned DEL and AME expenditure, split between resource and capital spending. Due to the unpredictability of AME expenditure in relation to financial stability interventions, resource AME expenditure on financial stability and capital AME on assistance to financial institutions are not forecast for future years.

4.16 Further analysis of the information contained in this table follows in the rest of this chapter, cross-referenced and supported where appropriate by the Resource Accounts.

Table 4.B: Total resource and capital spending for the Treasury and its agencies

£ million	Para ref	Outturn					Budget	
		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL								
Core Treasury	4.17	125	142	126	117	(227)	125	108
Coinage manufacturing	4.18	15	13	13	14	20	14	13
DMO	4.20	13	16	15	12	16	14	13
APA ¹			-	-	(1)	1		
OBR funding costs	4.22				2	2	2	2
UKFI funding costs	4.23		4	3	5	2	3	3
Non-voted: Banking & gilts registration services	4.24	11	12	11	11	11	12	11
Total Resource DEL		164	187	168	160	(175)	170	150
Resource AME								
Core Treasury building impairment		9	(3)	-	-	7		
Coinage metal costs	4.18	20	15	19	24	17	24	25
Financial stability ¹	4.25	43,714	(22,376)	(13,825)	(16,138)	(18,429)		
Provisions ²	4.29			1,493	(19)	38		
Equitable Life administration	4.29			7	20	20	10	4
Investment in the Royal Mint	4.19			(4)	(4)	(4)	(4)	(4)
Investment in the Bank of England	4.33	(417)	(97)	(63)	(2,298)	(55)	(30)	(30)
Credit easing	4.27					49		
MAS funding costs ³					-	-	-	-
FSCS funding costs ³					-	-	-	-
Sovereign Grant ⁴	4.36					33	36	37
Non-voted: Royal Household Pension Scheme ⁴	4.38	3	3	3	3	3	3	3
Non-voted: Civil List ⁴	4.38	7	8	8	8	-	-	-
Total Resource AME		43,336	(22,450)	(12,362)	(18,404)	(18,321)	39	35
Total Resource AME and DEL (income)/expenditure		43,500	(22,263)	(12,194)	(18,244)	(18,496)	209	185
<i>Of which: depreciation</i>		8	8	8	7	8	6	6

¹ 'Financial stability' comprises fair value movements in derivatives, changes to financial stability provisions, fees and interest income arising from financial stability interventions, impairments of financial instruments and, for 2012-13, the additional proceeds from the sale of Northern Rock.

² Provisions relate primarily to the Equitable Life Payment Scheme. Of the current year increase in provisions, £41 million relates to the Equitable Life provision and this was only partially offset by a decrease of £3 million in other provisions (2011-12: £20 million decrease in Equitable Life provision).

³ The costs of the APA, FSCS and MAS are not met by HM Treasury. Costs incurred by the APA in running the Asset Protection Scheme were passed on to RBS up until the agency's closure on 31 October 2012 and the FSCS and MAS are funded through a levy on the financial services industry.

⁴ From 2012-13, HM Treasury is responsible for the provision of a Sovereign Grant. This grant replaces previous funding from the Department for Transport and Department for Culture, Media and Sport. In addition to the Sovereign Grant, the Royal Household Pension Scheme and an element of the Civil List continue to be funded separately by the Treasury.

£ million	Para ref	Outturn					Budget	
		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Capital DEL								
Core Treasury	4.39	2	52	40	36	17	12	5
DMO		1	1	1	-	1	2	-
APA			3	2	-	-	-	-
Total Capital DEL		3	56	43	36	18	14	5
Capital AME								
Assistance to financial institutions	4.42	85,525	40,653	(2,241)	(4,571)	(3,600)		
Credit easing	4.27					5		
Total Capital AME		85,525	40,653	(2,241)	(4,571)	(3,595)		
Total Capital AME and DEL		85,528	40,709	(2,198)	(4,535)	(3,577)		
Total departmental spending		129,028	18,446	(14,392)	(22,779)	(22,073)		

Table 4.C: Reconciliation to HM Treasury's 2012-13 Resource Accounts

£ million	2012-13	2011-12
Total Resource Budget as per Table 4.B, above	(18,496)	(18,244)
Net income of the FSCS and MAS	(409)	(351)
Net Sovereign Grant expenditure (not funded by HM Treasury in 2011-12)	-	32
Net resource outturn per Statement of Parliamentary Supply	(18,905)	(18,563)
Total Capital Budget as per Table 4.B, above	(3,577)	(4,535)
Net capital expenditure of the FSCS and MAS	3	2
Net Sovereign Grant expenditure (not funded by HM Treasury in 2011-12)	-	1
Net capital outturn per Statement of Parliamentary Supply	(3,574)	(4,532)

Table 4.D: Analysis of administration costs

£ million	Para ref	Outturn					Budget	
		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Core Treasury	4.17	116	133	127	117	118	126	99
DMO	4.20	9	12	11	8	12	10	12
APA			-	-	(1)	1		
OBR funding costs	4.22			-	2	2	2	2
UKFI funding costs	4.23		4	3	5	2	3	3
Total net administration costs		125	149	141	131	135	141	116
Of which:								
Staff costs		72	89	95	86	81		
Other expenditure		102	128	84	73	90		
Income		(49)	(68)	(38)	(28)	(36)		

Commentary on Tables 4.B and 4.D

Resource spending

Core Treasury

2012-13: (£227m), 2011-12: £117m

4.17 Excluding FSA fine income of £342 million, underlying Core Treasury expenditure was £115 million, comprising net administration costs of £118 million (2011-12: £117 million) and net programme income of £3 million (2011-12: nil). Administration costs increased by £1 million from 2011-12 but were within expenditure control limits. Net programme income increased by £3 million as a result of the profit recognised on redemption of Partnerships UK shares.

Coinage and investment in the Royal Mint

2012-13: £33m, 2011-12: £34m

4.18 Coinage expenditure comprises £20 million manufacturing costs funded through DEL (2011-12: £14 million) and £17 million metal costs funded through AME (2011-12: £24 million), less dividend income of £4 million (2011-12: £4 million). During 2012-13, issuances of coins increased by 20 per cent compared to the prior year. This increase in demand for coins was partially due to an increase in people collecting commemorative coins, such as the Olympics Commemorative 50 pence coins. In addition, the Royal Mint started a programme to remove old five and ten pence coins from circulation to recover their metal value and started to replace them with new coins. The new five and ten pence coins cost more to manufacture than the old specification, but have lower metal costs. Consequently, manufacturing costs increased by £6 million and metal costs, after recovery of scrap metal income, decreased by £7 million compared to the prior year.

4.19 HM Treasury wholly owns the Public Dividend Capital of the Royal Mint. A dividend of £4 million is payable to the Treasury for the year 2012-13 (2011-12: £4 million).

UK Debt Management Office (DMO)

2012-13: £16m, 2011-12: £12m

4.20 The DMO's expenditure comprises net administration costs of £13 million (2011-12: £8 million) and net programme costs of £3 million (2011-12: £3 million). Net administration costs increased by £5 million between 2011-12 and 2012-13 as a result of income earned through administering loans made by the Public Works Loan Board (PWLB) falling back to more normal levels. In 2011-12, the PWLB worked with the Department for Communities and Local Government (DCLG) on the Housing Self-financing initiative which resulted in an unusually large number of loan repayments and new loans being made in that year. This additional activity did not reoccur in 2012-13 and consequently PWLB income was £5 million lower than in the prior year, resulting in a corresponding increase to the DMO's net administration costs.

4.21 Further details on the DMO's outturn are available in the DMO's Annual Report and Accounts 2012-13 which incorporate the accounts of the Debt Management Account¹.

Office for Budget Responsibility (OBR) funding costs

2012-13: £2m, 2011-12: £2m

¹ www.dmo.gov.uk

4.22 The OBR's expenditure is unchanged from the prior year and is within its budget limit. Further details on the OBR's expenditure are included in the Resource Accounts and in the OBR's Annual Report and Accounts 2012-13².

UK Financial Investments (UKFI) funding costs

2012-13: £2m, 2011-12: £5m

4.23 HM Treasury pays UKFI a management fee to fund its operations. UKFI's costs decreased by £3 million between 2011-12 and 2012-13 due to one-off advisor fees being incurred in 2011-12 as part of the sales process for Northern Rock. UKFI have published details of the fees in their report on the sale of Northern Rock, available on their website³. Further details on UKFI's expenditure are included in the Resource Accounts and in UKFI's Annual Report and Accounts 2012-13.

Banking and Gilts registration services

2012-13: £11m, 2011-12: £11m

4.24 Banking and gilts registration costs comprise the fees paid to the Bank of England for the management of the UK's foreign currency reserves, and fees for gilts registration services which are paid to Computershare. Fees have been broadly unchanged between 2011-12 and 2012-13.

Financial stability

2012-13: (£18,429m), 2011-12: (£16,138m)

4.25 Financial stability expenditure within resource AME relates to fair value movements in derivatives, changes to financial stability provisions, income from financial stability interventions, impairment of financial instruments, and, for 2012-13, additional proceeds from the disposal of Northern Rock.

4.26 During 2012-13, the fair value of HM Treasury's derivatives increased by £17,103 million. In addition, the department recognised income of £1,350 million from fees and interest related to financial stability interventions and £13 million from additional Northern Rock proceeds, resulting in a net income position in the resource accounts. This movement was only partially offset by impairments of £37 million. Further details of all financial stability interventions are provided in paragraph 4.44 onwards, following Table 4.E.

Credit easing

2012-13:£49m resource expenditure, 2011-12: nil expenditure

4.27 The Treasury provided the first guarantees under the National Loan Guarantee Scheme in April 2012. Under the scheme, participating banks can issue guaranteed debt for a discounted fee and the full discount is passed on to small and medium sized businesses. HM Treasury recognised an initial expense of £109 million to reflect the discount given in 2012-13 and also reimbursed bank expenses of £3 million. The expenditure was partially offset by £63 million recognised in income as the liability is amortised over the life of the guarantee.

4.28 In addition to the National Loan Guarantee Scheme, HM Treasury made its first investment of £5 million in the Business Finance Partnership, incurring set-up costs of £0.2 million. Further details of both schemes are provided in paragraph 4.85 onwards.

² <http://budgetresponsibility.independent.gov.uk>

³ www.ukfi.co.uk

Equitable Life Payment Scheme

2012-13: £41m provision, £20m administration, 2011-12: (£20m) provision, £20m administration

4.29 As part of the October 2010 Spending Review, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out over the first three years of the Spending Review period. The costs of the scheme comprise payments to policy holders and the cost of administering the scheme.

4.30 In 2010-11, a provision of £1,493 million was made for payments over the life of the scheme, discounted based on the estimated payment profile. HM Treasury reassesses the level of provision required each year based on the expected phasing of payments and success in contacting policy holders.

4.31 During 2012-13 the Government announced that additional ex-gratia payments will be made to those eligible policyholders who bought an Equitable Life with-profits annuity prior to 1 September 1992. Payments are expected to be made during 2013-14 and HM Treasury estimates that this measure will distribute approximately £45 million. The provision has been increased by £41 million during 2012-13 to reflect the additional ex-gratia payments and the profile of expected payments to policy holders.

4.32 National Savings & Investments administers the scheme on the Treasury's behalf. The costs of running the scheme are unchanged from the prior year at £20 million. Further details on the scheme are provided in paragraph 4.90 onwards.

Investment in the Bank of England

2012-13: (£55m), 2011-12: (£2,298m)

4.33 HM Treasury is the sole shareholder in the Bank of England. The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay the Treasury, in lieu of dividend on the Bank's capital, a sum equal to 50 per cent of the Banking Department's post-tax profit, or such other sum as the department and the Bank of England may agree.

4.34 For 2012-13, the department and the Bank have agreed a payment of £55 million. The decrease in payment compared to the prior year is due to a one-off payment in 2011-12 of £2,262 million in relation to the profit accumulated by the Bank from the operation of the Special Liquidity Scheme (SLS). The SLS was operated by the Bank and any losses were fully indemnified by HM Treasury. The scheme closed at the end of January 2012 and, as agreed by the Treasury and the Bank, the full profits were payable to the Treasury.

4.35 Details on the Bank of England's financial performance can be found in their 2012-13 Annual Report and Accounts⁴. Details on the prior year SLS payment can be found in HM Treasury's 2011-12 Annual Report and Accounts⁵.

The Sovereign Grant, Royal Household Pension Scheme and Civil List

2012-13: £33m, 2011-12: £11m

4.36 The Sovereign Grant Act 2011 which came into effect from 1 April 2012, consolidated the funding provided to support the official duties of The Queen and maintain the Occupied Royal Palaces that up until 31 March 2012 had been provided under the Civil List and the grants-in-aid for the Maintenance of the Occupied Royal Palaces, Royal Travel and Communications and

⁴ www.bankofengland.co.uk

⁵ <https://www.gov.uk/government/publications/hm-treasury-annual-report-and-accounts-2011-to-2012>

Information. The Treasury's expenditure on the Civil List was previously a standing service of the Consolidated Fund.

4.37 Details on the Sovereign Grant and Sovereign Grant Reserve financial performance can be found in their 2012-13 Annual Report and Accounts⁶.

4.38 In addition to the Sovereign Grant, expenditure on the Royal Household Pension Scheme and an element of Civil List expenditure is a standing service of the Consolidated Fund and the expenditure is set at a fixed annual amount.

Capital spending

Core Treasury

2012-13: £17m, 2011-12: £36m

4.39 Core Treasury capital spending comprises purchases of property, plant and equipment, and loans given by Infrastructure Finance Unit Ltd (IFUL). IFUL was established in March 2009 to lend to PFI projects. Since then, IFUL has lent to the Greater Manchester Waste Disposal Authority PFI scheme. Loans given by IFUL were unchanged from the prior year at £19 million, but for 2012-13 this was partially offset by the first loan repayment of £3 million.

4.40 Capital expenditure on property, plant and equipment reduced by £11 million from £17 million in 2011-12 to £6 million in 2012-13 as the department's most significant capital projects on workspace improvements and the upgrade to COINS, an IT system used across government to collect financial information, were completed during 2012-13 having incurred most of their expenditure during 2011-12.

4.41 Net capital expenditure was further reduced by the redemption of £6 million of Partnerships UK shares.

Assistance to financial institutions

2012-13: (£3,600m), 2011-12: (£4,571m)

4.42 Assistance to financial institutions relates to the Treasury's capital investments in financial institutions and comprises additions to loans balances, less capital repayments. During 2012-13, the department received £150 million of APS fees which are recorded as a capital repayment against the APS derivative.

4.43 Additions to loans balances, excluding loans given by IFUL, totalled £1,219 million. Of this, £1,210 million relates to the bilateral loan to Ireland and the remaining £9 million relates to increases in FSCS and statutory debt required to fund the repayment of depositors in failed banks and building societies. Loan additions were offset by loan repayments totalling £4,669 million, the most significant of which were £1,914 million from Northern Rock (Asset Management), £1,225 million from Bradford & Bingley, and £1,530 million in recoveries received from administrators which have been used to reduce FSCS and statutory debt balances. Further details on HM Treasury's loans to financial institutions are included following Table 4.E.

Capital employed

4.44 Table 4.E sets out the capital employed by the Treasury and its agencies and by the Treasury group. Capital employed has shown a significant increase since the first interventions to support financial institutions took place in 2008-09. The following section provides further

⁶ www.royal.gov.uk

background detail on financial stability interventions, cross referenced as appropriate to relevant notes in the 2012-13 Resource Accounts.

Table 4.E: Capital employed

£ million	Outturn (Restated) ^a				
	2008-09	2009-10	2010-11	2011-12	2012-13
Assets and liabilities in the Statement of Financial Position at end of year:					
Assets					
Intangible assets	3	5	7	10	13
Property, plant and equipment	101	104	109	117	116
<i>of which</i>					
<i>Land and buildings</i>	97	100	97	97	109
<i>Furniture & IT Equipment</i>	2	2	7	4	5
<i>Antiques</i>	2	2	2	2	2
<i>Assets under construction</i>	-	-	3	14	-
Investments	72,819	124,516	119,331	96,910	98,054
Current assets	3,069	2,426	12,176	41,971	45,616
Liabilities					
Current liabilities	(2,792)	(725)	(864)	(680)	(697)
Non-current liabilities	(28,380)	(4,364)	(2,812)	(1,745)	(1,511)
Capital employed by the Treasury and its agencies	44,820	121,962	127,947	136,583	141,591
Net assets of NDPBs and other bodies	438	(350)	(213)	(234)	(261)
Total capital employed by the Treasury group	45,258	121,612	127,734	136,349	141,330
^a Net assets of NDPBs and other bodies have been restated for 2010-11 and 2011-12 to reflect the inclusion of the Sovereign Grant in the group boundary for the first time. For further details, see note 3 of the Resource Accounts.					

Financial stability interventions and quantitative easing

4.45 The global financial crisis that began in summer 2007 required various interventions from governments and finance ministries across the world to help bolster the financial system, increase lending and stimulate the world economy. The impact of financial stability interventions on the Treasury's Resource Accounts can be split between equity investments, derivatives, loans and contingent liabilities.

4.46 2012-13 has seen the scale of the financial stability interventions continue to reduce. Northern Rock Asset Management (NRAM) and B&B were able to repay £3.1 billion of loans. Recoveries from the administrators of failed banks have been significant at £1.5 billion. As direct investments have reduced, so too have contingent liabilities. Quantifiable contingent liabilities for interventions have fallen from £123 billion last year to £26 billion, driven largely by the closure of the Asset Protection Scheme and Credit Guarantee Schemes during 2012-13.

4.47 The following sections provide information on outstanding financial support, developments during 2012-13, and details of how the Treasury has been compensated for the risk taken on in various interventions.

Equity investments

2012-13: £48,646m, 2010-11: £44,292m

4.48 HM Treasury holds ordinary and B-shares in RBS and ordinary shares in Lloyds Banking Group (LBG). In order to recapitalise the banks, HM Treasury purchased a total £66.3 billion of shares in a number of tranches during 2008 and 2009. The Treasury's shareholdings give it 80.87 per cent economic ownership of RBS and 39.21 per cent of LBG as at 31 March 2013. The shares are revalued annually based on their market price. Where it appears that there has been a permanent reduction in value the reduction is treated as an impairment and charged to the Statement of Comprehensive Net Expenditure (SCNE). Other more minor reductions and any increases in the valuations are adjusted through the Available for Sale reserve.

4.49 Since the shares were purchased, HM Treasury has recognised impairment losses of £32.6 billion, including £46 million in 2012-13 relating to RBS B-shares.

4.50 At 31 March 2013, the shares were valued at £38.4 billion, an increase of £4.1 billion from the previous year's value of £34.3 billion. This reflects an increase in the LBG share price from 33.6 pence at 31 March 2012 to 48.7 pence at 31 March 2013 and a minor decrease in the RBS share price from 276.4 pence to 275.5 pence over the same period.

Table 4.F: RBS and LBG cumulative impairments

£ million	Initial investment	Impairments	Fair value movements	Value at 31 March 2013
RBS ordinary shares	20,300	(9,370)	(8)	10,922
RBS B-shares	25,500	(11,449)	-	14,051
LBG shares	20,544	(11,755)	4,654	13,443
Total	66,344	(32,574)	4,646	38,416

4.51 In addition to the ordinary and B-shares, HM Treasury holds a single Dividend Access Share (DAS) in RBS. The DAS provides the Treasury with rights to an enhanced dividend over and above the dividend entitlement of each ordinary and B share that must be paid if the RBS board decides to pay a dividend on ordinary shares. The value of the DAS is estimated by modelling potential dividend cash flows that may be received in the future. There is significant uncertainty in modelling these cash flows and a range of data and assumptions are used to estimate when DAS related payments will start and later terminate as a result of the DAS being cancelled. At 31 March 2013 the DAS was estimated to have a value of £1.5 billion (2011-12: £1.8 billion).

4.52 For further details on the valuation of RBS and LBG investments, see note 13.1, and for a sensitivity analysis on the share prices, see note 23.5. For further details on the DAS valuation, including the data and assumptions used in the model, see notes 2.3 and 13.1, and for a sensitivity analysis see note 23.5.2.

4.53 During 2011-12, HM Treasury sold Northern Rock to Virgin Money. The initial sale proceeds comprised £747 million cash and Tier 1 capital notes with a par value of £150 million. At the point of completion, HM Treasury valued the capital notes at £66 million and at 31 March 2013 they were valued at £123 million (2011-12: £82 million). Further proceeds of £73 million were received during 2012-13 based on the net asset value of Northern Rock at completion bringing the total value of proceeds to £886 million. The sale agreement also includes a potential additional cash consideration of £50 million to £80 million receivable upon a profitable IPO or sale in the five years following the transaction. In addition to the sale of Northern Rock, in July 2012 NRAM announced the sale of £465 million of mortgages to Virgin Money.

4.54 HM Treasury's shares in the wholly-owned banks NRAM and Bradford & Bingley (B&B) were obtained at nil cost and were transferred to UK Asset Resolution (UKAR) during 2010-11. The share capital of UKAR is in turn wholly-owned by the department and, in the absence of directly observable market data, valued based on the net asset value of the consolidated balance sheet

of NRAM and B&B. The value of the UKAR shares at the reporting date was £5.3 billion (2011-12: £4.7 billion). For further details on NRAM and B&B, see notes 26 and 27.

Derivatives

2012-13: £44,275m, 2011-12: £38,595m

4.55 At the beginning of 2012-13, HM Treasury held two significant derivative financial instruments. These were the Asset Protection Scheme (APS) derivative and the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative.

4.56 The APS provided the participating institution, RBS, with 90 per cent cover for credit losses above a £60 billion threshold on a defined portfolio of assets in return for an annual fee payment. The APS derivative represented the overall asset or liability of the scheme based on estimates of future fees compared to potential modelled credit losses.

4.57 On 18 October 2012, RBS exited the APS with the approval of HM Treasury. At that point, RBS had reached the minimum fee payment of £2.5 billion and the risk of the Treasury needing to make a payout if the scheme continued was very low. In total, the APS generated £5 billion of fees for HM Treasury (£2.5 billion from each of RBS and LBG) and no payouts were required. In addition, the full costs of administering and closing down the scheme were recovered from RBS. For further details, see note 29.

4.58 The BEAPFF is a subsidiary company of the Bank of England set up to carry out asset purchases financed by the creation of central bank reserves (known as quantitative easing), and through the issue of Treasury bills and the DMO's cash management operations.

4.59 HM Treasury fully indemnifies the Bank of England for any losses it makes in operating the BEAPFF and is also entitled to any profits generated by selling the assets back to the market or holding them to maturity. HM Treasury's exposure to the gains or losses that the BEAPFF makes is recorded as a derivative on the Statement of Financial Position. The fair value of the derivative is based on the difference between the fair value of the assets and liabilities of BEAPFF Ltd as at the 31 March 2013.

4.60 At 31 March 2013, the BEAPFF had made cumulative profits of £55.5 billion (2011-12: £38.5 billion). The increase in profits during 2012-13 is recognised as a fair value gain in the derivative as it increases the amount that would be due from the Bank of England to the Treasury if the scheme were to close.

4.61 During 2012-13, HM Treasury and the Bank of England agreed to a revised indemnity to require the BEAPFF to transfer excess between BEAPFF and the Treasury. The purpose of this change is to enable more efficient cash management across government. These cash transfers reduce the carrying value of the Treasury's derivative. This is because the profits retained by the BEAPFF which are due to be paid to HM Treasury at a later date are correspondingly less.

4.62 Cash transfers commenced in January 2013 and totalled £11.3 billion by 31 March 2013. If there is a deficit of cash in any quarter, then a transfer is made in the opposite direction, from the Treasury to the BEAPFF Ltd. As and when the Bank of England's Monetary Policy Committee decides to exit quantitative easing, cash transfers are expected to reverse, consistent with the terms of the revised indemnity. For further details of quantitative easing, see the Bank of England's website⁷.

4.63 Changes in the fair value of both the APS and BEAPFF derivatives are recognised in the SCNE and, for 2012-13, these fair value changes have had a significant effect on the Treasury's

⁷ www.bankofengland.co.uk/monetarypolicy

outturn position. The overall effect on the SCNE from the BEAPFF and APS derivatives is a gain of £17.1 billion (2011-12: £28.4 billion). For further details on fair value movements, see note 14.

Loans and receivables

2012-13: £49,046m, 2011-12: £52,332m

4.64 Action was taken during the global financial crisis to protect UK depositors in UK and Icelandic banks and building societies. Working alongside the Financial Services Compensation Scheme (FSCS), HM Treasury guaranteed deposits in failed institutions and intervened to ensure that deposit holders were compensated quickly.

4.65 HM Treasury provided the FSCS with loans to make payments to depositors up to the FSCS compensation limit valid at the time. Top-up payments for deposits above this limit have been met by the department.

4.66 During 2012-13, repayments of £1.5 billion have been received from the administrators of the failed institutions (2011-12: £1.4 billion). Of this, £0.7 billion relates to the FSCS share of payments to depositors (2011-12: £0.9 billion) and £0.8 billion relates to HM Treasury's share (2011-12: £0.5 billion).

4.67 Following additions, repayments and transfers, the outstanding FSCS share of the loans at the reporting date is £17.2 billion (2011-12: £18.0 billion). The FSCS loan in respect of B&B is expected to be fully recoverable through payments from the B&B estate. The FSCS loans in respect of the Icelandic banks and London Scottish Bank are fully recoverable through a combination of administrator payments from the failed banks and industry levies. The FSCS loans are also interest bearing and, with effect from 1 April 2012, the interest rate has been increased in line with EU State Aid requirements and to guarantee that it does not fall below the government's cost of funding. Interest charged during 2012-13 was £429 million (2011-12: £370 million). For further details on the FSCS, see note 30.

4.68 The top-up payments made by HM Treasury to compensate depositors in failed institutions with deposits in excess of the statutory minimum covered by the FSCS are recorded as statutory debts and the level of recoverability that can be achieved is dependent on the administration process. Therefore in 2012-13, as in prior years, the department has assessed the level of impairments due to the irrecoverability of loan principal and due to the irrecoverability of interest. This has led to impairments being reduced by £8 million as forecast levels of recovery have improved.

4.69 In relation to the failed Icelandic bank Landsbanki (Icesave), HM Treasury also intervened to ensure that depositors were compensated for the share of their deposits which should have been guaranteed by the Icelandic Depositors and Investors Guarantee Fund (DIGF). In a judgment announced on 28 January 2013, the EFTA Court found that Iceland was not obliged to ensure payment of compensation to depositors after the collapse of the Icesave in 2008. This means that HM Treasury can only make recoveries from the administration and not from the Icelandic government. Therefore the loan has been transferred from DIGF to statutory debt with effect from 28 January 2013. HM Treasury had assumed that interest would not be chargeable on this loan and it continues to be treated as an interest free loan with full capital recovery.

4.70 Following the transfer of DIGF debt, statutory debt loans at the reporting date total £4.6 billion (2011-12: £3.8 billion). For further details on statutory debt loans, see notes 15, 23.6 and 30.

4.71 In addition to loans to compensate depositors, HM Treasury has also provided a loan to NRAM, a working capital facility to B&B and a bilateral loan to Ireland.

4.72 NRAM and B&B have exceeded loan repayments set out in their business plans. During 2012-13, NRAM made loan repayments of £1.9 billion (2011-12: £1.8 billion), resulting in an

outstanding loan balance of £17.9 billion (2011-12: £19.8 billion). B&B made repayments of £1.2 billion (2011-12: £0.6 billion), with £6.8 billion outstanding at 31 March 2013 (2011-12: £8.0 billion). Both NRAM and B&B are on track to fully repay the loans from HM Treasury over the course of wind down of their businesses.

4.73 In December 2011, it was announced that UK Asset Resolution (UKAR) had identified certain Consumer Credit Act (CCA) regulated loans in the NRAM portfolio where loan documentation is not compliant with CCA requirements. The total estimated cost to NRAM of remediation of £271 million is not expected to delay materially the final repayment of the loan.

4.74 The NRAM loan and B&B working capital facility are both interest bearing. The interest rates on these loans were increased with effect from May 2012 and August 2011 respectively. Total interest charged during the year was £678 million (2011-12: £521 million). For further details on NRAM and B&B, see notes 26 and 27.

4.75 During 2012-13, Ireland drew down a further £1.2 billion against its £3.2 billion facility, bringing the total loan balance to £2.4 billion. The remaining facility is due to be drawn down in two further tranches following the completion of IMF and European Commission quarterly reviews during 2013-14.

4.76 In July 2011, following the Euro area's commitment to lower the interest rate on their loans to Ireland, the Chancellor committed in principle to lower the interest rate on the UK's bilateral loan to Ireland. On 4 October 2012 the bilateral loan agreement was revised, reducing the interest rate to the UK's cost of funding plus a service fee of 0.18 per cent. The new interest rate was applied retrospectively to all tranches previously disbursed. Following the reduction to the interest rate, the interest charge for 2012-13 was £46 million and the reduced charge for 2011-12 was £8 million. For further details on Ireland, see note 32.

4.77 For further details on all loans and receivables balances, including movements during 2012-13, see note 15.

Contingent liabilities

2012-13: £26bn, 2011-12: £123bn

4.78 During 2012-13, the department's exposure to contingent liabilities across financial stability interventions continued to decrease.

4.79 The Asset Protection Scheme (APS) closed on 18 October 2012, extinguishing a contingent liability that had been £55 billion at the start of the financial year and £203 billion at the scheme's peak.

4.80 The APS was created to enable the UK Government to provide participating institutions with protection against future credit losses on defined portfolios of assets in exchange for a fee. By limiting potential losses in this way, the purpose of the APS was to support the stability of the UK financial system and increase confidence in participating financial institutions.

4.81 The scheme provided support to RBS during and in the immediate aftermath of the financial crisis. However, as the bank has continued to stabilise and manage down non-performing assets, the APS no longer provided material benefit in strengthening RBS' financial position. 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.

4.82 In total, the APS generated fees of £5 billion, comprising £2.5 billion from RBS for participation and £2.5 billion from LBG for an initial agreement to participate.

4.83 The Credit Guarantee Scheme (CGS) also closed in 2012-13 as the last CGS guaranteed debt issuance reached maturity in October 2012. The scheme's closure extinguished a

contingent liability that had been £24 billion at the start of the financial year and £139 billion at the scheme's peak.

4.84 The CGS provided guarantees for senior unsecured debt of authorised UK banks in return for a fee. Should an institution have defaulted on a payment on an instrument issued under the scheme, the Treasury would have had to reimburse the holder on demand. Over the life of the scheme, fees totalled £4.3 billion and no payouts were made.

4.85 The £26 billion of contingent liabilities at the reporting date comprises primarily of £11.8 billion for deposit guarantees, £8 billion for RBS contingent capital, £2.9 billion for the National Loan Guarantee Scheme and £1.1 billion for UK Guarantees. HM Treasury charges fees to the benefitting institution for each of these contingent liabilities. For 2012-13 these were £60 million for deposit guarantees (2011-12: £83 million), £320 million for RBS contingent capital (2011-12: £320 million) and £32 million for the NLGS (2011-12: £nil). Fees for UK Guarantees are expected to commence in 2013-14 when the first guarantees are issued. For further details, see note 24.

New schemes launched during 2012-13

National Loan Guarantee Scheme and Funding for Lending Scheme

4.86 The National Loan Guarantee Scheme (NLGS) was launched in March 2012 and helps businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. The NLGS uses government guarantees on unsecured borrowing by banks, enabling them to borrow at a cheaper rate. Participating banks pass on the entire benefit that they receive from the guarantees to businesses across the UK through cheaper loans.

4.87 Guarantees totalling £2.9 billion were made in April 2012, and in return HM Treasury will receive fees of £213 million over the life of those guarantees. Subsequently, the Bank of England launched the Funding for Lending Scheme (FLS) in July 2012. The FLS allows banks and building societies to borrow at cheaper rates from the Bank of England for periods of up to four years. Changes in market conditions since the introduction of the NLGS means that it is now less economical for banks to raise unsecured funding. In practice, this means that banks who are currently offering NLGS loans are now choosing to deliver credit easing to the whole economy through the FLS and consequently it is unlikely that further guarantees will be made under the NLGS in the short term. Details of the FLS are provided in the Bank of England's Annual Report and Accounts and on their website⁸.

Business Finance Partnership

4.88 The Business Finance Partnership (BFP) aims to increase the supply of capital through non-bank lending channels and, in the longer term, to help to diversify the sources of finance available to businesses. It will co-invest a total of £1.1 billion through these channels, matched by at least equal private sector capital, to help create and support new sources of lending for small and mid-sized businesses in the UK.

4.89 Five fund managers have been appointed for the first tranche of investment, which will total £700 million. As at 31 March 2013, HM Treasury had made one investment of £5 million and further investments are planned over the course of 2013-14. The investments are made by Infrastructure Finance Unit Limited (IFUL), a company wholly-owned by HM Treasury.

UK Guarantees

4.90 The UK Guarantees scheme was announced by the government in July 2012 in response to constraints in the long-term debt markets. Up to £40 billion of guarantees can be offered in

⁸ www.bankofengland.co.uk/markets

aggregate. The scheme has been welcomed by the market with over 110 enquiries received. The Chancellor has approved two guarantees to date: to support up to £1 billion of borrowing by the Greater London Authority for the Northern Line extension and issuing a guarantee for £75 million to Drax Power for the partial conversion of their power station to biomass, in April 2013. Further guarantees are expected to be offered in 2013-14.

Other significant transactions

Equitable Life Payment Scheme

4.91 The purpose of the Equitable Life Payment Scheme is to make payments to Equitable Life policyholders who suffered financial losses as a result of government maladministration which occurred in the regulation of Equitable Life. The scheme is expected to remain open until April 2014 and after this date annuitants will continue to be paid for the duration of their annuity. As at 31 March 2013, the scheme has made payments totalling £577 million to 407,000 policyholders.

4.92 In Budget 2013 the Government announced that it will make an ex-gratia payment of £5,000 to Equitable Life policyholders who bought an Equitable Life with-profit annuity before 1 September 1992, who were aged over 60 and were alive at the time of this announcement. An additional £5,000 will be available to those policyholders who meet the above criteria and are in receipt of Pension Credit. For those policyholders who die after the announcement, payments will be made to their estates. The Government estimates that this measure will distribute approximately £45 million.

4.93 For further details on the scheme see note 19.2 and regular updates published on the Equitable Life Payment Scheme website⁹.

Financial Services Authority (FSA) fines

4.94 During 2012-13, the FSA imposed significant fines on financial service firms including unprecedented fines on some banks in relation to the attempted manipulation of LIBOR. The government made provision in the Financial Services Act 2012 for all financial services regulatory fines, net of enforcement case costs, to go to the Consolidated Fund. This fine income will be payable by the regulatory authorities to HM Treasury who will then return the fines to the Consolidated Fund as excess cash. Total fine income payable to HM Treasury for 2012-13 is £342 million, and this was paid over by the FSA on 2 April 2013.

Nick Macpherson
Permanent Secretary
11 July 2013

⁹ <http://equitablelifepaymentscheme.independent.gov.uk>

5

Statement of Accounting Officer responsibilities

5.1 Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Department to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the Department (inclusive of its executive agencies) and its sponsored agencies, non-departmental and other arms length public bodies designated by order made under the GRAA by Statutory Instrument 2012 No. 717 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note 1.2 to the accounts).

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

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

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

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

5.5 The Accounting Officer of the Department has also appointed the Chief Executives or equivalents of its, agencies, sponsored non-departmental and other arms length public bodies as Accounting Officers of those bodies.

5.6 The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

5.7 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department, its agencies or non-departmental or other arms length public bodies for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

Nick Macpherson
Permanent Secretary
11 July 2013

6

Ministers and senior managers' remuneration report

Remuneration policy

6.1 For the Permanent Secretary and Second Permanent Secretaries, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining members of HM Treasury Board and the Chief Executive of DMO, remuneration is determined by HM Treasury's Pay Committee in accordance with the rules set out in the *Civil Service Management Code (Chapter 7.1, Annex A)*.¹ The Pay Committee is made up of members of the Executive Management Board, subject to the SCS pay range under consideration.

6.2 The Review Body on Senior Salaries advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

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

Service contracts

6.4 The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

6.5 The Permanent Secretary and Second Permanent Secretaries are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. Other senior managers,

¹ <http://www.civilservice.gov.uk/about/resources/civil-service-management-code>

including the Chief Executive of the DMO and Non Executive Members of HM Treasury Board, are appointed by the Permanent Secretary.

6.6 Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to senior managers during the year.

6.7 Independent Non Executive members of HM Treasury Board are recruited through fair and open competition and are appointed for an initial period of three years with an option to extend for a further agreed period. These appointments can be terminated with one month's notice period. There is no provision for compensation for early termination.

Salaries and pension entitlements of HM Treasury Ministers and senior management

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

Table 6.A: Salaries and pensions of Ministers

Name	2012-13		2011-12		Total accrued pension at age 65 as at 31/03/13 £000	Real increase in pension at age 65 £000	CETV at 31/03/13 or end date £000	CETV at 31/03/12 or start date £000	Real increase in CETV £000
	Salary and full year equivalent (FYE ¹) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)					
George Osborne Chancellor of the Exchequer	68,827	6,900 ²	68,827	5,000	0-5	0-2.5	41	23	7
Danny Alexander Chief Secretary to the Treasury	68,827	-	68,827	-	0-5	0-2.5	42	28	6
Mark Hoban Financial Secretary to HM Treasury (to 04/09/12)	16,868 (FYE 33,002)	-	33,002	-	0-5	0-2.5	21	18	2
Greg Clark Financial Secretary to the Treasury (from 05/09/12)	18,884 (FYE 33,002)	-	-	-	0-5	0-2.5	30	24	2
David Gauke Exchequer Secretary to HM Treasury	23,697	-	23,697	-	0-5	0-2.5	20	13	3
Chloe Smith Economic Secretary to HM Treasury (from 14./10/11 to 04/09/12)	10,137 (FYE 23,697)	-	10,077 (FYE 23,697)	-	0-5	0-2.5	10	8	0
Sajid Javid Economic Secretary to the Treasury (from 05/09/12)	13,560 (FYE 23,697)	-	-	-	0-5	0-2.5	4	0	2
Lord Sassoon Commercial Secretary to HM Treasury (to 31/12/12)	N/A	-	N/A	-	-	-	-	-	-
Lord Deighton Commercial Secretary to HM Treasury (from 01/01/13)	N/A	-	N/A	-	-	-	-	-	-

¹ FYE – Full Year Equivalent

² Relates to the full-year occupancy of the official Chancellor's residence. See paragraph 6.11

Table 6.B: Salaries and pensions of senior management³

Name	2012-13		2011-12		Accrued pension at 31/03/13 and related lump sum (£000)	Real increase (decrease) in pension and related lump sum at pension age (£000)	CETV at 31/03/13 or end date (nearest £000)	CETV at 31/03/12 or start date (nearest £000)	Real increase in CETV (nearest £000)
	Salary and full year equivalent (FYE ⁴) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)					
Nick Macpherson Permanent Secretary	175 – 180	-	175 – 180	-	60 – 65 plus lump sum 185 – 190	0 – 2.5 plus lump sum 2.5 – 5.0	1,177	1,103	10
Tom Scholar Second Permanent Secretary	150 – 155	-	150 – 155	-	35 – 40 plus lump sum 115 – 120	2.5 – 5.0 plus lump sum 7.5 – 10.0	570	500	39
John Kingman Second Permanent Secretary (from 01/10/12)	75 – 80 (FYE155 – 160)	-	-	-	35 – 40	0 – 2.5	431	405	1
Robert Stheeman Chief Executive DMO	150 – 155	-	150 – 155	-	20 – 25	2.5 – 5.0	377	312	41
Bill Dickinson Chief Executive APA (from 7/10/11 to 31/10/12))	80 – 85 (FYE135 – 140)	-	65 – 70 (FYE 135 – 140)	-	15 – 20	2.5 – 5.0	181	146	31
Michael Ellam Director General, International Finance	105 – 110	-	100 – 105	-	25 – 30 plus lump sum 75 – 80	0 – 2.5 plus lump sum 5.0 – 7.5	389	342	25
Dave Ramsden Chief Economic Adviser & Head of the Government Economic Service	125 – 130	-	115 – 120	-	35 – 40 plus lump sum 115 – 120	0 – 2.5 plus lump sum 5.0 – 7.5	656	588	33
Edward Troup Director General, Tax and Welfare (to 31/08/12)	55 – 60 (FYE130 – 135)	-	140 – 145	-	15 – 20	0 – 2.5	333	298	31

³ Salaries and pensions relate to Treasury Executive Management Board and CEO's of DMO and the former APA only. They do not include arms length bodies (UKFI, OBR, MAS and FSCS)

⁴ FYE – Full Year Equivalent

Name	2012-13		2011-12		Accrued pension at pension age as at 31/03/13 and related lump sum (£000)	Real increase (decrease) in pension and related lump sum at pension age (£000)	CETV at 31/03/13 or end date (nearest £000)	CETV at 31/03/12 or start date (nearest £000)	Real increase in CETV (nearest £000)
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)					
Indra Morris Director General, Tax and Welfare (from 01/11/12)	50 – 55 (FYE120 – 125)	-	-	-	15 – 20	0 – 2.5	191	185	3
Jonathan Taylor Director General, Financial Services (to 31/12/12)	115 – 120 (FYE155 – 160)	-	155 – 160	-	75 – 80	5.0 – 7.5	1,099	1,005	91
Charles Roxburgh⁵ Director General, Financial Services (from 04/02/13)	20 – 25 (FYE140 – 145)	-	-	-	n/a	n/a	n/a	n/a	n/a
Sharon White Director General, Public Spending (from 01/01/12)	130 – 135	-	30 – 35 (FYE 125 – 130)	-	40 – 45 plus lump sum 50 – 55	2.5 – 5.0 plus lump sum 0 – 2.5	571	493	44
James Bowler Director, Strategy, Planning and Budget (from 01/01/12)	105 – 110	-	20 – 25 (FYE 90 – 95)	-	20 – 25 plus lump sum 60 – 65	0 – 2.5 plus lump sum 0 – 2.5	272	251	6
Alison Cottrell Director, Financial Services and Corporate Services	90 – 95	-	80 – 85	-	20 – 25	0 – 2.5	312	267	24
Julian Kelly Group Director, Finance and Commercial (to 31/12/12)	75 – 80 (FYE 80 – 85)	-	85 – 90	-	20 – 25 plus lump sum 20 – 25	0 – 2.5 plus lump sum 0 – 2.5	302	263	22

⁵ Charles Roxburgh does not participate in the PCSPS Scheme

Name	2012-13		2011-12		Accrued pension at 31/03/13 and related lump sum (£000)	Real increase (decrease) in pension and related lump sum at pension age (£000)	CETV at 31/03/13 or end date (nearest £000)	CETV at 31/03/12 or start date (nearest £000)	Real increase in CETV (nearest £000)
	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)					
Kirstin Baker ⁶ Group Director, Finance and Commercial (from 01/01/13)	10 – 15 (FYE 45 – 50)	-	-	-	15 – 20 plus lump sum 45 – 50	0 – 2.5 plus lump sum 2.5 – 5.0	222	205	16

Band of Highest Paid Director's Total Remuneration (£'000)	175 – 180	175 – 180
Median Total	36,896	36,024
Remuneration ratio	4.8	4.9

CETV stands for Cash Equivalent Transfer Value, explained in paragraph 20 below. The factors used in the CETV calculation have been revised during this year. This means that the opening CETV value shown in this year's report will differ to the amount shown as the closing CETV value in last year's report.

The salary and pension details disclosed relate to a full financial year, unless the minister/senior manager concerned has not been in post for a full year, in which case the 31 March has been substituted by the start or end date, specified in the first column.

For senior managers, further details of performance related pay actually paid during these financial years can be found on the table overleaf. However, as performance pay is awarded in arrears, the amounts payable, for performances during the 2012-13 financial year are not yet known and will, therefore, be disclosed in the 2013-14 accounts. Where senior managers were not in post during the performance related period in question amounts are shown as n/a.

The remuneration ratio represents the difference between the median Full Time Equivalent (FTE) remuneration of all staff (excluding the highest paid director) and the highest paid director, expressed as a multiple. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions. The median calculation does not include staff employed by arms length bodies, as this may distort the disclosure where pay arrangements are made independently of departmental control; and the boundary has thus been limited to the department and its agencies. In 2012-13, eight (2011-12, six) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £16,000 to £245,000 (2011-12 £16,000 – £213,000). The change in the remuneration ratio and the salary of the highest paid director from 4.9 to 4.8 between 2011-12 and 2012-13, reflects the total remuneration profile of IUK staff between the two years.

⁶ Kirstin Baker works part-time so her Full Year Equivalent salary represents 0.6 of a full time post

Salary

6.9 'Salary' includes: gross salary; performance pay or bonuses (as detailed below) paid during the year; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. Therefore, bonuses paid in 2012-13 related to performance in 2011-12. Nick Macpherson, Tom Scholar and Bill Dickinson waived any right to bonuses with respect to performance in 2011-12. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are also shown.

6.10 The pay committees, covering those senior managers listed in the tables above and below, comprise either the Permanent Secretary and senior outside member (usually a non-executive director) or Director Generals and a senior outside member (either a non-executive director or a suitable senior person from another department), dependent on the grade of the manager whose pay is being reviewed.

Table 6.C: Performance related pay of senior management (these disclosures have been subject to audit)

Name	2012-13 Range £000)	2011-12 Range (£000)
Nick Macpherson	0 – 5	0 – 5
Tom Scholar	0 – 5	0 – 5
John Kingman	n/a	n/a
Robert Stheeman	10 – 15	10 – 15
Bill Dickinson ¹	0 – 5	0 – 5
Michael Ellam	0 – 5	0 – 5
Dave Ramsden	5 – 10	0 – 5
Edward Troup	0 – 5	5 – 10
Indra Morris	n/a	n/a
Jonathan Taylor	0 – 5	0 – 5
Charles Roxburgh	n/a	n/a
Sharon White	0 – 5	0 – 5
James Bowler	10 – 15	0 – 5
Alison Cottrell	5 – 10	0 – 5
Julian Kelly	10 – 15	0 – 5
Kirstin Baker	n/a	n/a

Source: HM Treasury

6.11 This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£65,738 from 1 April 2010) and various allowances to which they are entitled are borne centrally. Ministers in the House of Lords do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as

¹ Bill Dickinson waived any bonuses for 2011-12 and 2012-13 in his role as Chief Executive of the APA

well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in note 6.5 to the accounts.

Benefits in kind

6.12 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. The benefits in kind disclosed in Table 7a above for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street which are chargeable to tax under s163 of the Income and Corporation Taxes Act 1988. These are capped at 10 per cent of his salary. Those (if any) for the Permanent Secretary relate to the private use of an allocated car in the circumstances permitted by the Civil Service Management Code. In addition, ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. HM Treasury has an agreement with HM Revenue & Customs to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

Ministerial pensions

6.13 Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutorily based (made under Statutory Instrument SI 1993 No 3253, as amended).

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

6.15 Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office from age 65. Pensions are re-valued annually in line with Pensions Increase legislation. From 1 April 2013 members pay contributions between 7.9 per cent and 16.7 per cent depending on their level of seniority and chosen accrual rate. The contribution rates are planned to increase in April 2014, subject to consultation.

6.16 The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

6.17 In line with reforms to other public service pension schemes, it is intended to reform the Ministerial Pension Scheme in 2015.

Civil Service pensions

6.18 Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, and classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

6.19 Employee contributions are salary-related and range between 1.5 per cent and 3.9 per cent of pensionable earnings for classic and 3.5 per cent and 5.9 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a

lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for respect service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

6.20 The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

6.22 Further details about the Civil Service pension arrangements can be found at <http://www.civilservice.gov.uk/pensions>.

Cash Equivalent Transfer Values

6.23 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. For the senior management's pension entitlements from the Civil Service pension scheme, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. Similarly, for Ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

6.24 This reflects the increase in CETV effectively funded by the employer or Exchequer, in the case of Ministers. It does not include the increase in accrued pension due to inflation, contributions paid by the employee or Minister (including the value of any benefits transferred

from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Fees of Non Executive Board Members and Independent Members of the Audit Committee

Table 6.D: Fees

Name	Fee range (£000)	2012-13 Benefits in kind (rounded to nearest £100)	Fee range (£000)	2011-12 Benefits in kind (rounded to nearest £100)
<i>Non Executive Board Members:</i>				
Michael O'Higgins	5 – 10	-	5 – 10	-
Sir Callum McCarthy (to 31/8/12)	0 – 5	-	5 – 10	-
Dame Deirdre Hutton	5 – 10	-	5 – 10	-
Baroness Hogg	10 – 15	-	10 – 15	-
Amelia Fawcett (from 1/10/12)	0 – 5	-	-	-
<i>Independent Members of Audit Committee:</i>				
Michael O'Higgins (Chair)	0 – 5	-	0 – 5	-
Mike Ashley	5 – 10	-	5 – 10	-
Janet Baker	5 – 10	-	5 – 10	-
Bradley Fried (to 30/9/12)	-	-	-	-
Mary Hardy (from 1/11/12)	0 – 5	-	-	-
Abhai Rajguru (from 1/3/13)	0 – 5	-	-	-
<i>Source: HM Treasury</i>				

6.25 In 2012-13 Baroness Hogg donated the fee for her role as Lead Non Executive Director to charity. She also received £4,200 for consultancy work undertaken during the year. Amelia Fawcett donated the fee she received for 2012-13 to charity. Mike Ashley's fee of £5 – 10k was paid to his employer (KPMG) and Brad Fried claimed no fee for his membership of the Committee up until he ceased to be a member in September 2012.

Nick Macpherson
Permanent Secretary
11 July 2013

7

Certificate and Report of the Comptroller and Auditor General

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

I certify that I have audited the financial statements of HM Treasury and of its Departmental Group for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2012. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report 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.

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2013 and of the Department's net operating income and Departmental Group's net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Measuring Success section of Chapter 1, Treasury Board section of Chapter 2, and Chapters 3 and 4, Managing the Treasury and Overview of Treasury's Finances, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Please also see my report on pages 83 to 101.

Amyas C E Morse
Comptroller and Auditor General
12 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

This is my third report on HM Treasury's Departmental Report and Accounts. My report covers progress in the Treasury's interventions to maintain financial stability, its wider support for the economy, its capacity to respond to future financial crises, and new reporting developments.

On the interventions to maintain financial stability

- As well as funding all its day-to-day operations, the Treasury paid £18 billion to the Consolidated Fund (£6 billion in 2011-12). Most of this payment consisted of the transfer of cash, for the first time, from the Bank of England Asset Purchase Facility Fund. The Treasury's balance sheet continued to expand in 2012-13 to take account of profits on the Asset Purchase Facility.
- The market value at 31 March 2013 of the shares in RBS and Lloyds Banking Group was £28 billion below the total cash injected into the banks in 2008 and 2009 and more than £34 billion below the proceeds which would need to be realised to reflect the cost of financing the purchases of shares.
- Contingent liabilities fell from £123 billion in 2011-12 to £26 billion this year, largely as a result of the closure of the Asset Protection and Credit Guarantee Schemes.
- The Treasury's current forecasts indicate that the majority of its outstanding loans to failed financial institutions will be repaid over the next decade.

On supporting the wider economy

- To provide further stimulus to the economy, the Bank of England and the Treasury launched the Funding for Lending Scheme in July 2012. At 31 March 2013, drawings on the Scheme totalled £16.5 billion and the Bank of England and the Treasury are monitoring the success of the scheme through a joint Oversight Board.

On the Treasury's capacity to respond to any future crises

- The Committee of Public Accounts expressed concerns last year that any reduction in headcount might jeopardise the Treasury's effectiveness. Treasury staff numbers, excluding those employed within Infrastructure UK, are expected to fall from 1,085 at 31 March 2013 to around 1,000 by April 2014. A further reduction of 10% in the Treasury's budget was announced in May 2013. In its response to the Committee, the Treasury stated that a new group structure will support a clear focus on core activities and that steps are being taken to retain specialist knowledge and experience.

On reporting developments

- In response to growing concerns that departmental accounts laid before Parliament should be more accessible, the Treasury published a consultation document in June 2013 seeking views on whether annual reports and accounts are meeting the needs of users.
- Cabinet Office guidance to all departments in 2012 required them to seek formal assurance from persons appointed through off-payroll arrangements that their tax obligations were being met. In line with this new guidance, the Treasury's Annual Report for 2012-13 includes a table which summarises new off-payroll engagements.

Part One: Key features of the Annual Report and Accounts

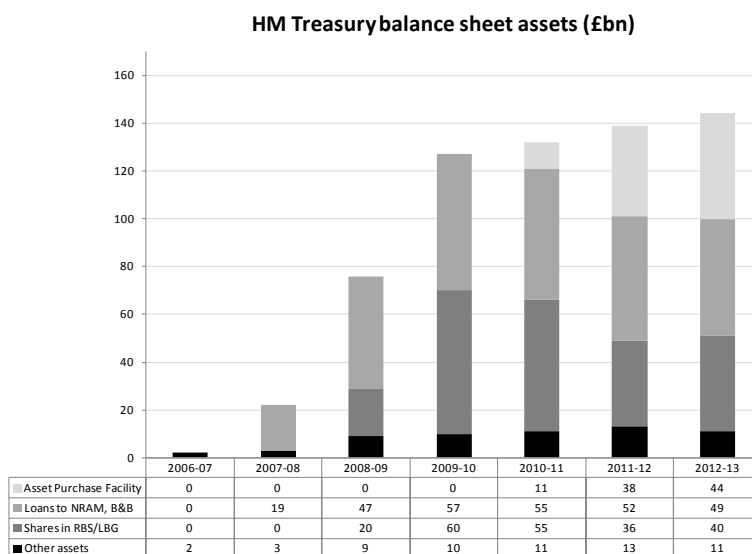
7.1 HM Treasury (the Treasury) is the UK's economics and finance ministry with overall responsibility for public spending. Since 2007, the Treasury has made a series of interventions to maintain financial stability. Details of these interventions and changes in the financial position of individual schemes since last year are set out in **Part Two** of this report. **Part Three** covers wider support for the economy and **Part Four** looks at the Treasury's capacity to respond to a future financial crisis.

7.2 The environment in which the Treasury has operated during 2012-13 continued to be challenging, with continuing uncertainty in the global economy, problems in the Eurozone and a sustained period of subdued growth. Across the world, recovery over the past three years has been slower than forecast, making the Treasury's objectives to reduce the deficit, rebalance the economy and restore stability more demanding.

The Treasury's balance sheet continues to grow

7.3 The Treasury's balance sheet has grown significantly since the onset of the financial crisis in 2007 (**Figure 1**). This expansion has been caused by the interventions to maintain financial stability, particularly through loans made to a range of financial institutions and the purchase of shares in two large banks, RBS and Lloyds Banking Group. The Treasury's balance sheet continued to expand in 2012-13 to take account of profits on purchases of assets by the Bank of England under the Asset Purchase Facility (quantitative easing).

Figure 1: The Treasury's balance sheet has expanded since 2007



Source: Departmental Accounts

Receipts trebled and the value of the Treasury's largest assets have increased over the past financial year

7.4 As well as funding all its day-to-day operations, the Treasury paid £18 billion to the Consolidated Fund (£6 billion in 2011-12).¹ Most of this payment consisted of the transfer of

¹ Departmental Accounts, Statement of Cash Flows

cash, for the first time, from the Bank of England Asset Purchase Facility Fund (£11 billion)² and further repayments of loans by financial institutions and other bodies (£5 billion)³.

7.5 The accounts also contain significant non-cash accounting adjustments to reflect changes in the value of assets and liabilities. For instance, an increase in the market price of the shares in Lloyds Banking Group resulted in a gain of just over £4 billion⁴ and a change in the valuation of the Bank of England Asset Purchase Facility Fund created a gain of £17 billion.⁵

Other items in the accounts

7.6 The largest element of the accounts that does not relate to maintaining the stability of UK banks is the payment of compensation of just over £409 million (£168 million in 2011-12)⁶ to former policy holders of Equitable Life for the failure of regulation. In April 2013, I reported on the administration of the Equitable Life Payment Scheme and the Committee of Public Accounts took evidence from the Treasury and others in May 2013.⁷

7.7 In 2012-13 the FSA imposed large fines on financial institutions, particularly for the attempted manipulation of a benchmark interest rate (the London Inter-bank Offered Rate – LIBOR). Following a change in the law⁸, the net proceeds from these fines (£342 million)⁹ were paid to the Treasury in April 2013 and will be surrendered to the Consolidated Fund as excess cash.

The role of HM Treasury

7.8 Last year, the Committee of Public Accounts took evidence from the Treasury based on my report on the 2011-12 Departmental Report and Accounts. In its subsequent report¹⁰, the Committee reached a number of detailed conclusions and recommendations, which are considered in Parts Two to Four of my report this year. The Committee also concluded more generally that, as a finance ministry, the Treasury must exercise central oversight to prevent poor spending decisions and the Treasury's Ministerial Board met only once in 2011-12, limiting its ability to steer both the Treasury and the rest of Government.

7.9 Sections of the Annual Report¹¹, which accompanies the Treasury's accounts, highlight progress in addressing most of these concerns:

- The Treasury considers that it needs to balance its responsibilities as a finance and economics ministry while delivering its own spending review settlement.
- As part of the Treasury's finance ministry role, the monitoring and control of public spending has been enhanced by a new online system for central accounting and reporting. Departments, devolved administrations, and their arms-length bodies are now required to monitor and manage information about spending more effectively and improve the skills needed to deliver their spending plans.
- Contingency plans are maintained to ensure that, regardless of any development, the Treasury is ready to respond rapidly with the appropriate resource, skills and experience.

² Departmental Accounts, Note 14.1

³ Departmental Accounts, Note 15.1

⁴ Departmental Accounts, Note 13.1

⁵ Departmental Accounts, Note 14.1

⁶ Departmental Accounts, Note 19.2.1

⁷ C&AG's Report, Administering the Equitable Life Payments Scheme, HC 1043, Session 2012-13; Oral evidence 21 May 2013, HC 111-I, Session 2012-13

⁸ Financial Services Act 2012

⁹ Departmental Accounts, Note 9

¹⁰ 27th Report of Session 2012-13, HC 659

¹¹ Chapter 2: paragraphs 2.48 to 2.66

- Over the course of 2012-13, the Treasury considered what action it could take to make corporate governance more robust. Following the challenge by the Public Accounts Committee, the Treasury Board agreed to meet four times in 2013-14, in accordance with its terms of reference. The Board actually met twice during 2012-13¹².

7.10 In addition, the Committee of Public Accounts stated last year that the Treasury should be a leading proponent of clarity in financial reporting. In response to growing concerns that departmental accounts are difficult to understand, the Treasury published a consultation document in June 2013 on whether annual reports and accounts are meeting the needs of users.¹³

Staffing issues

7.11 The Committee expressed concerns last year that any reduction in headcount might jeopardise the Treasury's ability to control the risks it is managing on behalf of the taxpayer, staff turnover remained very high, and that there were very few women at senior levels.¹⁴

7.12 Treasury staff numbers, excluding those employed within Infrastructure UK, are expected to fall from just under 1,085 at 31 March 2013 to around 1,000 by April 2014, reflecting the Spending Review settlement for the period 2010-2015. A further reduction of 10% in the Treasury's budget was announced in May 2013, as part of the current spending review.

7.13 In its response to the Committee, the Treasury stated that considerable thought had gone into contingency planning, a new group structure will support a clear focus on core activities and that steps are being taken to retain specialist knowledge and experience. The Treasury has stated that staff turnover fell slightly from just over 25% in 2011-12 to 22% in 2012-13¹⁵.

7.14 Although the percentage of female staff has remained constant at around 47%, the representation of women at senior levels in the Treasury has fallen during 2012-13 (from 46% at 31 March 2012 to 43% at 31 March 2013¹⁶). At Executive Management Board level within the Treasury (13 posts at Director and above) the number of female staff increased from 2 to 4.¹⁷

Off-payroll engagements

7.15 Following the publication of a Treasury review of the tax arrangements of public sector appointees, the Committee of Public Accounts took evidence in July 2012 from the Treasury and other departments¹⁸. Shortly after the hearing, in August 2012, new guidance¹⁹ was issued by the Cabinet Office which required departments to take a number of actions, including to:

- seek formal assurance from appointees that income tax and national insurance obligations were being met;
- terminate any contracts where formal assurance is not provided; and
- report to Parliament on the application of the new guidance as part of the 2012-13 annual report and accounts process.

¹² Departmental Accounts, para 2.22

¹³ HM Treasury: Consultation on simplifying and streamlining the presentation of annual reports and accounts (June 2013)

¹⁴ 27th Report of Session 2012-13, HC 659

¹⁵ Table 3.D of Annual Report

¹⁶ Table 3.H of Annual Report

¹⁷ Table 6.B of Annual Report

¹⁸ 12th Report of Session 2012-13 (HC 532, October 2012)

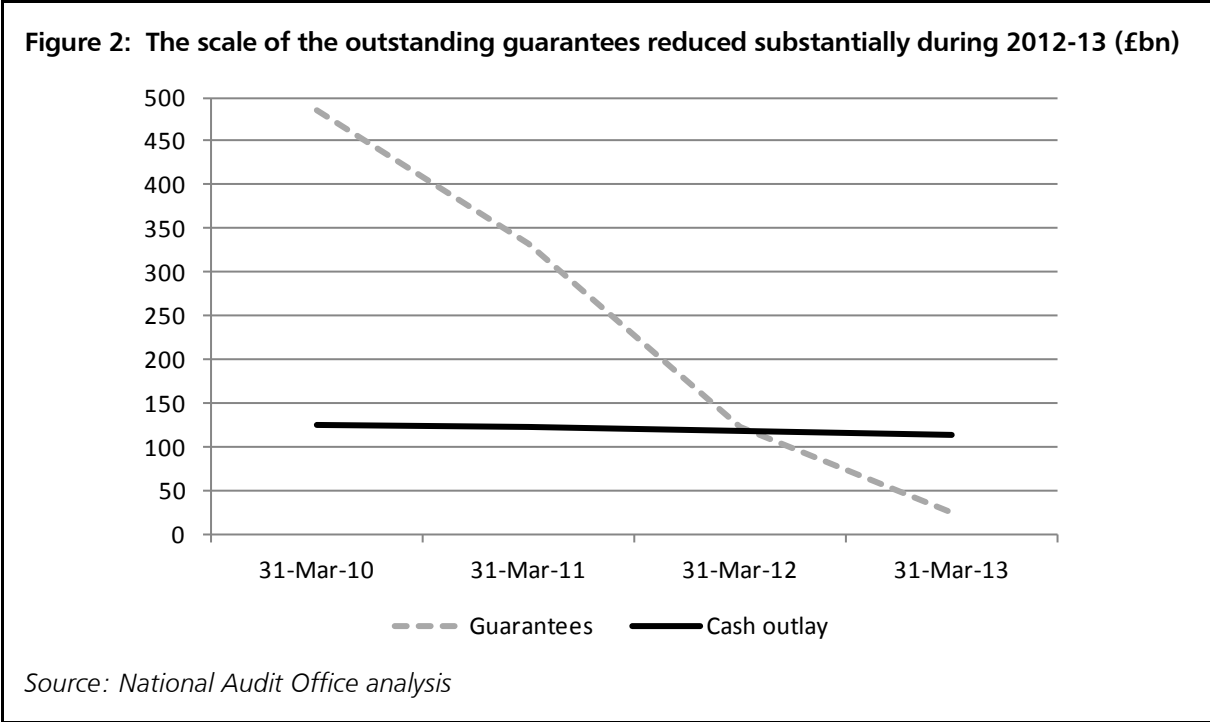
¹⁹ <http://www.cabinetoffice.gov.uk/resource-library/procurement-policy-note-0712-tax-arrangements-public-appointees>

7.16 In accordance with this guidance, the Treasury’s Annual Report for 2012-13 includes, for the first time, a table²⁰ which summarises new off-payroll engagements between August 2012 and 31 March 2013. At the time of writing this report, the Treasury had received formal assurances from all of the appointees involved.

Part Two: Maintaining financial stability

7.17 This Part of the Report updates my previous reports on the Treasury’s Departmental Accounts²¹ and my separate reports²² in December 2009 and 2010 on *Maintaining financial stability*. The interventions to support UK banks took the form of loans, guarantees and share purchases. The interventions had three broad aims: to protect depositors; maintain liquidity and capital for UK banks through the period of market closures; and to encourage banks to lend to creditworthy borrowers.

7.18 To remove the support, the loans will need to be repaid, the guarantees withdrawn, and the shares transferred to private ownership. At its peak, support for the banks totalled more than £1 trillion. The scale of these interventions, particularly the guarantees outstanding, has reduced substantially in 2012-13 (Figure 2). Contingent liabilities fell from £123 billion in 2011-12 to £26 billion this year, largely as a result of the closure of the Asset Protection Scheme and Credit Guarantee Schemes. Northern Rock Asset Management (NRAM) and Bradford & Bingley repaid £3.1 billion of loans and recoveries of loans from other financial institutions totalled £1.5 billion.



RBS and Lloyds Banking Group

7.19 During 2008 and 2009 the financial markets ceased to function and the Treasury had to inject £66.3 billion in the form of ordinary and non-voting B shares into RBS and ordinary shares into Lloyds to ensure they would have sufficient capital to continue trading. The shares are held in the accounts at their market value, which has fallen to £38.4 billion since the government’s original investment. In line with accounting standards, the overall decline in value is split

²⁰ Table 3.F of Annual Report
²¹ HC 46 2011-12 and HC 984 2010-11
²² HC 91 2009-10 and HC 676 2010-11

between a temporary increase in the value of the shareholdings of £4.6 billion in 2012-13, offset by a more permanent impairment of £32.6 billion.²³

7.20 The government remains committed to returning the banks to private ownership and UK Financial Investments²⁴ continues to manage the shareholdings on the taxpayers' behalf. However, until economic and financial market uncertainties fully subside it is unlikely that any sales of the shares will recover the costs of the original investments, particularly in RBS. **Figure 3** shows that, at 31 March 2013, the market values of the shares remained below the amounts injected into the banks.

7.21 Even if any future sales did recover these amounts, it would not reflect fully the costs of the interventions. This is because the Government borrowed the money needed to make the original investments (net of underwriting fees received) in 2008 and 2009 and the cumulative cost of financing (just under 4% a year) this borrowing should be taken into account. On this basis, the market price of the shares in RBS represented a shortfall of over £25 billion at 31 March 2013 and the shares in Lloyds Banking Group a shortfall of £9 billion.

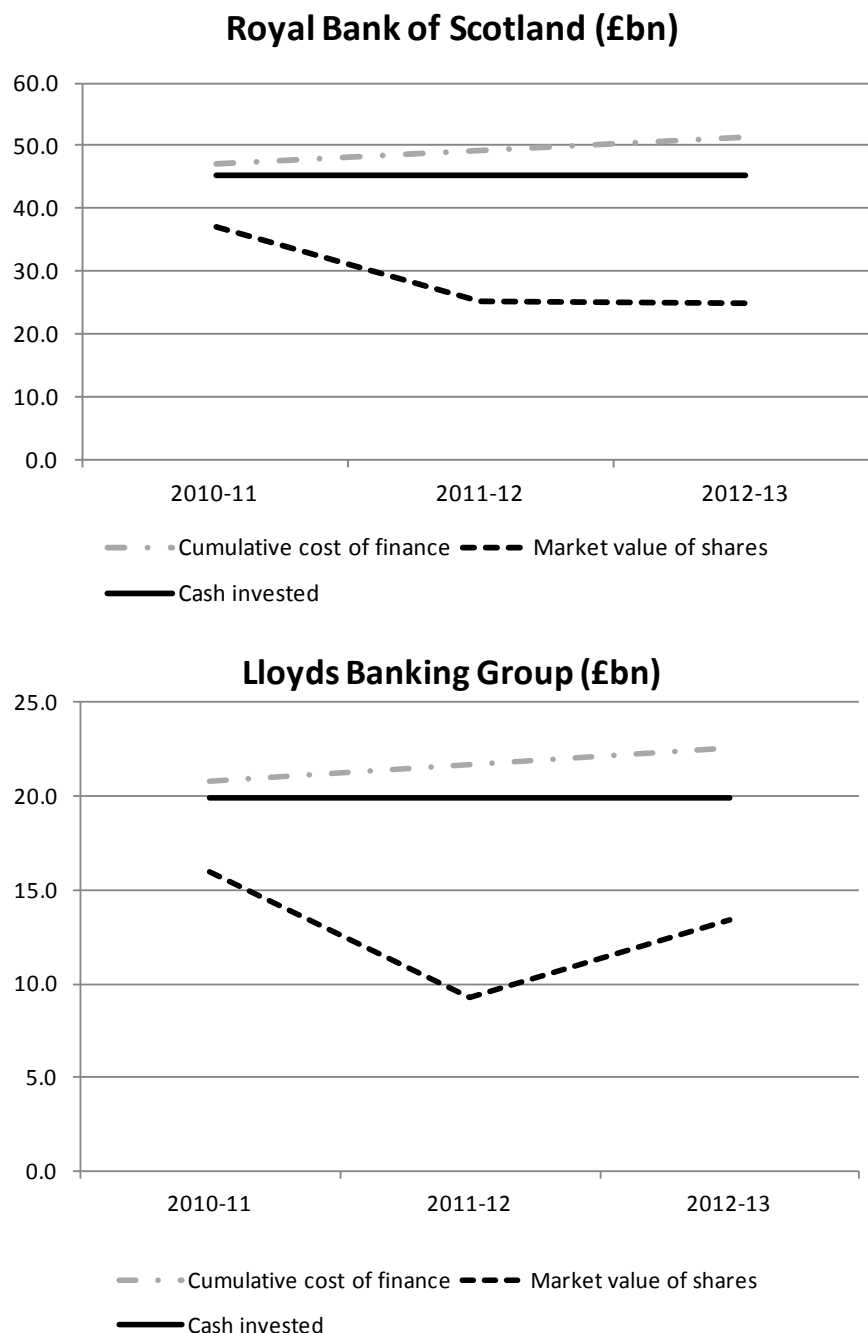
7.22 The eventual returns for the taxpayer from the disposals of the government's shareholdings in both banks will depend on how well their business plans are developed and delivered, as well as the performance of the UK economy, and these will not be known until the shareholdings are disposed of. Any shortfalls between these returns and a theoretical return that might be estimated can be regarded as part of the necessary cost of maintaining financial stability during the financial crisis and, as I reported in 2009, had public support for the banks not been provided, the potential costs would have been difficult to envision.²⁵

²³ Table 4.F Annual Report

²⁴ UKFI is responsible for managing the shareholdings in RBS and Lloyds Banking Group and is also responsible for managing UK Asset Resolution Ltd (UKAR). UKAR was formed during 2010 to integrate the activities of Northern Rock (Asset Management) and Bradford & Bingley

²⁵ Comptroller and Auditor General, Maintaining financial stability across the United Kingdom's banking system, Session 2009-10, HC 91, National Audit Office, December 2009

Figure 3: The potential loss on RBS shares increased in 2012-13, while the potential loss for Lloyds Banking Group shares declined slightly



Source: Market prices and NAO analysis

The Dividend Access Share

7.23 The Treasury also holds a Dividend Access Share (DAS) in RBS. In addition to the B shares, the DAS was created at the time the Asset Protection Scheme was being negotiated to prevent any return of capital to shareholders or payment of dividends without first paying the Treasury a preferential dividend. In practice, the DAS makes paying a dividend on the ordinary shares expensive for RBS because its terms mean a minimum of £1.8 billion must be paid to the Treasury before any further dividend on the ordinary shares can be paid.

7.24 As the DAS can only be held by the government, there is no market price for the share and accounting standards require that its value has to be estimated by modelling future dividends. Furthermore, the DAS expires when the market price of the ordinary shares in RBS equals or

exceeds 650p a share over a certain period. There is therefore a significant element of uncertainty in modelling potential dividend payments, particularly in judging when any payments might commence, the period over which they would be received and in choosing an appropriate discount rate to calculate their present value. On the basis of this modelling, the DAS was estimated to have a value of £1.5 billion at 31 March 2013 (£1.8 billion at 31 March 2012). The main cause of the fall in the valuation was a change in the assumed date that dividends would begin to be paid.²⁶ This theoretical valuation does not necessarily reflect the price RBS would be prepared to pay to remove the dividend access share, which would be determined after negotiations with the Government. Some commentators regard removing the dividend access share as a prerequisite to returning RBS to private ownership.

7.25 In addition to the DAS, the Treasury remains committed until December 2014 to providing up to £8 billion of contingent capital to RBS if its regulatory capital falls below a pre-determined ratio. RBS pays an annual fee of £320 million to the Treasury for this commitment. RBS and Lloyds Banking Group announced in May 2013 that they would not require additional equity from shareholders as they expected to meet increased international requirements for regulatory capital on the basis of their existing business plans.

Progress in meeting State Aid conditions

7.26 The injections of taxpayer-funded capital into RBS and Lloyds Banking Group are subject to state aid agreements with the European Commission. These are designed to ensure a level playing field between companies that have received direct public support and those that have not. Under these agreements, both banks were required to sell elements of their businesses, including parts of their branch networks, within agreed timescales. At the beginning of 2012-13, RBS was negotiating the sale of over 300 branches to Santander and Lloyds Banking Group was in discussions to sell some 600 branches to the Co-op Bank. By April 2013, both deals had collapsed:

- Santander announced in October 2012 that it had withdrawn from the deal, following delays in finalising the detailed terms. RBS has stated that it is now auctioning the branches to other potential purchasers. The deadline set by the European Commission for completion of the divestment is 31 December 2013. As the sale may not be completed by this time, it is likely that the State Aid deadline will need to be renegotiated.
- In April 2013, the Co-op announced that it was withdrawing from negotiations with Lloyds Banking Group before a contract had been signed, citing adverse economic developments. Lloyds Banking Group is now aiming to create a stand-alone bank from the 600 branches which will be floated on the stock market. It is likely that the original state aid deadline of November 2013 for completion of the disposal will also need to be renegotiated with the European Commission.

7.27 The Treasury is accountable to the European Commission for compliance by the banks with these state aid conditions and the banks would have to repay any state aid, with interest, that breached the terms of the agreements.

Strategy for the shareholdings

7.28 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, published

²⁶ Departmental Accounts, Notes 2.3, 13.1 and 23.5.2

in June 2013, made a wide range of recommendations, including changes to the way that senior bankers are remunerated, vetted and sanctioned for misconduct. In response to the final report, 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 of the Exchequer also announced that the Treasury was actively considering how to sell the shareholding in Lloyds Banking Group.

Outstanding loans to financial institutions

7.29 During the financial crisis, the Treasury:

- provided a loan to Northern Rock Asset Management (NRAM) and a working capital facility to Bradford & Bingley, which together account for most of the money outstanding; and
- funded the Financial Services Compensation Scheme with loans so that it could make payments to depositors up to the compensation limit in force at the time. In addition, the Treasury also made top-up payments where deposits exceeded the existing compensation limit (referred to as statutory debt).

UK Asset Resolution

7.30 The assets and liabilities of NRAM and Bradford & Bingley remain in public ownership under a holding company UK Asset Resolution Ltd (UKAR). The proceeds from winding down these companies will be used to repay the outstanding loans, over the next 10 to 15 years. UKAR has been recognised on the Treasury's balance sheet at its net asset value of £5.3 billion (£4.7 billion in 2011-12).

7.31 During 2012-13, NRAM made loan repayments of £1.9 billion (2011-12: £1.8 billion), resulting in an outstanding loan balance of £17.9 billion (2011-12: £19.8 billion). B&B made repayments of £1.2 billion (2011-12: £0.6 billion), with £6.8 billion outstanding at 31 March 2013 (2011-12: £8.0 billion). The NRAM loan and B&B working capital facility are both interest bearing. The interest rates on these loans were increased with effect from May 2012 and August 2011 respectively. Total interest charged during the year was £678 million (2011-12: £521 million).

7.32 The eventual return from UKAR is offset by the cost of the loans provided to NRAM and Bradford & Bingley, including the cost of the gilts issued to fund the loans. However, as I set out in my report²⁷ on the sale of Northern Rock plc, the taxpayer may not be fully compensated for the risk taken on, or the opportunity cost of the money lent, producing a net present cost of some £2 billion²⁸ for the Northern Rock intervention. UKFI published its first estimate of the expected returns to the taxpayer from UKAR in 2012²⁹, and will publish updated figures when there is a material change to this estimate.

Other loans

7.33 During 2012-13, repayments of £1.5 billion were received from the administrators of failed financial institutions (£1.4 billion in 2011-12). It is expected that the FSCS loans in respect of B&B, the Icelandic banks and London Scottish Bank will be recovered through payments from the failed banks and industry levies. The FSCS loans are interest bearing and, with effect from 1

²⁷ Comptroller and Auditor General, *The creation and sale of Northern Rock plc, Session 2012-13, HC 20, National Audit Office, May 2012.*

²⁸ Discounted using a 6 per cent (nominal) discount rate. The discount rate reflects a commercial cost of capital as well as the Social Time Preference Rate set out in *The Green Book*.

²⁹ UKFI: Publication on the Sale of Northern Rock plc (February 2012)

April 2012, the interest rate was increased in line with EU State Aid requirements so that it does not fall below the government's cost of funding. Interest charged during 2012-13 was £429 million (£370 million in 2011-12).

7.34 Recoverability of the top-up payments made by the Treasury for deposits in excess of the FSCS limit is dependent on the administration process at each failed institution. In 2012-13, the Treasury considers that the risk of non-recovery has reduced, leading to an £8 million reduction in the level of impairments recorded³⁰. Estimates of the timescales for the recovery of all the loans outstanding are subject to inevitable uncertainty but the Treasury's current forecasts indicate that the majority of the outstanding money will be repaid over the next decade.

7.35 For the failed Icelandic bank Landsbanki (which operated under the name Icesave in the UK), the Treasury also compensated depositors for the share of their deposits which should have been guaranteed by the Icelandic Depositors and Investors Guarantee Fund (the equivalent of the FSCS in the UK). In a judgment announced on 28 January 2013, the Court of the European Free Trade Association ruled that Iceland was not obliged to ensure payment of compensation to depositors after the collapse of the Icesave in 2008. This means that the Treasury cannot charge interest on the loan and can only make recoveries from the administration of Landsbanki rather than the Icelandic government.

Guarantee schemes

7.36 In addition to lending money to failing financial institutions, the Treasury also put in place two major guarantee schemes, one covering all UK banks above a certain size and the other for the Royal Bank of Scotland.

The Credit Guarantee Scheme

7.37 The Credit Guarantee Scheme (CGS) provided taxpayer guarantees for debt issued by UK banks, in return for a fee. If a bank defaulted on a debt payment covered by the scheme, the Treasury would have had to reimburse the holder of the debt. The CGS closed in 2012-13 as the last guaranteed debt issuance reached maturity in October 2012. Over the life of the scheme, fees totalled £4.3 billion and no pay-outs were made.

7.38 I reported in December 2010 that, over the life of the scheme, participating banks would benefit from reduced funding costs of substantially more than £1 billion, which was not captured by the fees charged.³¹

The Asset Protection Scheme

7.39 The Asset Protection Scheme (APS) was designed to provide participating banks with a form of insurance against future losses above a certain level on defined portfolios of assets, in exchange for a fee. By limiting potential losses in this way, the APS bolstered the regulatory capital of RBS (the only bank to participate) helping to maintain financial stability. The contingent liability for the taxpayer was around £55 billion at the start of 2012-13 and as high as £457 billion at the Scheme's peak³².

7.40 As RBS continued to manage down non-performing assets without incurring losses covered by the APS, the scheme no longer provided a material benefit for the bank's financial position. In October 2012, RBS reached the minimum fee of £2.5 billion and, with no pay-out under the scheme deemed likely, RBS was allowed to exit. The Asset Protection Agency, which was set up

³⁰ Paragraph 4.68 of Annual Report

³¹ Comptroller and Auditor General, *Maintaining the financial stability of UK banks: update on the support schemes*, Session 2010-11, HC 676, National Audit Office, December 2010.

³² The maximum taxpayer exposure reflects the expectation when the Scheme was being designed that both Lloyds Banking Group and RBS would participate (C&AG's Report on 2011-12 Accounts, Figure 11)

to administer the APS, closed during the year and its residual responsibilities have been transferred to the Treasury.

The fees and interest received from the banks

7.41 Figure 4 shows that the Treasury received fees and interest income of £1.7 billion in 2012-13 (£4.2 billion in 2011-12). The expected returns from the wholly-owned banks, along with the fees charged for the Credit Guarantee and Asset Protection Schemes, are less than would be expected from normal market investments and have not fully compensated the taxpayer for the degree of risk accepted by taxpayers in providing the support. The fees and interest income were generally set with a view of what the recipients could afford at the time, in keeping with the aim of maintaining financial stability. Once the opportunity cost and risks are factored in, I consider that, since 2008, the support measures together represent a transfer of at least £5 billion³³ in total from taxpayers to the financial sector. This does not include the cost of holding shares in RBS and Lloyds Banking Group (paragraphs 2.4-2.5 above), which have not paid an ordinary dividend or seen a capital gain.

Figure 4 Fees and interest income in 2012-13

	2012-13 (£m)	2011-12 (£m)
Financial guarantees	150	985
RBS contingent capital fees	320	320
Interest on loans	1229	658
Special Liquidity Scheme (closure)	-	2262
Totals	1699	4225

Source: Departmental Accounts: Notes 9 and 23.3

Change in use of fines imposed by the FSA

7.42 When the FSA imposed fines on financial institutions in the past, the income was used to reduce the overall level of fees paid to the regulator by the financial services industry. During 2012-13, the FSA imposed significant fines on financial service firms, including unprecedented fines on some banks in relation to the attempted manipulation of LIBOR. The government made provision in the Financial Services Act 2012 for all financial services regulatory fines, net of enforcement case costs, to be paid to the Treasury, which will then transfer the fines to the Consolidated Fund as excess cash. Total fine income payable to HM Treasury for 2012-13 was £342 million. The Government announced in the 2013 Budget that regulatory fines will be used to help veterans with mental health issues and fund Christmas boxes for all troops on operations in 2013 and 2014.

³³ The £5 billion subsidy is composed of £3 billion over the lifetime of the outstanding loans to UKAR and £1 billion each during the operation of the Credit Guarantee and Asset Purchase schemes, both of which closed in 2012-13 (C&AG's Report on 2011-12 Accounts, Figure 8)

Northern Rock plc

7.43 I have already reported on the sale, at the end of 2011, of Northern Rock plc to Virgin Money³⁴. The initial sale proceeds comprised £747 million cash. Further proceeds (deferred cash) of £73 million were received during 2012-13 based on the agreed net asset value of Northern Rock at completion, higher than the £60 million originally forecast. The sale agreement also included a capital instrument³⁵ and a claw back provision, which may give rise to additional proceeds:

- the capital instrument has been valued by the Treasury at £123 million, after taking account of the risk that future payments of interest and principal might not be received;
- an additional cash consideration of £50 million to £80 million would be received upon a profitable flotation or trade sale of Virgin Money in the five years following the transaction.

7.44 In addition to the sale of Northern Rock plc, in July 2012 NRAM announced the sale of £465 million of mortgages to Virgin Money.

Actions to reduce the risk to the taxpayer in a future financial crisis

7.45 The Financial Services Act 2012 abolished the Financial Services Authority and established a new system of financial services regulators from April 2013:

- The Financial Policy Committee within the Bank of England is responsible for identifying, monitoring and addressing risks to financial stability. The FPC has powers of direction over two new bodies:
 - The Prudential Regulation Authority, a subsidiary of the Bank of England, with responsibility to promote the soundness of firms through minimising the risk they pose to financial stability. The PRA will regulate the larger deposit takers, insurers and a small number of complex investment firms.
 - a conduct of business regulator, the Financial Conduct Authority, that regulates the conduct of all firms and the prudential regulation of smaller, simpler firms. It also works to ensure that the financial markets function well.

7.46 The Act also appointed the Comptroller and Auditor General as the auditor of the Prudential Regulation Authority and the Financial Conduct Authority, as well as a number of other bodies³⁶. The Bank of England remains outside the NAO's statutory audit responsibilities.

7.47 To improve the resilience of UK banks and to ensure that future bank failures can be resolved without passing the costs to the taxpayer, a number of further reforms are underway. The Financial Services (Banking Reform) Bill was introduced in February 2013 to implement many of the recommendations of the Independent Commission on Banking, including establishing a ring-fence to separate important everyday banking activities from investment banking activities. The Bill also gives the Prudential Regulation Authority a new objective to promote the continuity of core banking services in the UK, protect banks from risks that could threaten continuity and ensure that core banking services can be maintained in the event of bank failure.

³⁴ Comptroller and Auditor General, *The creation and sale of Northern Rock plc, Session 2012-13, HC 20, National Audit Office, May 2012.*

³⁵ The capital instrument consisted of debt issued to the Treasury with a principal value of £150 million and discretionary interest payments of 10.5 per cent a year from 2013

³⁶ Financial Services Compensation Scheme, Financial Ombudsman Service, Money Advice Service

Part Three: Wider support for the economy

7.48 In conjunction with the Bank of England, the Treasury has introduced measures to stimulate the economy, as well as preparing contingency plans to respond to financial instability in the Eurozone.

Actions to stimulate the economy

7.49 In exceptional circumstances, central banks may use unconventional monetary policy measures to stimulate demand in an economy. Following the failure of Lehman Brothers in September 2008, confidence in the world economy collapsed and financial markets became dysfunctional.

Quantitative Easing

7.50 In the UK, the Bank Rate was cut sharply and, in early 2009, the Bank of England initiated a programme of asset purchases (often referred to as Quantitative Easing) to stimulate demand further. Quantitative Easing is a monetary policy tool to boost the money supply by purchasing assets, mainly gilts.³⁷ The Bank creates new money electronically and uses it to purchase assets from the private sector. These investors typically would not want to hold this money in bank accounts, because it yields a low return. So they are likely to use it to purchase other assets, such as corporate bonds and shares. This additional demand for assets, other than gilts, lowers longer-term yields and borrowing costs, which should stimulate spending by businesses and households.

7.51 The aim of the policy is to inject money into the economy in order to boost nominal spending and thus help to achieve the 2% inflation target. The Bank of England's Quarterly Bulletin, published in September 2011³⁸, analysed the effectiveness of the first £200 billion of asset purchases and estimated that the programme had stimulated spending, raising UK inflation by around $\frac{3}{4}$ - 1½ percentage points and real GDP by around 1½ - 2%.

7.52 The programme is run through a wholly owned subsidiary of the Bank of England (the Bank of England Asset Purchase Facility Fund Limited – BEAPFF Ltd), which is indemnified by the Treasury against losses and the Treasury will receive any profits generated by selling the assets back to the market or holding them to maturity. As at 31 March 2013, the size of the asset purchase programme was authorised to be up to £385 billion.

7.53 The Treasury's exposure to any gains or losses is recorded in the accounts as the difference between the fair value of the assets and liabilities of BEAPFF Ltd at 31 March 2013. At 31 March 2013, the programme had made cumulative profits of £55.5 billion (2011-12: £38.5 billion). These profits mainly reflect the coupons (interest) received and the increased market value of the assets (mainly gilts) held. The profits figure is volatile but has generally increased over the past three years, in line with rising gilt prices and the expansion of the programme. The increase in profits of £17 billion during 2012-13 is recognised as a fair value gain as it increases the amount that would be due from BEAPFF Ltd to the Treasury if the programme were to close on 31 March 2013.

7.54 During 2012-13, the Treasury and the Bank of England agreed to a revised indemnity which requires excess cash to be transferred between BEAPFF Ltd and the Treasury (**Figure 5**). The purpose of this change is to enable more efficient cash management across government.

7.55 Cash transfers to the Treasury commenced in January 2013 and totalled £11.3 billion by 31 March 2013. If there is a deficit of cash in any quarter, then a transfer is made in the opposite

³⁷ <http://www.bankofengland.co.uk/markets/Documents/money/publications/redbookqe.pdf>

³⁸ <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/gb110301.pdf>

direction, from the Treasury to BEAPFF Ltd. As and when the Bank of England's Monetary Policy Committee decides to exit quantitative easing, cash transfers are expected to reverse, consistent with the terms of the revised indemnity.

7.56 The size of these quarterly transfers, and the ultimate net amount transferred to or from BEAPFF Ltd, is uncertain and depends on a number of factors, including the future path of Bank Rate and the price of the assets when they are sold. In early 2013, the Bank of England published an article explaining how the expected size of the transfers varies depending on the assumptions made for these uncertain factors. The scenarios presented in the article involved total net transfers within a range of an £8 billion loss (a net transfer from the Treasury to the Bank) to a £51 billion gain. But the size of the net transfers is uncertain and outcomes outside this range are possible depending on the assumptions chosen³⁹. The Office for Budget Responsibility has projected a net transfer to the Treasury of around £45 billion.

7.57 It is not certain that the fair value gain recognised in the Treasury's Accounts will crystallise into a net cash gain for the Exchequer. This is because there are a number of factors that will affect the price of the assets when they are sold, such as volume of assets held and the future path of Bank Rate.

7.58 In its report⁴⁰ on last year's accounts, the Committee of Public Accounts was concerned that the Treasury did not appear to know what had happened to the £375 billion injected into the economy or how the effects might be distributed across the economy. In its response⁴¹, the Treasury did not explain how the investing institutions used the £375 billion they received in return for selling their gilt holdings to BEAPFF Ltd, but has pointed to some research on its distributional impact.

7.59 The Bank of England assessed the distributional impact of quantitative easing on pensioners and savers in a paper published in July 2012⁴². The Bank considered that economic growth would have been lower without quantitative easing and unemployment would have been higher, leading to a significant detrimental impact across society. For savers, the key influence has been the significant and prolonged reduction in Bank Rate by the Bank of England, rather than quantitative easing. Nevertheless, by pushing up the prices of a range of assets, quantitative easing has boosted the value of household wealth held outside pension funds. However, the impact is heavily skewed with the top 5% of households holding some 40% of the assets affected.

7.60 For pensioners, the incomes of those already receiving a pension have not been affected. The impact on future pensioners has been broadly neutral as, for instance, the fall in annuity rates caused by a fall in gilt yields has been offset by a rise in the price of bonds and equities held in pension funds.

7.61 The Treasury Select Committee is currently taking evidence on quantitative easing, including on its distributional impacts, and will publish a report in due course.

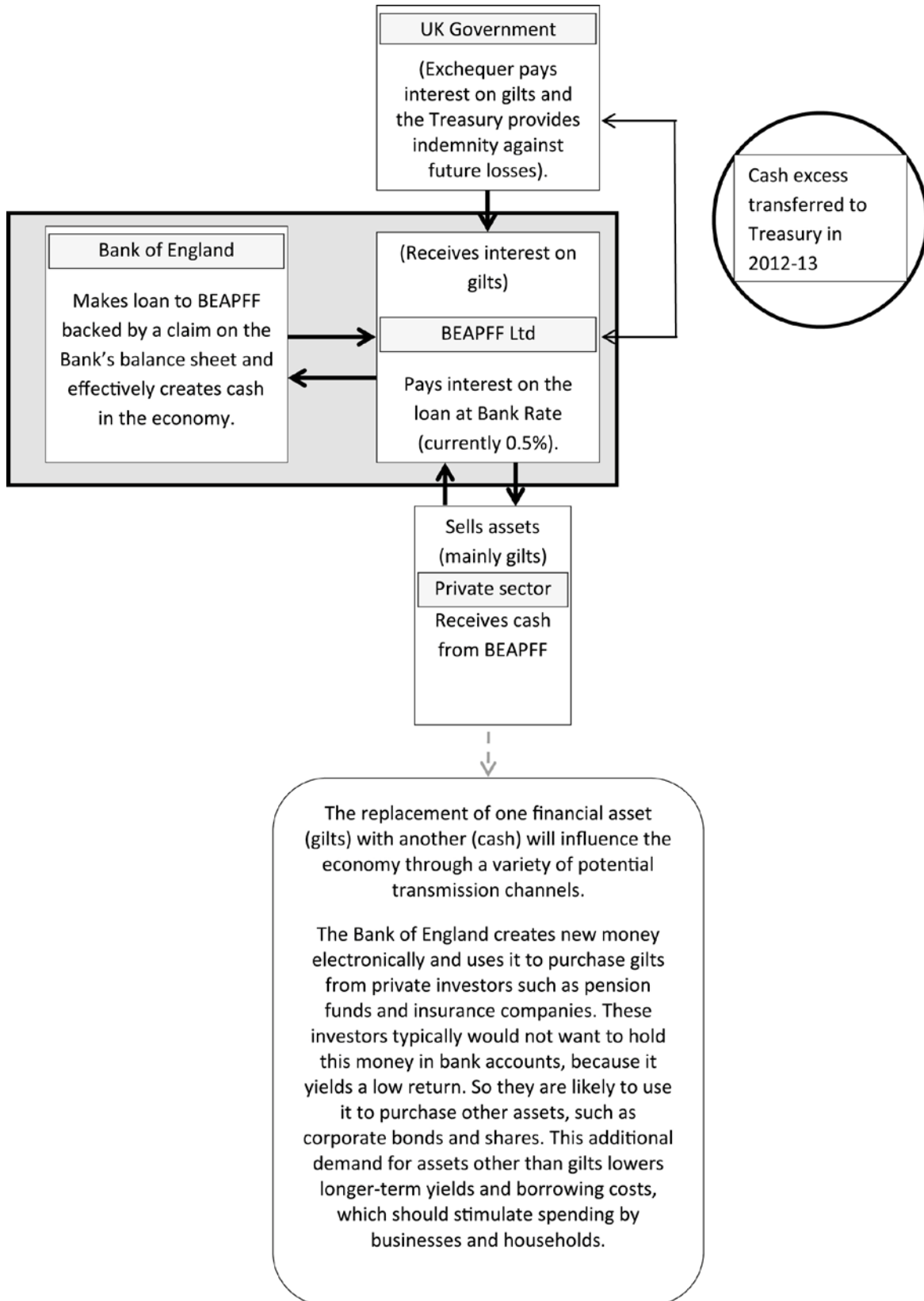
³⁹ <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130103.pdf>

⁴⁰ 27th Report of Session 2012-13, HC 659

⁴¹ Government responses on the Twenty Fourth and the Twenty Sixth to the Thirty Fifth Reports from the Committee of Public Accounts Session: 2012-13, Cm 8613, May 2013

⁴² <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb120306.pdf>

Figure 5: Cash transfers between BEAPFF Ltd and Treasury in 2012-13



Source: National Audit Office analysis

Other actions to support lending

7.62 To reduce their reliance on taxpayer support, banks need to find alternative sources of funding or reduce their overall funding requirements, which is likely to lead to a reduction in lending to the economy. Because lending to individuals and businesses has not recovered to pre-crisis levels, the Treasury has responded by introducing a number of schemes to support the economy.

The National Loans Guarantee Scheme

7.63 The National Loan Guarantee Scheme (NLGS) was launched by the Treasury in March 2012 to provide businesses with access to up to £20 billion of cheap finance. The NLGS provides a government guarantee for unsecured borrowing by banks, reducing their cost of borrowing by one percentage point. Participating banks pass on the benefit of the guarantee through cheaper loans to businesses. Guarantees totalling £2.9 billion were made in April 2012 to Barclays and Lloyds Banking Group. Falls in the interest rates paid on secured wholesale borrowing by banks since the introduction of the NLGS mean that it is less economical for banks to raise unsecured funding. Banks are now using the Funding for Lending Scheme and it is unlikely that further guarantees will be made under the NLGS.

Funding for Lending

7.64 Despite the Bank of England lowering Bank Rate to 0.5% from early 2009 and purchasing £375 billion of assets under quantitative easing, lending by banks to UK households and businesses has remained broadly flat. An increase in the cost of funding for banks, caused by the intensification of the euro-area crisis, was identified by the Bank of England as one restraint on lending.

7.65 To provide further stimulus to the economy, the Bank of England introduced the Funding for Lending Scheme (FLS) in July 2012⁴³ to encourage more lending to the UK economy than would have been the case. In return for a fee, the FLS allows banks and building societies to exchange assets on their balance sheets for Treasury Bills. The Treasury Bills can then be used to borrow cash or held in banks' liquid asset buffers. The scheme also encourages lending by offering further funding to those banks that increase their net lending to the UK economy during the period June 2012 to December 2013. Unlike quantitative easing, no indemnity has been given to the Bank of England by the Treasury for the Funding for Lending Scheme, but the UK taxpayer retains exposure through the Treasury's ownership of the Bank of England.

7.66 There is no overall limit on the amount of funding that banks can access through the FLS, provided a participant has sufficient collateral. At 31 March 2013, drawings on the FLS totalled some £16.5 billion (which is around 1 per cent of lending that could be increased by the FLS⁴⁴). The three largest users of the scheme were Barclays, Lloyds Banking Group and the Nationwide Building Society. Published data indicates that, since June 2012, the majority of scheme participants have increased their lending whilst a smaller number of banks have reduced their net lending, leading to an overall net reduction of some £0.3 billion.⁴⁵ The Bank's Deputy Governor has stated on 3rd June 2013 that this *"picture of flat lending growth overall is broadly as expected at this stage..... and the plans of the FLS participants suggest that net lending volumes will pick up gradually through the remainder of 2013."*

⁴³ <http://www.bankofengland.co.uk/publications/Pages/news/2012/067.aspx>

⁴⁴ Bank of England: Funding for Lending Scheme – Usage and lending data, March 2013 <http://www.bankofengland.co.uk/markets/Pages/FLS/data.aspx>

⁴⁵ Bank of England News Release – Bank of England and HM Treasury Funding for Lending Scheme – usage and lending data – 2013 Q1. 3 June 2013 <http://www.bankofengland.co.uk/publications/Pages/news/2013/070.aspx>

7.67 To encourage more lending to Small and Medium Sized Enterprises (SMEs) a number of changes were made to the scheme in April 2013⁴⁶. The scheme has been extended by a further year to the end of January 2015; incentives to boost new lending will be skewed heavily towards SMEs and the scheme will include lending by non-bank credit providers, such as financial leasing and factoring companies.

7.68 The Bank of England and the Treasury are monitoring the scheme through a joint Oversight Board that meets on a quarterly basis. The extent to which banks and other financial institutions make further use of the FLS will depend on the cost of alternative sources of funding, which have fallen since the FLS was introduced.

Business Finance Partnership

7.69 The Business Finance Partnership (BFP) was introduced in the Chancellor's Autumn Statement in November 2011 with the aim of increasing the supply of capital through non-bank lending channels and, in the longer term, to help to diversify the sources of finance available to businesses. It aims to co-invest a total of £1.1 billion through these channels, matched by at least equal private sector capital, to help create new sources of lending for small and mid-sized businesses in the UK. Since the scheme's introduction, the Treasury, through its Infrastructure Finance Unit Limited, undertook tender exercises to appoint the first tranche of fund managers to manage the investments. Once the first fund manager was appointed in November 2012, it began to seek businesses to invest in and undertake due diligence. The first investment was made in March 2013 of some £5 million⁴⁷.

UK Guarantees

7.70 The UK Guarantees scheme was announced in July 2012 in response to constraints in the long-term debt markets. Up to £40 billion of guarantees can be offered in aggregate. Two guarantees were approved but not issued in 2012-13: to support up to £1 billion of borrowing by the Greater London Authority for the Northern Line extension and a guarantee of £75 million to Drax Power for the partial conversion of a power station to biomass.

Help to Buy Scheme

7.71 In recent years, increased deposit requirements and falling equity values have left many people unable to get onto the housing ladder or move home. In March 2013, the Government announced a Help to Buy Scheme, developed by the Treasury, which will provide a new mortgage guarantee to enable people to obtain mortgages on both new build and existing homes, without the need for a large deposit.

7.72 The Help to Buy mortgage guarantee is designed to increase the appetite of mortgage lenders for high loan-to-value lending to creditworthy customers. From January 2014, the scheme will provide lenders with the option to purchase a Government guarantee that compensates them for a portion of their losses in the event of foreclosure. The Government will charge a commercial fee for the provision of this guarantee.

Support to other countries

7.73 Financial market tensions led to some countries seeking international financial assistance, including from the UK.

⁴⁶ <http://www.bankofengland.co.uk/publications/Pages/news/2013/061.aspx>

⁴⁷ Departmental Accounts, Note 13 and Annual report paragraphs 4.87 and 4.88

Bilateral loan to Ireland

7.74 During 2012-13, Ireland drew down a further £1.2 billion against its £3.2 billion facility, bringing the total loan balance to £2.4 billion. A further instalment of £0.4 billion was made in June 2013 and the final tranche of £0.4 billion will be drawn down as soon as is practicable following the end of the next reporting period, which ends on 30 September 2013.

7.75 In July 2011, following the euro-area's commitment to lower the interest rate on their loans to Ireland, the Chancellor committed in principle to lower the interest rate on the UK's bilateral loan to Ireland. On 4 October 2012 the bilateral loan agreement was revised, reducing the interest rate to the UK's cost of funding plus a service fee of 0.18 per cent, below the rate that would be charged by the market. The new interest rate was applied retrospectively. Following the reduction to the interest rate, the interest charge for 2012-13 was £45.9 million.

IMF and European Union

7.76 In addition to the bilateral loan to Ireland, the Government has continued to support IMF programme loans through the National Loans Fund (NLF). The UK holds contingent liabilities for the European Financial Stabilisation Mechanism, which is available to all EU Member States, and the European Balance of Payments Facility, which is available only to non-euro area Member States. Both these mechanisms are financed by the European Commission raising money on capital markets, guaranteed by the EU budget. The UK's contingent liabilities for these mechanisms are reflected in the Consolidated Fund Accounts 2012-13.

7.77 In June 2012 the European Commission proposed new legislation to provide a common framework for resolution of EU banks which encounter financial difficulties. The current draft would require the UK to establish a dedicated fund for bank resolution which might be required to contribute to the resolution of banks established in EU Member States, if they had operations in the UK.

Part Four: The Treasury's capacity to respond to a future financial crisis

7.78 Prior to 2007, the maintenance of financial stability had not, in terms of staff resources, been a major part of the Treasury's work. In dealing with Northern Rock and subsequent events, the Treasury had to respond very quickly. The availability of people with relevant skills and experience was severely stretched. The Treasury was therefore very reliant on key officials and external advisers for the expertise it needed.

7.79 Following calls from the NAO and the PAC for a lessons learned exercise the Treasury conducted an internal review of its management response to the financial crisis with the aim of making changes to ensure that the necessary capability would be in place for future events. The Financial Crisis Management Review's main conclusions were that Treasury needed to improve its horizon scanning, financial services expertise, staff management and retention, contingency planning and crisis management.

7.80 Horizon scanning has been improved by the establishment the Financial Policy Committee of the Bank of England, which will monitor the UK economy and report on risks to long term growth. The new Prudential Regulation Authority will act on concerns raised by the FPC. A Treasury team has been set up to analyse and advise the Chancellor on outputs from the Bank. In addition, the Treasury's own business planning and risk management framework provides for the monitoring of risk indicators across its portfolio of responsibilities.

7.81 Other recommendations are being addressed by a wider review of the Treasury, which reorganised the department into more flexible business units, including a central project pool. The Treasury is also addressing the recommendations around the creation of a more stable workforce by reducing turnover and developing, adequately rewarding and retaining desirable

skills. Among the steps being taken is the introduction of a new grade, just below the level of the Senior Civil Service, to recognise and stretch staff with specialist knowledge, professional skills and valuable experience. The first tranche of post holders is in place, with the intention of building to around 80 posts.

7.82 The capacity of the Treasury to react quickly to events was tested in 2013 when Treasury officials provided technical assistance to and worked with the Cypriot authorities to develop a solution for deposits held in the UK branch of Cyprus Popular Bank.

7.83 Implementation of the Financial Crisis Management Review recommendations was recently examined by the Treasury's internal auditors who concluded that good progress had been made and that work should continue to ensure that the initiatives become fully operational. The Treasury's Accounting Officer has undertaken to provide an update on progress to the Committee of Public Accounts during the summer.

Amyas C E Morse
Comptroller and Auditor General
12 July 2013

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

8

Resource Accounts

Statement of Parliamentary Supply

for the year ended 31 March 2013

	Note	Estimate			Outturn			2012-13	2011-12
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate saving/ (excess)	Outturn Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
Resource	4.1	(57,197)	12,000	(45,197)	(186,168)	11,490	(174,678)	128,971	160,294
Capital	4.2	27,475	-	27,475	17,988	-	17,988	9,487	36,497
Annually Managed Expenditure									
Resource	4.1	(15,719,049)	3,259	(15,715,790)	(18,733,596)	3,678	(18,729,918)	3,014,547	(18,723,107)
Capital	4.2	(2,286,863)	-	(2,286,863)	(3,591,794)	-	(3,591,794)	1,304,931	(4,568,389)
Total Budget		(18,035,634)	15,259	(18,020,375)	(22,493,570)	15,168	(22,478,402)	4,457,936	(23,094,705)
Non-Budget		-	-	-	-	-	-	-	-
Total		(18,035,634)	15,259	(18,020,375)	(22,493,570)	15,168	(22,478,402)	4,457,936	(23,094,705)
Total Resource		(15,776,246)	15,259	(15,760,987)	(18,919,764)	15,168	(18,904,596)	3,143,518	(18,562,813)
Total Capital		(2,259,388)	-	(2,259,388)	(3,573,806)	-	(3,573,806)	1,314,418	(4,531,892)
Total		(18,035,634)	15,259	(18,020,375)	(22,493,570)	15,168	(22,478,402)	4,457,936	(23,094,705)
Net Cash Requirement	5.3		(6,161,530)			(7,065,309)	903,779	(5,865,012)	
Administration Costs	4.1, 5.2		140,056			135,204	4,852	131,076	

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanations of variances between Estimate and outturn are given in note 4 and in the management commentary in Chapter 4 of the annual report.

The notes on pages 110 to 175 form part of these accounts.

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2013

	Note	2012-13			2011-12 (Restated)		
		Core Treasury ¹	Core Treasury and Agencies ²	Group ³	Core Treasury	Core Treasury and Agencies	Group
		£000	£000	£000	£000	£000	£000
Administration costs							
Staff costs	6.1	68,078	78,432	80,874	69,304	83,224	86,113
Other administration costs	7.1	82,408	89,696	88,341	63,745	73,585	72,165
Less: administration income	9	(30,527)	(35,996)	(35,821)	(11,565)	(28,400)	(28,021)
Net administration costs		119,959	132,132	133,394	121,484	128,409	130,257
Programme costs							
Staff costs	6.1	402	843	42,443	420	420	43,608
Impairment of financial assets	8	36,798	36,798	36,798	14,099,548	14,099,548	14,099,548
Other programme costs	8	275,129	279,624	680,886	398,415	404,132	788,100
Less: APS and BEAPFF derivative fair value movements	9	(17,103,300)	(17,103,300)	(17,103,300)	(28,443,612)	(28,443,612)	(28,443,612)
Less: other programme income	9	(2,305,012)	(2,305,929)	(2,727,005)	(4,839,182)	(4,840,555)	(5,216,558)
Net programme income		(19,095,983)	(19,091,964)	(19,070,178)	(18,784,411)	(18,780,067)	(18,728,914)
Net operating income		(18,976,024)	(18,959,832)	(18,936,784)	(18,662,927)	(18,651,658)	(18,598,657)
Of which:							
Continuing operations		(18,976,024)	(18,959,510)	(18,936,462)	(18,662,927)	(18,651,105)	(18,598,104)
Discontinued operations	10.3	-	(322)	(322)	-	(553)	(553)
Total expenditure		462,815	485,393	929,342	14,631,432	14,660,909	15,089,534
Total income		(19,438,839)	(19,445,225)	(19,866,126)	(33,294,359)	(33,312,567)	(33,688,191)
Net operating income		(18,976,024)	(18,959,832)	(18,936,784)	(18,662,927)	(18,651,658)	(18,598,657)
Other comprehensive net expenditure							
Net gain on revaluation of property, plant and equipment	11	(8,963)	(8,963)	(8,963)	-	-	-
Net (gain)/loss on revaluation of investments	13	(4,397,172)	(4,397,172)	(4,397,172)	4,117,010	4,117,010	4,117,010
Net loss on hedging reserve		599	599	599	18,446	18,446	18,446
Actuarial loss on pension scheme liabilities		-	-	1,134	-	-	3,525
Net comprehensive income for the year		(23,381,560)	(23,365,368)	(23,341,186)	(14,527,471)	(14,516,202)	(14,459,676)

¹ Core Treasury comprises HM Treasury department, Infrastructure UK, the Infrastructure Finance Unit Limited and the Office of Tax Simplification

² Core Treasury and Agencies comprises the same bodies as Core Treasury, plus additionally the UK Debt Management Office and the Asset Protection Agency

³ Treasury Group comprises the same bodies as Core Treasury and Agencies, plus additionally: the Office for Budget Responsibility; UK Financial Investments; the Financial Services Compensation Scheme, the Money Advice Service and the Sovereign Grant. For further details see note 1.2

Statement of Financial Position

as at 31 March 2013

		2012-13	2011-12	2010-11
	Note	Core Treasury £000	Core Treasury £000	Core Treasury £000
Non-current assets				
Property, plant and equipment	11	115,601	116,582	108,718
Intangible assets	12	11,113	7,680	2,830
Available-for-sale financial assets	13	48,646,006	44,292,263	63,960,434
Derivative financial assets expiring after more than one year		-	-	4,613
Loans and advances	15.1	49,046,130	52,332,079	54,937,278
Trade and other receivables due after more than one year	15.2	362,271	285,480	427,889
Total non-current assets		98,181,121	97,034,084	119,441,762
Current assets				
Inventories	16	16,232	17,418	9,864
Trade and other receivables due within one year	15.2	1,314,075	3,334,711	1,577,778
Derivative financial assets expiring within one year	14.1	44,274,590	38,603,767	10,565,392
Cash and cash equivalents	17	9,283	10,713	18,265
Total current assets		45,614,180	41,966,609	12,171,299
Total assets		143,795,301	139,000,693	131,613,061
Current liabilities				
Trade and other payables falling due within one year	18.1	(404,493)	(354,241)	(324,682)
Provisions due within one year	19.1	(290,554)	(311,475)	(504,473)
Derivative financial liabilities expiring within one year	14.2	-	(8,471)	(28,733)
Total current liabilities		(695,047)	(674,187)	(857,888)
Non-current assets plus net current assets		143,100,254	138,326,506	130,755,173
Non-current liabilities				
Financial guarantees	18.3	(763,158)	(600,665)	(1,540,092)
Derivative financial liabilities expiring after more than one year		-	-	(104,151)
Other payables due after more than one year	18.1	(168,820)	(172,005)	(172,200)
Provisions due after more than one year	19.1	(579,559)	(972,001)	(993,466)
Total non-current liabilities		(1,511,537)	(1,744,671)	(2,809,909)
Assets less liabilities		141,588,717	136,581,835	127,945,264
Taxpayers' equity				
General fund		128,666,487	128,065,144	115,293,117
Available-for-sale reserve		12,911,188	8,514,014	12,631,024
Hedging reserve		-	599	19,045
Revaluation reserve		11,042	2,078	2,078
Total taxpayers' equity		141,588,717	136,581,835	127,945,264

Consolidated Statement of Financial Position

as at 31 March 2013

		2012-13	2011-12	2010-11	2012-13	2011-12 (Restated)	2010-11 (Restated)
	Note	Core Treasury and Agencies	Core Treasury and Agencies	Core Treasury and Agencies	Group	Group	Group
		£000	£000	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	11	116,286	116,778	109,068	129,753	131,068	123,628
Intangible assets	12	12,655	10,295	6,932	15,123	11,193	7,249
Available-for-sale financial assets	13	48,646,006	44,292,263	63,960,434	48,646,006	44,292,263	63,960,434
Derivative financial assets expiring after more than one year		-	-	4,613	-	-	4,613
Loans and advances	15.1	49,046,130	52,332,079	54,937,278	49,046,028	52,326,151	54,921,665
Trade and other receivables due after more than one year	15.2	362,296	285,523	428,022	362,296	285,523	428,017
Total non-current assets		98,183,373	97,036,938	119,446,347	98,199,206	97,046,198	119,445,606
Current assets							
Inventories	16	16,232	17,418	9,864	16,720	17,885	10,375
Trade and other receivables due within one year	15.2	1,315,802	3,338,804	1,582,531	937,687	3,039,327	1,284,266
Derivative financial assets expiring within one year	14.1	44,274,590	38,603,767	10,565,392	44,274,590	38,603,767	10,565,392
Cash and cash equivalents	17	9,284	10,714	18,280	192,143	177,256	272,029
Total current assets		45,615,908	41,970,703	12,176,067	45,421,140	41,838,235	12,132,062
Total assets		143,799,281	139,007,641	131,622,414	143,620,346	138,884,433	131,577,668
Current liabilities							
Trade and other payables falling due within one year	18.1	(406,542)	(358,803)	(330,439)	(473,991)	(452,024)	(431,916)
Bank overdraft	17	-	-	-	(1,413)	(5,418)	(37,173)
Provisions due within one year	19.1	(290,569)	(312,444)	(504,530)	(291,036)	(316,326)	(526,393)
Derivative financial liabilities expiring within one year	14.2	-	(8,471)	(28,733)	-	(8,471)	(28,733)
Total current liabilities		(697,111)	(679,718)	(863,702)	(766,440)	(782,239)	(1,024,215)
Non-current assets plus net current assets		143,102,170	138,327,923	130,758,712	142,853,906	138,102,194	130,553,453
Non-current liabilities							
Financial guarantees	18.3	(763,158)	(600,665)	(1,540,092)	(763,158)	(600,665)	(1,540,092)
Derivative financial liabilities expiring after more than one year		-	-	(104,151)	-	-	(104,151)
Other payables due after more than one year	18.1	(168,820)	(172,005)	(173,911)	(175,958)	(179,092)	(179,231)
Provisions due after more than one year	19.1	(579,559)	(972,015)	(993,522)	(584,588)	(974,088)	(997,207)
Total non-current liabilities		(1,511,537)	(1,744,685)	(2,811,676)	(1,523,704)	(1,753,845)	(2,820,681)
Assets less liabilities		141,590,633	136,583,238	127,947,036	141,330,202	136,348,349	127,732,772
Taxpayers' equity							
General fund		128,668,403	128,066,547	115,294,889	128,272,056	128,066,686	115,294,890
Available-for-sale reserve		12,911,188	8,514,014	12,631,024	12,911,188	8,514,014	12,631,024
Hedging reserve		-	599	19,045	-	599	19,045
Revaluation reserve		11,042	2,078	2,078	11,042	2,078	2,078
Pension reserve		-	-	-	(7,087)	(7,022)	(5,251)
Retained earnings reserve		-	-	-	143,003	(228,006)	(209,014)
Total taxpayers' equity		141,590,633	136,583,238	127,947,036	141,330,202	136,348,349	127,732,772

Nick Macpherson
Permanent Secretary
11 July 2013

Statement of Cash Flows

for the year ended 31 March 2013

	Note	2012-13			2011-12 (Restated)		
		Core Treasury £000	Core Treasury and Agencies £000	Group £000	Core Treasury £000	Core Treasury and Agencies £000	Group £000
Cash flows from continuing operating activities							
Net operating income		(18,976,024)	(18,959,510)	(18,936,462)	(18,662,927)	(18,651,657)	(18,598,657)
Adjustment for non-cash transactions	7.1, 8, 9	16,896,453	16,895,877	16,888,124	14,030,607	14,030,243	14,026,449
Changes in working capital other than cash		(2,046,381)	(2,045,847)	(2,099,617)	2,464,795	2,464,348	2,471,366
Intra group transfer		16,635	(1,214)	1,159	12,708	1,147	(5,769)
Movements in financial instruments passing through SCNE		144,566	144,566	144,566	172,641	172,641	172,641
Use of provisions	19.1	453,499	453,548	458,999	196,606	196,665	218,532
Of which non-cash		(967)	(967)	(967)	(558)	(558)	(558)
Cash flows from discontinued operations		-	-	-	-	-	-
Net cash inflow from operating activities		(3,512,219)	(3,513,547)	(3,544,198)	(1,786,128)	(1,787,171)	(1,715,996)
Cash flows from investing activities							
Purchase of property, plant and equipment		1,424	2,131	3,827	10,870	10,941	13,186
Purchase of intangible assets		5,403	5,989	8,240	6,141	6,748	7,487
Additions to financial assets	13, 15.1	1,243,717	1,243,717	1,243,640	1,265,133	1,265,133	1,273,004
Proceeds from disposal of assets		(5,853)	(5,853)	(5,818)	(747,000)	(747,000)	(747,000)
Cash received from derivative financial instruments	14.1	(11,422,473)	(11,422,473)	(11,422,473)	(250,000)	(250,000)	(250,000)
Loan repayments from financial institutions and other bodies	15.1	(4,678,354)	(4,678,354)	(4,672,450)	(4,389,020)	(4,389,020)	(4,387,206)
Net excess of pension contributions over costs		-	-	572	-	-	600
Net cash inflow from investing		(14,856,136)	(14,854,843)	(14,844,462)	(4,103,876)	(4,103,198)	(4,089,929)
Cash flows from financing activities							
Sovereign Grant external funding		-	-	(52)	-	-	(28,992)
From the Consolidated Fund (non-supply)		(3,679)	(3,679)	(3,679)	(10,927)	(10,927)	(10,927)
Capital element of payments in respect of on balance sheet (SoFP) PFI contracts		1,804	1,804	1,804	1,676	1,676	1,676
Net financing		(1,875)	(1,875)	(1,927)	(9,251)	(9,251)	(38,243)
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		18,370,230	18,370,265	18,390,587	5,899,255	5,899,620	5,844,168
Payments of amounts due to the Consolidated Fund		(11,304,957)	(11,304,992)	(11,304,992)	(36,645)	(37,024)	(37,024)
Surrender of unused supply					(16,191)	(16,191)	(16,191)
Excess cash paid to the Consolidated Fund		(7,066,703)	(7,066,703)	(7,066,703)	(5,853,971)	(5,853,971)	(5,853,971)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	17	(1,430)	(1,430)	18,892	(7,552)	(7,566)	(63,018)
Cash and cash equivalents at the beginning of the period	17	10,713	10,714	171,838	18,265	18,280	234,856
Cash and cash equivalents at the end of the period	17	9,283	9,284	190,730	10,713	10,714	171,838

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

Core Treasury

	General Fund ¹	Available-for-Sale Reserve ²	Hedging Reserve ³	Revaluation Reserve ⁴	Pension Reserve ⁵	Retained Earnings ⁶	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2012	128,065,144	8,514,014	599	2,078	-	-	136,581,835
Consolidated Fund Standing Services	3,679	-	-	-	-	-	3,679
Change in CFERs payable to the Consolidated Fund	302	-	-	-	-	-	302
CFERs paid to the Consolidated Fund	(11,304,957)	-	-	-	-	-	(11,304,957)
Excess cash payable to the Consolidated Fund	(13,245)	-	-	-	-	-	(13,245)
Excess cash paid to the Consolidated Fund	(7,055,662)	-	-	-	-	-	(7,055,662)
Comprehensive (expenditure)/income for the year	18,976,024	4,397,172	(599)	8,963	-	-	23,381,560
Non-cash charges – auditor's remuneration	350	-	-	-	-	-	350
Non-supply – banking and gilts registration	11,490	-	-	-	-	-	11,490
Consolidation adjustments	(16,638)	2	-	1	-	-	(16,635)
Balance at 31 March 2013	128,666,487	12,911,188	-	11,042	-	-	141,588,717

Core Treasury and Agencies

	General Fund ¹	Available-for-Sale Reserve ²	Hedging Reserve ³	Revaluation Reserve ⁴	Pension Reserve ⁵	Retained Earnings ⁶	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2012	128,066,547	8,514,014	599	2,078	-	-	136,583,238
Consolidated Fund Standing Services	3,679	-	-	-	-	-	3,679
Change in CFERs payable to the Consolidated Fund	337	-	-	-	-	-	337
CFERs paid to the Consolidated Fund	(11,304,992)	-	-	-	-	-	(11,304,992)
Excess cash payable to the Consolidated Fund	(13,245)	-	-	-	-	-	(13,245)
Excess cash paid to the Consolidated Fund	(7,055,662)	-	-	-	-	-	(7,055,662)
Comprehensive (expenditure)/income for the year	18,959,832	4,397,172	(599)	8,963	-	-	23,365,368
Non-cash charges – auditor's remuneration	416	-	-	-	-	-	416
Non-supply – banking and gilts registration	11,490	-	-	-	-	-	11,490
Consolidation adjustments	1	2	-	1	-	-	4
Balance at 31 March 2013	128,668,403	12,911,188	-	11,042	-	-	141,590,633

Group

	General Fund ¹	Available-for-Sale Reserve ²	Hedging Reserve ³	Revaluation Reserve ⁴	Pension Reserve ⁵	Retained Earnings ⁶	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2012	128,066,686	8,514,014	599	2,078	(7,022)	(228,006)	136,348,349
Sovereign Grant funding from retained earnings	-	-	-	-	-	52	52
Consolidated Fund Standing Services	3,679	-	-	-	-	-	3,679
Change in CFERs payable to the Consolidated Fund	337	-	-	-	-	-	337
CFERs paid to the Consolidated Fund	(11,304,992)	-	-	-	-	-	(11,304,992)
Excess cash payable to the Consolidated Fund	(13,245)	-	-	-	-	-	(13,245)
Excess cash paid to the Consolidated Fund	(7,055,662)	-	-	-	-	-	(7,055,662)
Comprehensive (expenditure)/income for the year	18,563,842	4,397,172	(599)	8,963	(1,134)	372,942	23,341,186
Non-cash charges – auditor's remuneration	416	-	-	-	-	-	416
Non-supply – banking and gilts registration	11,490	-	-	-	-	-	11,490
Transfers between reserves	(497)	-	-	-	1,069	(572)	-
Consolidation adjustments	2	2	-	1	-	(1,413)	(1,408)
Balance at 31 March 2013	128,272,056	12,911,188	-	11,042	(7,087)	143,003	141,330,202

1. The General Fund represents the total assets less liabilities to the extent that the total is not represented by other reserves and financing items.

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

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

4. The Revaluation Reserve records the unrealised gain or loss on revaluation of assets.

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

6. The Retained Earnings Reserves comprise the retained earnings held by UK Financial Investments Limited, the Money Advice Service, the Financial Services Compensation Scheme and the Sovereign Grant.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2012

Core Treasury

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011	115,293,117	12,631,024	19,045	2,078	-	-	127,945,264
Consolidated Fund Standing Services	10,927	-	-	-	-	-	10,927
CFERs payable to the Consolidated Fund	(35,810)	-	-	-	-	-	(35,810)
Excess cash payable to the Consolidated Fund	(11,041)	-	-	-	-	-	(11,041)
Excess cash paid to the Consolidated Fund	(5,853,971)	-	-	-	-	-	(5,853,971)
Comprehensive (expenditure)/income for the year	18,662,927	(4,117,010)	(18,446)	-	-	-	14,527,471
Non-cash charges – auditor's remuneration	371	-	-	-	-	-	371
Non-supply – banking and gilts registration	11,332	-	-	-	-	-	11,332
Consolidation adjustments	(12,708)	-	-	-	-	-	(12,708)
Balance at 31 March 2012	128,065,144	8,514,014	599	2,078	-	-	136,581,835

Core Treasury and Agencies

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011	115,294,889	12,631,024	19,045	2,078	-	-	127,947,036
Consolidated Fund Standing Services	10,927	-	-	-	-	-	10,927
CFERs payable to the Consolidated Fund	(35,845)	-	-	-	-	-	(35,845)
Excess cash payable to the Consolidated Fund	(11,041)	-	-	-	-	-	(11,041)
Excess cash paid to the Consolidated Fund	(5,853,971)	-	-	-	-	-	(5,853,971)
Comprehensive (expenditure)/income for the year	18,651,657	(4,117,010)	(18,446)	-	-	-	14,516,201
Non-cash charges – auditor's remuneration	435	-	-	-	-	-	435
Non-supply – banking and gilts registration	11,332	-	-	-	-	-	11,332
Consolidation adjustments	(1,836)	-	-	-	-	-	(1,836)
Balance at 31 March 2012	128,066,547	8,514,014	599	2,078	-	-	136,583,238

Group

	General Fund	Available-for-Sale Reserve	Hedging Reserve	Revaluation Reserve	Pension Reserve	Retained Earnings	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011	115,294,890	12,631,024	19,045	2,078	(2,851)	(232,633)	127,711,553
Changes in accounting policy	-	-	-	-	(2,400)	23,619	21,219
Balance at 1 April 2011	115,294,890	12,631,024	19,045	2,078	(5,251)	(209,014)	127,732,772
Sovereign Grant external funding	-	-	-	-	-	28,992	28,992
Consolidated Fund Standing Services	10,927	-	-	-	-	-	10,927
CFERs payable to the Consolidated Fund	(35,845)	-	-	-	-	-	(35,845)
Excess cash payable to the Consolidated Fund	(11,041)	-	-	-	-	-	(11,041)
Excess cash paid to the Consolidated Fund	(5,853,971)	-	-	-	-	-	(5,853,971)
Comprehensive (expenditure)/income for the year	18,651,107	(4,117,010)	(18,446)	-	(3,525)	(52,450)	14,459,676
Non-cash charges – auditor's remuneration	435	-	-	-	-	-	435
Non-supply – banking and gilts registration	11,332	-	-	-	-	-	11,332
Transfers between reserves	(1,154)	-	-	-	1,754	(600)	-
Consolidation adjustments	6	-	-	-	-	5,066	5,072
Balance at 31 March 2012	128,066,686	8,514,014	599	2,078	(7,022)	(228,006)	136,348,349

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM)⁴. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

IFRSs in issue but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2012, that have an effective date of application of 1 April 2012, or earlier. The disclosures below detail the effect that new accounting standards are expected to have on HM Treasury's Resource Accounts.

IAS 19 Post-Employment Benefits (effective from 1 January 2013) has been endorsed by the EU and will apply to HM Treasury's 2013-14 Resource Accounts. The main changes are to eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans (the 'corridor approach') and to improve the presentation and disclosures relating to defined benefit plans. Core Treasury operates a defined benefit scheme which is treated as a defined contribution scheme and will therefore not be impacted by the changes. Other members of the group account for defined benefit schemes but do not use the corridor approach. Changes to presentation and disclosures will be reflected in their individual accounts.

IFRS 9 Financial Instruments (effective from 1 January 2015) and IFRS 13 Fair Value Measurement (effective from 1 January 2013) have not been adopted by the EU but will be applicable if they are 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. 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, HM Treasury may obtain an accounts direction to continue to measure interests in public bodies at net asset value where observable market data is not available and to measure Public Dividend Capital at historical cost. In these situations, IFRS 9 would not be applied in full.

IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities (both effective from 1 January 2013) are being adopted by the EU from 1 January 2014. IFRS 10 introduces a new definition of control which may result in consolidating additional entities, and IFRS 12 requires more disclosures of the financial effects on, and risks to, the consolidating entity. However, the IFRS boundary considerations are adapted by the FReM to be based instead on Office for National Statistics (ONS) control criteria. Therefore if the current adaptations continue, the only impact on HM Treasury will be increased disclosures under IFRS 12.

⁴www.hm-treasury.gov.uk/frem_index.htm

1.1 Accounting convention

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

1.2 Basis of consolidation

The departmental bodies are consolidated based on the boundary as defined by the FReM. The departmental boundary is different from the concept of a group under IFRS; it is based on control criteria used by the ONS to determine sector classification.

In accordance with the FReM and the ONS classification, HM Treasury has designated the following bodies as being inside the departmental boundary for this financial year, these have been consolidated in accordance with IAS 27 Consolidated and Separate Financial Statements:

- Core department (core Treasury) which comprises the non-agency parts of HM Treasury. This includes Infrastructure UK (IUK), Infrastructure Finance Unit Limited (IFUL) and the Office of Tax Simplification (OTS)
- Agencies of HM Treasury which comprise the UK Debt Management Office (DMO) and the Asset Protection Agency (APA)
- NDPBs and other bodies sponsored by HM Treasury which comprise the Office for Budget Responsibility (OBR), UK Financial Investments (UKFI), the Financial Services Compensation Scheme (FSCS), the Money Advice Service (MAS) and the Sovereign Grant and Sovereign Grant Reserve.

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

The presentation of financial information at three levels (Core Treasury, Treasury and Agencies, and Group) is determined by Parliamentary reporting requirements. Transactions between entities included in the reporting boundary are eliminated on consolidation.

IFUL, DMO, APA, OBR, UKFI, FSCS, MAS and Sovereign Grant also produce and publish their own accounts. Appropriate consolidation adjustments have been made where differences in accounting policies would have a significant effect on these resource accounts.

HM Treasury has either full or partial ownership interests in the following entities, but they are not consolidated as they fall outside of the departmental boundary:

- Bank of England
- Partnership UK plc
- Local Partnerships LLP
- Royal Mint Trading Fund (and its subsidiary company)
- United Kingdom Asset Resolution Ltd
- Bradford & Bingley plc
- Lloyds Banking Group plc
- Northern Rock (Asset Management) plc
- Royal Bank of Scotland Group plc

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

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

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

Property, plant and equipment and intangible non-current assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000 except for antiques where no threshold is set. For the Sovereign Grant, assets held in right of the Crown are not capitalised.

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. A full valuation is carried out every five years and an interim desk valuation at year three. The last full valuation was carried out by Andrew Holdsworth BSc (Hons) MRICS MAPM at the Valuation Office Agency (VOA) in March 2010 and an interim desk valuation was carried out in February 2013 by the VOA.

Antiques are subsequently recognised at fair value. A full valuation is carried out every 5 years. Mike Neill, Director at Bonhams (UK), performed the last valuation on 9 April 2010.

Gains arising on revaluation are taken to the Revaluation Reserve. Losses on revaluation are debited to the Revaluation Reserve to the extent that gains have been recorded previously and otherwise to the SCNE.

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

Heritage assets maintained by the Sovereign Grant are not shown on the Statement of Financial Position. These assets are held by The Queen in trust for the nation and cannot be sold without the authority of the Department for Culture, Media and Sport. The cost of associated major repairs to these assets is reported in the SCNE in the year in which it is incurred. Where improvements are made to the buildings that are deemed to be capital in nature, the associated costs are capitalised as buildings. In addition, the Sovereign Grant and Sovereign Grant Reserve accounts direction issued by HM Treasury allows the use of historical cost less accumulated depreciation for all non-heritage assets, including for land and buildings. For further details, see the Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2012-13.

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

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

1.4 Depreciation and amortisation

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

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

An exception to the above estimated useful lives is the expected useful life of the Asset Protection Agency's assets. These were fully depreciated over 2.75 years which equalled the useful life of the assets to the agency.

1.5 Impairment of non-current assets

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

1.6 Development expenditure

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the FReM, which has been adapted from IAS 38 Intangible Assets to take account of the considerations relevant for not-for-profit entities. Externally generated software is recorded under intangible assets under construction while in development and then reclassified when available for use.

1.7 Inventory

Inventory is held at the lower of cost and net realisable value. The method of valuation is based on a first in, first out rule. For finished coinage, inventory cost is considered to be production cost based on direct materials, labour and production overheads.

1.8 Cash and cash equivalents

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

1.9 Revenue recognition and operating income

Operating income relates directly to the operating activities of HM Treasury. It includes recharges at full cost for services provided and costs recoverable from other bodies. It includes budgeted and non-budgeted income arising from the activities of HM Treasury, some of which is used to offset operational costs and some of which is payable to the Consolidated Fund as a Consolidated Fund Extra Receipt (CFER) or paid over as excess cash.

Interest is calculated using the effective interest rate method on monetary assets classified as loans and receivables and is recognised in the SCNE. In addition, dividends on available-for-sale equity instruments are recognised in the SCNE when HM Treasury's right to receive payment is established. All income is accounted for in line with IAS 18 Revenue Recognition.

1.10 Administration and programme expenditure

The SCNE is analysed between administration and programme income and expenditure. The classification as administration or as programme follows the definition of costs covered by administration budgets set out in Consolidated Budgeting Guidance 2012-13. Net administration costs reflect the costs of running HM Treasury, and exclude costs associated with service delivery. Programme costs reflect non-administration costs, including disbursements by HM Treasury in support of financial stability interventions.

1.11 Foreign exchange

Transactions denominated in foreign currencies are translated into sterling using rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the reporting date or on the settlement of such

assets and liabilities. Surpluses and deficits arising from the translation of assets and liabilities at these rates of exchange are recognised in the SCNE, except when deferred in equity through the use of qualifying cash flow hedges.

1.12 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in note 6.2, cover the majority of past and present employees. The defined benefit scheme within the PCSPS is unfunded and is contributory. HM Treasury recognises the expected cost of future pension liabilities in a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

HM Treasury also operates a defined contribution scheme for staff who transferred from Partnerships UK to Infrastructure UK. Contributions payable by HM Treasury are recognised as an expense in the year in which they are incurred.

The FSCS, MAS, UKFI and the Royal Household operate defined contribution pension schemes. The costs for the defined contribution schemes are recognised as an expense in the SCNE as incurred.

The FSCS and the Royal Household also operate defined benefit schemes. One of the Royal Household's pension schemes, managed by the Government, is not a funded scheme. The Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis and therefore, as permitted by IAS 19 Employee Benefits, this scheme is treated as a defined contribution scheme. For the second Royal Household scheme, and for the FSCS's defined benefit scheme, the costs for the defined benefit scheme are recognised in the SCNE to the extent that they relate to current or past service costs, settlements or curtailments, or the net expected return on the pension assets. Actuarial gains and losses are recognised in other comprehensive expenditure.

1.13 Early departure costs

HM Treasury is required to meet any additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. For employees covered by the Civil Service Compensation Scheme 2010 (CSCS 2010), where benefits which go beyond those derived under the terms of the CSCS 2010 are agreed and binding, these costs are recognised as a short term payable. For employees where terms of prior versions of the CSCS are still applicable, HM Treasury provides for the costs when the early retirement is agreed and binding, effectively charging the full cost at the time of the decision and holding this in a provision. The provision is discounted using the pensions' discount rate (as per the Public Expenditure System (PES) guidance (2012) 16) of 2.35 per cent (2011-12: 2.8 per cent).

1.14 Private Finance Initiative (PFI) transactions

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

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

Assets acquired through PFI are valued at market value, consistent with the requirements of FReM. The associated payable for the asset is paid off during the life of the PFI contract through attribution of part of the unitary payments. The balances of the unitary payments are recorded as other administrative

costs, analysed between interest and service charges. Where the service charge includes an annual indexation adjustment, this is charged to the SCNE as it is incurred.

1.15 Leases

Leases are classified as either finance or operating leases in accordance with IAS 17 Leases. The distinction depends on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee. Leases in which a significant proportion of the risks and rewards of ownership are transferred to the lessor are classified as finance leases, other leases are classified as operating leases. HM Treasury has not entered into any finance lease arrangements. Operating leases are charged to the SCNE on a straight-line basis over the term of the lease.

1.16 Value Added Tax

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

1.17 Provisions, contingent liabilities and contingent assets

A provision is recognised when the following three criteria are met, in line with the requirements in IAS 37 Provisions, Contingent Liabilities and Contingent Assets:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

The discount rates applied to general provisions depends on the expected timing of cash flows and reflects real yields on UK index-linked gilts at 30 November 2012, the time at which the 2012 rates were set by central Treasury. For 2012-13 the rates are:

- -1.8 per cent for cash flows expected between 0 and 5 years of the reporting date;
- -1 per cent for cash flows expected after 5 years and up to 10 years from the reporting date; and
- 2.2 per cent for cash flows expected to exceed 10 years from the reporting date.

For early retirement provisions the applicable discount rate is the pensions' discount rate of 2.35 per cent.

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

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

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

1.18 Financial instruments

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

1.18.1 Categories of financial instruments

HM Treasury's financial instruments have been classified into the following categories, which are determined at initial recognition:

- derivatives at fair value through SCNE;
- loans and receivables held at amortised cost;
- available-for-sale financial assets;
- financial guarantee liabilities at amortised cost; and
- financial liabilities at amortised cost.

(a) Derivatives at fair value through SCNE

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

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

(b) Loans and receivables at amortised cost

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Amortised cost is calculated as the present value of the expected cash flows over the remaining life of the loan or receivable, discounted at the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

For loans on which interest is received and full recovery is anticipated, the calculation of amortised cost equals the outstanding principal.

For loans which are interest free, future cash flows are discounted at the Treasury discount rate of 3.5 per cent, in accordance with the FReM. The result is that on initial recognition an impairment is recognised for the irrecoverability of future interest.

(c) Available-for-sale financial assets

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

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

(d) Financial guarantee liabilities at amortised cost

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified receivable fails to make payments when due, in accordance with the terms of a debt instrument.

(e) Financial liabilities at amortised cost

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

1.18.2 Initial measurement of financial instruments

Derivatives and available-for-sale financial assets are recognised initially at fair value. At initial recognition, the best evidence of fair value in an arm's length transaction is cash received or paid, unless there is evidence to the contrary.

Derivatives are measured at fair value on the date a derivative contract is entered into. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. All transaction costs are expensed in the SCNE.

The fair value of available-for-sale financial assets on recognition also includes any directly attributable transaction costs.

Loans provided by HM Treasury predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. Therefore comparison with market terms and market prices was not possible in determining fair value and, consequently, these loans were recognised initially at amortised cost as determined by the FReM.

Financial guarantee liabilities and associated receivables are initially recognised in the financial statements at fair value on the date the guarantee was given. The maximum period over which the receivables and the associated liabilities have been recognised is over the length of these guarantees. All guarantee arrangements are re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantee are adjusted if necessary.

The fair value of financial guarantee liabilities at initial recognition are estimated as the fair value of the guarantee fee income where appropriate, assuming the fee has been set at a commercial market rate. In cases where the fee has not been set at a commercial rate, the fair value of financial guarantee liabilities is equal to the probability weighted expected loss over the duration of the guarantee.

Regular way purchase and sales of financial assets are recognised on trade date – the date that HM Treasury commits itself to purchase or sell an asset. As defined in IAS 39 Financial Instruments: Recognition and Measurement, a regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

1.18.3 Subsequent measurement and fair valuation of financial instruments

Derivatives are subsequently measured at fair value. Fair values are obtained from quoted market prices, or using valuation techniques including discounted cash flow models and option pricing models. The gain or loss on subsequent measurement is taken to the SCNE except where the derivative is a designated hedging instrument.

Loans and receivables are carried at amortised cost less any impairment recognised. Statutory debts, which are interest free loans, are amortised using the Treasury discount rate of 3.5 per cent and the cash flows are assessed using administrators' estimates as to both the amount and timing of recoveries.

Available-for-sale financial assets (other than Public Dividend Capital) are subsequently carried at fair value. In the absence of observable market data for investments in public bodies outside the departmental boundary, net asset value per recent audited accounts is used as a measure for determining fair value, taking into consideration HM Treasury's assessment of impairment or material changes to fair value for bodies with non-coterminous reporting dates. This applies to HM Treasury's investments in the Bank of England, Partnerships UK, UK Asset Resolution and Local Partnerships. Further description of the valuation models and techniques are provided in note 23.2.

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

Subsequent measurement of liabilities under financial guarantees is measured at the higher of:

- the initial measurement, less amortised fee income recognised in the SCNE as the service is provided; and
- the best estimate of the probable expenditure required to settle any financial obligation arising at the reporting date, in line with the definitions of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Any increase in the liability relating to guarantees is taken to the SCNE.

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

1.18.4 Impairment of financial assets

(a) Assets carried at amortised cost

HM Treasury assesses at each reporting date whether there is objective evidence that a financial asset is impaired. An asset is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') where that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that HM Treasury uses to determine that there is objective evidence of an impairment loss include:

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

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

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

(b) Assets classified as available-for-sale

HM Treasury assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether an asset is impaired. This assessment is performed on a tranche by tranche basis where multiple lots of the same security have been purchased at different price levels. For other investments in this classification, an impairment review is carried out. Indicators of impairment for these other investments include net cash outflows or operating losses, a reduction in net assets, and other factors influencing recoverable amount.

If any such evidence exists, 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 SCNE – is removed from equity and recognised in the SCNE. Impairment losses recognised in the SCNE are not subsequently reversed until the related financial asset is de-recognised.

1.18.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where HM Treasury has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognised when they are extinguished. That is, when the obligation is discharged, cancelled or expires.

1.19 Derivative financial instruments and hedging activities

The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to.

In order to qualify for hedge accounting, HM Treasury is required to document in advance the relationship between the item being hedged and the hedging instrument. HM Treasury is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis (80-125 per cent effective). The effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

At the beginning of the period HM Treasury only had cash flow hedges, which have since all been extinguished. HM Treasury has no hedging relationships at the period end.

The effective portion of changes in the fair value of derivatives that were designated and qualified as cash flow hedges was recognised in equity. The gain or loss relating to the ineffective portion was recognised immediately in the SCNE.

Amounts accumulated in equity were recycled to the SCNE in the periods when the hedged item affected the SCNE. When a forecast transaction was no longer expected to occur, the cumulative gain or loss that had been reported in equity was recycled to the SCNE.

1.20 Employee benefits

HM Treasury has accrued for the cost of the outstanding employee paid holiday entitlement. It is calculated based on pay and Employers' National Insurance Contributions.

1.21 Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;

- is part of a co-ordinated single plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

HM Treasury considers operating segments as reported to the chief operational decision maker, identified as the Executive Management Board (EMB), to be major lines of business. Discontinued operations are presented separately in the Statement of Comprehensive Net Expenditure, Statement of Cash Flows and notes to the financial statements. There are no recognition or measurement impacts from classifying an operation as discontinued.

2. Critical accounting estimates and judgements

2.1 Impairment losses on loans and advances

HM Treasury's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.18.4. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date. Evidence used in assessing losses includes:

- estimates from administrators on the level and timings of repayments from the estates of KSF, Heritable, Icesave, London Scottish and Dunfermline; and
- business plans of Northern Rock (Asset Management) and Bradford & Bingley provided by UKAR.

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 50 to 100 per cent. A sensitivity analysis of capital recoveries for these loans is included in note 23.6.

In addition assessing to the amount of repayment, timing is also considered for interest free loans. HM Treasury has provided Bradford & Bingley, KSF, Heritable, Icesave, London Scottish and Dunfermline with interest free loans to fund repayment of retail deposits. HM Treasury additionally made payments to retail depositors on behalf of Iceland's Depositors' and Investors' Guarantee Fund. In a judgment announced on 28 January 2013, the EFTA Court found that Iceland was not obliged to ensure payment of a minimum compensation to depositors after the collapse of the Icelandic bank Icesave in 2008. Due to the uncertainty over whether interest was recoverable, HM Treasury's prior year resource accounts had assumed that interest would not be chargeable. The loan therefore continues to be treated as an interest free loan with full capital recovery. As recovery will be from the administration and not the Icelandic Government, the loan is presented in note 15.1 as a transfer to statutory debt at the point of the EFTA Court judgment.

Impairments are recognised to reflect the cost of all interest free loans. The impairment loss equals the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the Treasury discount rate. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

Details on loan amounts are included in note 15.1 and a summary of current year impairment charges is included in note 23.6.2.

2.2 Impairment of available-for-sale financial assets

HM Treasury's accounting policy for losses arising on available-for-sale financial assets is described in note 1.18.4. In determining whether an impairment loss has been incurred in respect of RBS and LBG shares, HM Treasury assesses whether there has been a significant or sustained decline in its fair value below original cost price. The result of performing the assessment on individual tranches of shares is that only

those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

As at 31 March 2013, available-for-sale assets totalled £48.6 billion (2011-12: £44.3 billion). This reflects 2012-13 revaluation gains of £4.4 billion (2011-12: impairment losses of £14.4 billion). The fair values of available-for-sale assets are detailed in note 13. A sensitivity analysis for changes in equity prices is included in note 23.5.

2.3 RBS Dividend Access Share

The RBS Dividend Access Share (DAS) provides HM Treasury with the right to an enhanced dividend over and above the dividend entitlement of each ordinary and B share in the event that RBS pays dividends on ordinary shares. However, the dividend rights under the DAS are automatically cancelled if the market price of RBS's ordinary shares exceeds 650 pence for 20 or more out of 30 consecutive dealing days. This is termed the cancellation trigger.

There is no market price for the DAS and therefore its value has been estimated using an option based valuation model. The model uses market observable and non-observable data and assumptions to assess the potential dividend cash flows that may be realised in the future. A discount rate is then applied to determine the present value of these cash flows.

There are a number of key assumptions in the model, including in particular dividend start date. RBS's ability and willingness to start DAS related dividend payments will be dependent on the evolution of its earnings prospects and its capital position, though ultimately it will depend on the discretion of the RBS Board. The former two underlying factors are both heavily influenced by economic and regulatory developments. The model uses a number of assumptions, including the market's view of the future capitalisation levels of RBS, in order to assign probability weightings to dividend payments starting over a range of years. It assumes that dividend payments will begin in order to return capital back to shareholders even if the DAS is still in place. This is a change from the prior year when a single year was selected as the most likely dividend start date. The change in estimation technique reflects the range of market forecasts and seeks to address the interconnectivity between dividend payments and the cancellation of the DAS. The result is that DAS related dividend payments are assumed, to be made at some point between 2017 and 2022 with different probabilities assigned to each year (2011-12: a fixed start date of 2015 was assumed).

The market observable data used in the valuation model at the reporting date are:

- the current RBS share price of 275.5 pence (2011-12: 276.3 pence);
- expected stock volatility over different time periods based on levels derived from over-the-counter trading of RBS options ranging from 28 – 41 per cent (2011-12: 41 – 77 per cent); and
- a risk spread of the B shares of 1,000 basis points determined by using the implied yield of benchmark traded securities and the spread implied by RBS cost of equity (2011-12: 1,500 basis points).

The share price and its volatility are used to forecast when the cancellation trigger will be reached and therefore when no further dividends will be received. The risk spread of B shares is used to discount dividend cash flows between the start date and cancellation trigger being reached.

The assumptions and data inputs into the DAS are revisited at each reporting date. The fair value of the DAS is included in note 13. Details of the sensitivity analysis undertaken are included in note 23.5.2.

3. Prior Period Adjustments

3.1 The Sovereign Grant and Sovereign Grant Reserve

Group accounting boundaries for government departments are set through a designation order. With effect from 1 April 2012 the Sovereign Grant and Sovereign Grant Reserve has been designated to HM Treasury's group. Prior year figures for the group have been restated as if the wider accounting boundary had always been in place. There were no prior period adjustments to figures for Core Treasury or Core Treasury and Agencies.

3.2 Effects on resource outturn and primary statements

Effect on resource outturn in 2011-12

	2011-12 Group £000
Net resource outturn per Statement of Parliamentary Supply	(18,595,232)
Sovereign Grant and Sovereign Grant Reserve	32,419
Adjusted net resource outturn	(18,562,813)

Consolidated Statement of Comprehensive Net Expenditure 2011-12

	Group £000	Add: Sovereign Grant £000	2011-12 As restated Group £000
Net administration costs	130,257	-	130,257
Net programme costs	(18,761,333)	32,419	(18,728,914)
Net operating income	(18,631,076)	32,419	(18,598,657)
Other comprehensive expenditure	4,137,381	1,600	4,138,981
Total comprehensive income for the year ended 31 March 2012	(14,493,695)	34,019	(14,459,676)

Consolidated Statement of Financial Position 2011-12

	Group £000	Add: Sovereign Grant £000	2011-12 As restated Group £000
Non-current assets	97,033,231	12,967	97,046,198
Current assets (less cash and cash equivalents)	41,654,169	6,810	41,660,979
Cash and cash equivalents	172,240	5,016	177,256
Current liabilities	(777,031)	(5,208)	(782,239)
Non-current liabilities	(1,750,445)	(3,400)	(1,753,845)
Assets less liabilities	136,332,164	16,185	136,348,349
Taxpayers' equity	136,332,164	16,185	136,348,349

Consolidated Statement of Financial Position 2010-11

	Group	Add: Sovereign Grant	2010-11 As restated Group
	£000	£000	£000
Non-current assets	119,432,291	13,315	119,445,606
Current assets (less cash and cash equivalents)	11,855,164	4,869	11,860,033
Cash and cash equivalents	261,488	10,541	272,029
Current liabilities	(1,019,109)	(5,106)	(1,024,215)
Non-current liabilities	(2,818,281)	(2,400)	(2,820,681)
Assets less liabilities	127,711,553	21,219	127,732,772
Taxpayers' equity	127,711,553	21,219	127,732,772

Statement of Cash Flows 2011-12

	Group	Add: Sovereign Grant	2011-12 As restated Group
	£000	£000	£000
Net cash inflow from operating activities	(1,748,631)	32,635	(1,715,996)
Net cash inflow from investing	(4,091,811)	1,882	(4,089,929)
Net financing	(9,251)	(28,992)	(38,243)
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	5,849,693	(5,525)	5,844,168
Receipts and payments to the Consolidated Fund	(5,907,186)	-	(5,907,186)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	(57,493)	(5,525)	(63,018)
Cash and cash equivalents at the beginning of the period	224,315	10,541	234,856
Cash and cash equivalents at the end of the period	166,822	5,016	171,838

4. Analysis of net outturn

4.1 Analysis of net resource outturn against Estimate

	Administration			Programme			Outturn Net total outturn	Net total per Estimate	Net total outturn compared to Estimate	2012-13	2011-12	
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure				Estimate	Outturn (Restated)	
	£000	£000	£000	£000	£000	£000				Net total outturn compared to Estimate, adjusted for virements	Net total outturn	
Spending in Department Expenditure Limit (DEL)												
<u>Voted</u>												
A, E, G	Core Treasury (including IUK and OTS)	148,617	(30,345)	118,272	1,162	(346,329)	(345,167)	(226,895)	(99,046)	127,849	126,828	117,276
B	UK Debt Management Office	14,582	(2,038)	12,544	4,490	(916)	3,574	16,118	15,697	(421)	-	11,858
C	UK Financial Investments	2,084	-	2,084	-	-	-	2,084	2,900	816	816	5,476
D	Asset Protection Agency	4,032	(3,431)	601	-	-	-	601	1	(600)	-	(1,476)
F	UK coinage manufacturing costs	-	-	-	21,667	(1,446)	20,221	20,221	21,500	1,279	1,279	14,136
H	Office for Budget Responsibility	1,710	(7)	1,703	-	-	-	1,703	1,750	47	47	1,692
I	Royal Mint Advisory Committee	-	-	-	-	-	-	-	1	1	1	-
<u>Non-voted</u>												
J	Banking and gilts registration services	-	-	-	11,490	-	11,490	11,490	12,000	510	510	11,332
Total spending in DEL		171,025	(35,821)	135,204	38,809	(348,691)	(309,882)	(174,678)	(45,197)	129,481	129,481	160,294
Spending in Annually Managed Expenditure (AME)												
<u>Voted</u>												
K	UK coinage metal costs	-	-	-	24,545	(7,885)	16,660	16,660	25,000	8,340	8,340	23,576
L, M, V, W	Assistance to financial institutions	-	-	-	37,581	(18,467,358)	(18,429,777)	(18,429,777)	(15,792,000)	2,637,777	2,568,183	(16,138,548)
N	Provisions	-	-	-	38,330	-	38,330	38,330	(21,800)	(60,130)	-	(18,389)
-	Core Treasury building impairments	-	-	-	6,636	-	6,636	6,636	-	(6,636)	-	-
O	Equitable Life payment scheme	-	-	-	20,140	-	20,140	20,140	20,000	(140)	-	20,273
P	Royal Mint Dividend	-	-	-	-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	(4,000)
Q	Money Advice Service	-	-	-	77,455	(81,404)	(3,949)	(3,949)	2,750	6,699	6,699	(4,730)
R	Financial Services Compensation Scheme	-	-	-	352,320	(757,162)	(404,842)	(404,842)	1	404,843	404,843	(346,735)
S	Credit Easing	-	-	-	112,705	(63,653)	49,052	49,052	50,000	948	948	-
T	Sovereign Grant	-	-	-	45,200	(11,931)	33,269	33,269	31,000	(2,269)	-	32,419
W	Investment in Bank of England	-	-	-	-	(55,115)	(55,115)	(55,115)	(30,000)	25,115	25,115	(2,297,900)
<u>Non-voted</u>												
X	Royal Household Pensions	-	-	-	4,242	(923)	3,319	3,319	2,900	(419)	-	2,668
Y	Civil List	-	-	-	359	-	359	359	359	-	-	8,259
Total spending in AME		-	-	-	719,513	(19,449,431)	(18,729,918)	(18,729,918)	(15,715,790)	3,014,128	3,014,128	(18,723,107)
Total resource outturn		171,025	(35,821)	135,204	758,322	(19,798,122)	(19,039,800)	(18,904,596)	(15,760,987)	3,143,609	3,143,609	(18,562,813)

4.2 Analysis of net capital outturn against Estimate

	Gross	Receipts	Outturn Net total outturn	Net total per Estimate	Net total outturn compared to Estimate	2012-13 Estimate Net total outturn compared to Estimate, adjusted for virements	2011-12 Outturn (Restated) Net total outturn
	£000	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit							
<u>Voted</u>							
A Core Treasury	6,027	(5,853)	174	5,950	5,776	5,776	17,317
B UK Debt Management Office	1,332	-	1,332	1,335	3	3	7
C UK Financial Investments	-	(24)	(24)	-	24	24	6
E Loans given by IFUL	19,467	(2,961)	16,506	20,190	3,684	3,684	19,167
Capital spending in Department Expenditure Limit	26,826	(8,838)	17,988	27,475	9,487	9,487	36,497
Annually Managed Expenditure							
<u>Voted</u>							
L, M, V Assistance to financial institutions	8,847	(4,819,489)	(4,810,642)	(3,598,000)	1,212,642	1,209,422	(5,781,477)
Q Money Advice Service	2,278	(109)	2,169	-	(2,169)	-	1,605
R Financial Services Compensation Scheme	1,262	(321)	941	-	(941)	-	91
S Credit Easing	5,216	-	5,216	100,000	94,784	94,784	-
T Sovereign Grant	436	(24)	412	1,137	725	725	1,282
W Loan to Ireland	1,210,110	-	1,210,110	1,210,000	(110)	-	1,210,110
Capital spending in Annually Managed Expenditure	1,228,149	(4,819,943)	(3,591,794)	(2,286,863)	1,304,931	1,304,931	(4,568,389)
Total capital outturn	1,254,975	(4,828,781)	(3,573,806)	(2,259,388)	1,314,418	1,314,418	(4,531,892)

Letter labels in Tables 4.1 and 4.2 correspond with those used in the Estimate. Some lines have been merged in order to improve consistency with the rest of the Resource Accounts. Further details are provided in note 4.4. In addition, for NDPBs and other bodies (lines C, H, Q, R, T), the Estimate only includes a single net expenditure or net income figure whereas Tables 4.1 and 4.2 show gross and net amounts in order to provide more information about their financial performance.

4.3 Explanation of variances between Estimate and outturn as at 31 March 2013

Explanation for significant variances between Estimates and outturn for 2012-13 are summarised below. Further details are included in the management commentary in Chapter 4.

4.3.1 Net resource outturn against Estimate

Spending in Department Expenditure Limit (DEL)

HM Treasury's DEL outturn was £129.5 million less than the amount included in the Estimate. This is largely due to an increase in income. During 2012-13, the Financial Services Authority (FSA) imposed fines on some banks in relation to the attempted manipulation of LIBOR. These fines, net of enforcement case costs, are payable to HM Treasury. At the time of finalising the supplementary estimate in January the Financial Services Authority had received £220.0 million in LIBOR fines which were payable to the Treasury. This subsequently increased to £341.6 million by 31 March 2013, resulting in a £121.6 million under-spend against the Estimate.

HM Treasury also received additional income from its redemption of shares in Partnerships UK. Partnerships UK is being wound down and during 2012-13 capital was distributed to its shareholders, including HM Treasury. This resulted in a gain of £3.3 million to be recognised in resource outturn.

The other main area of under-spend was VAT. The Estimate included an amount of £7 million for backdated VAT payments, including interest, payable to HMRC. The actual amount required at the completion of HMRC's VAT audit was £2.6 million, plus a £0.1 million adjustment to the Treasury's end of year VAT return, resulting in total backdated VAT payments being £4.3 million lower than in the Estimate.

Annually Managed Expenditure (AME)

HM Treasury's net AME income was £3.0 billion greater than the amount included in the Estimate. The group's more unpredictable expenditure is included within AME and large variances can arise as a result of changes in the value of financial instruments. The most significant change that took place between the Estimate and year end was that fair value gains on the BEAPFF derivative increased by £3.1 billion. It is not possible to predict movement in the BEAPFF derivative as its value changes significantly with respect to market interest rates, as detailed in note 23.5.1. This increase was only partially offset by lower than expected interest income from Northern Rock (Asset Management) and Bradford & Bingley as a result of their reducing the outstanding loan balances through additional repayments.

The other significant variances relate to intra-group eliminations between HM Treasury and the FSCS. The FSCS is levy-funded and therefore the amount included in the Estimate assumes a break-even position. On consolidation, FSCS's transactions with HM Treasury are eliminated, including £0.4 billion of interest expense. These eliminations give rise to net income for the FSCS of £0.4 billion. Similarly, this interest expense corresponds to interest income for HM Treasury which is also eliminated from its income from assistance to financial institutions. The overall effect is a movement in net income between the two lines.

4.3.2 Net capital outturn against Estimate

Capital spending in Department Expenditure Limit

HM Treasury's capital DEL spending was £9.5 million lower than in the Estimate. Of this, £3.7 million is due to loan facilities made available through the IFUL not being fully drawn down. The remaining £5.8 million is as a result of the redemption of Partnerships UK shares.

Capital Annually Managed Expenditure

Net capital AME receipts were £1.3 billion higher than in the Estimate. Of this, £0.5 billion was due to higher than expected loan repayments from NRAM and B&B and a further £0.6 billion of receipts were received between the time of the Estimate and the year end from the estates of failed banks. These receipts were used to repay FSCS loans and statutory debt. Future repayments of FSCS loans and statutory debt are not forecast in the Estimate as the exact timing is too unpredictable. Details of all loan repayments are included in note 15.1. In addition to the increase in receipts, capital AME expenditure was £0.1 billion lower than Estimate as a result of only one investment being made through the Business Finance Partnership. Further investments are planned over the course of 2013-14.

4.4 Additional information on outturn for Core Treasury and Assistance to financial institutions

Resource outturn for Core Treasury comprises:

		Outturn			2012-13	2011-12
		Net total	Net total	Net total outturn	Estimate	Outturn
		outturn	per Estimate	compared to	Net total outturn	(Restated)
				Estimate	compared to Estimate,	Net total
					adjusted for virements	outturn
		£000	£000	£000	£000	£000
A	Core Treasury (excluding IUK and OTS)	(232,108)	(99,398)	132,710	126,828	112,336
E	Infrastructure UK (IUK)	4,839	-	(4,839)	-	4,526
G	Office of Tax Simplification (OTS)	374	352	(22)	-	414
	Total Core Treasury (including IUK and OTS)	(226,895)	(99,046)	127,849	126,828	117,276

Resource outturn for Assistance to financial institutions comprises:

		Outturn			2012-13	2011-12
		Net total	Net total	Net total outturn	Estimate	Outturn
		outturn	per Estimate	compared to	Net total outturn	(Restated)
				Estimate	compared to Estimate,	Net total
		£000	£000	£000	adjusted for virements	outturn
					£000	£000
L	Northern Rock	(305,381)	(294,000)	11,381	11,381	138,859
M	Assistance to financial institutions	(17,582,416)	(14,998,000)	2,584,416	2,513,012	(15,779,721)
V	Bradford & Bingley	(499,790)	(456,000)	43,790	43,790	(485,708)
W	Loan to Ireland	(42,190)	(44,000)	(1,810)	-	(11,978)
Total Assistance to financial institutions		(18,429,777)	(15,792,000)	2,637,777	2,568,183	(16,138,548)

Capital outturn for Assistance to financial institutions comprises:

		Outturn			2012-13	2011-12
		Net total	Net total	Net total outturn	Estimate	Outturn
		outturn	per Estimate	compared to	Net total outturn	(Restated)
				Estimate	compared to Estimate,	Net total
		£000	£000	£000	adjusted for virements	outturn
					£000	£000
L	Northern Rock	(1,914,249)	(1,648,000)	266,249	266,249	(2,942,175)
M	Assistance to financial institutions	(1,671,393)	(950,000)	721,393	718,173	(2,264,302)
V	Bradford & Bingley	(1,225,000)	(1,000,000)	225,000	225,000	(575,000)
Total Assistance to financial institutions		(4,810,642)	(3,598,000)	1,212,642	1,209,422	(5,781,477)

5. Reconciliation of outturn to net operating income, administration budget and net cash requirement

5.1 Reconciliation of net resource outturn to net operating income

	2012-13	2011-12
	£000	(Restated)
		£000
Total resource outturn in Statement of Parliamentary Supply	(18,904,596)	(18,562,813)
Non-budget income	(32,188)	(35,844)
Net operating income	(18,936,784)	(18,598,657)

5.2 Reconciliation of net resource outturn to administration budget

		2012-13	2011-12
		£000	£000
Estimate – Administration costs limit		140,056	146,831
Outturn – Gross administration costs	6.1, 7.1	171,025	159,061
Outturn – Gross income relating to administration	9	(35,821)	(27,985)
Outturn – Net administration costs		135,204	131,076
Reconciliation to operating costs:			
Less: provisions utilised (transfer from programme)		(1,810)	(784)
Less: income payable to the Consolidated Fund		-	(35)
SCNE net administration costs		133,394	130,257

5.3 Reconciliation of net resource outturn to net cash requirement

	Estimate	Outturn	2012-13 Net total outturn compared with Estimate: saving/(excess) £000
	£000	£000	£000
Resource Outturn	(15,760,987)	(18,904,596)	3,143,609
Capital Outturn	(2,259,388)	(3,573,806)	1,314,418
Accruals to cash adjustments:	11,874,104	15,428,261	(3,554,157)
<i>Of which:</i>			
<i>Adjustments to remove non-cash items:</i>			
Depreciation	(8,595)	(7,758)	(837)
BEAPFF and APS fair value movements	14,031,000	17,103,300	(3,072,300)
New provisions and adjustments to previous provisions	(206,000)	(40,141)	(165,859)
Other non-cash items	13,800	(5,849)	19,649
<i>Adjustments for NDPBs and other bodies:</i>			
Remove voted resource and capital	(36,638)	(64,949)	28,311
Add cash grant-in-aid	33,737	32,615	1,122
<i>Adjustments to reflect movements in working balances</i>			
Increase/(decrease) in inventory	-	(1,186)	1,186
Increase/(decrease) in receivables	(2,270,000)	(1,946,227)	(323,773)
Increase/(decrease) in payables	-	(96,014)	96,014
Use of provisions	316,800	454,470	(137,670)
	(6,146,271)	(7,050,141)	903,870
Removal of non-voted budget items:			
Banking and gilts registration service	(12,000)	(11,490)	(510)
Royal Household Pension Scheme	(2,900)	(3,319)	419
Civil List	(359)	(359)	-
Net cash requirement	(6,161,530)	(7,065,309)	903,779

5.4 Income and capital receipts payable to the Consolidated Fund

In addition to income and capital receipts retained by HM Treasury, the following amounts are payable to the Consolidated Fund.

	Outturn 2012-13		Outturn 2011-12	
	Income £000	Cash receipts £000	Income £000	Cash receipts £000
Operating income outside the scope of the Estimate	32,188	32,484	35,844	34,969
Capital receipts outside the scope of the Estimate	-	11,272,472	-	-
Excess cash surrenderable to the Consolidated Fund	7,068,907	7,068,907	5,865,012	5,865,012
Total amounts paid and payable to the Consolidated Fund	7,101,095	18,373,863	5,900,856	5,899,981

Operating income outside the scope of the Estimate mainly comprises Pool Re insurance premiums received by Core Treasury. The difference between income recognised and cash receipts paid over arises from income accrued but not yet received. Capital receipts outside the scope of the Estimate relate to transfers of excess cash from the Bank of England Asset Purchasing Facility Fund.

6. Staff numbers and costs

6.1 Analysis of total staff costs

					2012-13	2011-12 (Restated)
	Ministers ¹	Special Advisers	Permanent staff	Others ²	Total	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	1,336	409	90,281	6,844	98,870	104,126
Social Security costs	127	44	8,364	71	8,606	9,868
Other pension costs	-	86	15,623	132	15,841	15,727
Total costs	1,463	539	114,268	7,047	123,317	129,721
Less recoveries in respect of outward secondments	-	-	(2,919)	-	(2,919)	(3,059)
Total net cost	1,463	539	111,349	7,047	120,398	126,662
Of which:						
Core Treasury	1,463	539	63,047	923	65,972	66,777
Agencies	-	-	7,977	2,653	10,630	13,918
NDPBs and other bodies	-	-	40,325	3,471	43,796	45,967
Total net cost	1,463	539	111,349	7,047	120,398	126,662
Continuing operations	1,463	539	110,264	7,047	119,313	122,349
Discontinued operations	-	-	1,085	-	1,085	4,313
Total net cost	1,463	539	111,349	7,047	120,398	126,662

¹ Details of the Treasury's Ministers are included in chapter 2 of the Annual Report

² Includes agency staff, contractor staff, temporary staff and staff seconded in

							2012-13
	Expenditure			Income			Total net cost
	Admin £000	Programme £000	Total £000	Admin £000	Programme £000	Total £000	£000
Core Treasury	68,078	402	68,480	(2,508)	-	(2,508)	65,972
Agencies	10,354	441	10,795	(165)	-	(165)	10,630
NDPBs and other bodies	2,442	41,600	44,042	66	(312)	(246)	43,796
Total	80,874	42,443	123,317	(2,607)	(312)	(2,919)	120,398

							2011-12
	Expenditure			Income			Total net cost
	Admin £000	Programme £000	Total £000	Admin £000	Programme £000	Total £000	£000
Core Treasury	69,304	420	69,724	(2,947)	-	(2,947)	66,777
Agencies	13,920	-	13,920	(2)	-	(2)	13,918
NDPBs and other bodies	2,889	43,188	46,077	188	(298)	(110)	45,967
Total	86,113	43,608	129,721	(2,761)	(298)	(3,059)	126,662

6.2 Pension schemes

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme in which HM Treasury is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon & Woodrow) valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation⁵. A valuation for the scheme as at the reporting date will be completed later in 2013.

For 2012-13, employers' contributions of £10.3 million were payable to the PCSPS (2011-12: £10.2 million) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.1 million (2011-12: £0.4 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

In addition, employer contributions of £15,000 (2011-12: £28,000), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting date were £2,000 (2011-12: nil). Contributions prepaid at that date were nil (2011-12: £0.9 million).

The FSCS, MAS, UKFI and the Royal Household operate defined contribution schemes. The Royal Household also operates an unfunded defined benefit scheme which is accounted for as a defined contribution scheme as the Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis. Employers' contributions to these schemes totalled £4.9 million during 2012-13 (2011-12: £4.1 million). Contributions due to the pension providers at the reporting date were £0.2 million (2011-12: £0.2 million).

The FSCS and Royal Household additionally operate defined benefit schemes, which are accounted for as such. The amount recognised in the Statement of Financial Position is a net liability of £7.1 million (2011-12: net liability of £7.0 million).

Details of the FSCS, MAS, UKFI and Royal Household pension schemes, including valuation assumptions for the defined benefit schemes, are included in their respective annual accounts.

⁵ www.civilservice.gov.uk/pensions/governance-and-rules/actuarial-review

6.3 Ill health retirement

During 2012-13 there were nil early retirements on ill-health grounds (2011-12: nil), resulting in additional accrued pension liabilities of nil (2011-12: nil). The costs of such retirements are funded by normal contributions to the PCSPS.

6.4 Average number of persons employed

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

	2012-13				Total	2011-12 (Restated) Number
	Ministers	Special Advisers	Permanent staff	Others		
Core Treasury	6	7	1,136	39	1,188	1,202
Agencies	-	-	114	17	131	158
NDPBs and other bodies	-	-	727	78	805	801
Total persons employed	6	7	1,977	134	2,124	2,161

6.5 Additional ministerial salaries borne by HM Treasury

HM Treasury also bears the following ministerial salaries:

Official title	Name	2012-13	2011-12
		Salaries £000	Salaries £000
Prime Minister	David Cameron	75 - 80	75 - 80
Chief Whip (Commons)	Sir George Young (from Oct 2012)	10 - 15	-
	Andrew Mitchell (from Sept 2012 to Oct 2012)	5 - 10	-
	Patrick McLoughlin (from May 2010 to Sept 2012)	15 - 20	30 - 35
Deputy Chief Whips (Commons)	John Randall	30 - 35	30 - 35
	Alistair Carmichael	15 - 20	15 - 20
Chief Whip (Lords)	Baroness Anelay of St John's	115 - 120	115 - 120
Deputy Chief Whip (Lords)	Lord Newby (from May 2012)	70 - 75	-
	Lord Shutt of Greenland (from May 2010 to May 2012)	10 - 15	120 - 125
Lords in waiting (9 posts, 3 unpaid)		485 - 490	515 - 520
Government and Assistant Government Whips (14 posts, 1 unpaid)		260 - 265	230 - 235

6.6 Exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where HM Treasury has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table below.

Figures shown relate to Core Treasury and Core Treasury and Agencies only. UKFI and OBR did not incur any costs for exit packages. FSCS, MAS and the Sovereign Grant do not fall under the remit of the Civil Service Compensation Scheme and do not provide disclosures against other compensation schemes in their own accounts.

In addition to CSCS payments, the figures below include three ex-gratia payments made by the APA totalling £99,000 and one ex-gratia payment made by the DMO of £7,000.

2012-13						
Exit package cost band	Core Treasury			Core Treasury and Agencies		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	2	2	-	5	5
£10,000 – £25,000	-	7	7	4	11	15
£25,001 – £50,000	-	4	4	4	5	9
£50,001 – £100,000	-	10	10	-	12	12
£100,001 – £150,000	-	5	5	-	5	5
£150,001 – £200,000	-	4	4	-	4	4
£200,001 >	-	-	-	-	-	-
Total number of exit packages	-	32	32	8	42	50
Total Resource Cost (£'000)	-	2,259	2,259	210	2,507	2,717

2011-12						
Exit package cost band	Core Treasury			Core Treasury and Agencies		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	1	1	-	1	1
£10,000 – £25,000	-	5	5	-	5	5
£25,001 – £50,000	-	2	2	-	2	2
£50,001 – £100,000	-	5	5	-	5	5
£100,001 – £150,000	-	2	2	-	2	2
£150,001 – £200,000	-	-	-	-	-	-
£200,001 >	-	1	1	-	1	1
Total number of exit packages	-	16	16	-	16	16
Total Resource Cost (£'000)	-	949	949	-	949	949

7. Other administration costs

7.1 Other administration costs

	2012-13			2011-12 (Restated)		
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Staff-related costs, including training and travel	3,851	4,243	4,265	3,819	4,206	4,230
Accommodation costs:						
Interest element of on-balance sheet PFI contract	9,471	9,471	9,471	9,599	9,599	9,599
Service element of on-balance sheet PFI contract	5,116	5,116	5,116	4,318	4,318	4,327
Contingent rent on PFI contract	5,756	5,756	5,756	5,028	5,028	5,028
Other accommodation costs	7,389	9,417	9,922	5,590	7,149	7,598
Office services	26,937	28,657	29,043	7,993	10,041	10,371
Consultancy: legal	4,875	4,877	4,899	4,268	5,001	5,709
Consultancy and professional services: IT	3,870	3,879	3,994	8,634	9,180	9,281
Other consultancy	3,345	3,350	3,503	2,292	2,037	5,663
Other professional services	5,602	6,305	3,632	7,219	7,250	(618)
Auditors' remuneration	7	7	38	4	4	26
Discontinued operations	-	444	444	-	2,575	2,575
Other administration costs	-	-	-	-	-	1,103
Non cash items						
Depreciation and amortisation: continuing operations	5,839	6,366	6,426	4,609	4,928	5,004
Depreciation and amortisation: discontinued operations	-	1,392	1,392	-	1,833	1,833
Loss/(gain) on disposal of non-current assets	-	-	24	1	1	1
Auditors' remuneration: continued operations	350	392	392	371	411	411
Auditors' remuneration: discontinued operations	-	24	24	-	24	24
Total non cash items	6,189	8,174	8,258	4,981	7,197	7,273
Total	82,408	89,696	88,341	63,745	73,585	72,165

All audit costs identified above relate to expenditure with the NAO; no payments were made to the auditors in respect of non-audit services (2011-12: nil).

7.2 Costs incurred and related recoveries on financial stability interventions

Treasury group other administration costs include professional fees incurred in relation to the financial stability interventions. Some of these costs have been recharged to the institutions that have benefited from these measures as summarised below:

		2012-13	2011-12
		£000	£000
Professional fees incurred:	Legal advice	21	325
	Financial advice	1,231	1,077
	Other advice	844	1,101
Other costs		6,960	15,798
Total		9,056	18,301
Related recoveries		(4,590)	(11,511)

8. Other programme costs

	Note	2012-13					2011-12
		Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	(Restated)
		£000	£000	£000	£000	£000	£000
UK coinage: manufacturing costs	21	21,667	21,667	21,667	15,732	15,732	15,732
UK coinage: metal costs	21	24,545	24,545	24,545	24,468	24,468	24,468
Equitable Life administration	19.2.1	19,791	19,791	19,791	20,273	20,273	20,273
DMO settlement, custodial and brokerage charges		-	3,565	3,565	-	3,988	3,988
DMO Stock Exchange listing fees		-	600	600	-	600	600
NLGS set up and administration		4,033	4,215	4,215	-	-	-
Core Treasury funding of Sovereign Grant and OBR		32,615	32,615	-	-	-	-
Royal Household Pension Scheme		4,242	4,242	4,242	3,635	3,635	3,635
Civil List		359	359	359	9,513	9,513	9,513
Legal consultancy and professional services		46	46	11,865	-	-	10,195
IT consultancy and professional services		-	-	3,448	-	-	1,790
Other consultancy and professional services		158	158	13,371	-	-	6,182
Grant repayment		-	-	-	16,010	16,010	16,010
FSCS compensation costs		-	-	283,441	-	-	285,852
FSCS claims outsourcing costs		-	-	17,368	-	-	11,645
Sovereign Grant catering and hospitality		-	-	1,480	-	-	1,540
Sovereign Grant air and rail travel		-	-	4,502	-	-	4,920
Staff-related costs		-	-	3,492	-	-	2,851
Maintenance and other accommodation costs		-	-	15,215	-	-	15,517
Office services		-	-	40,236	-	-	27,946
MAS debt advice services		-	-	30,145	-	-	900
Auditors' remuneration		-	-	456	-	-	482
Other programme expenditure		499	641	2,034	308	508	10,938
Non cash items							
Depreciation and amortisation		-	-	2,689	-	-	2,595
Loss on disposal of non-current assets		-	-	489	-	-	-
Loss on revaluation of non-current assets		6,636	6,636	6,636	-	-	-
Impairment of financial assets		36,798	36,798	36,798	14,099,548	14,099,548	14,099,548
Net expense on NLGS guarantees		108,911	108,911	108,911	-	-	-
Loss on disposal of investments		-	-	-	315,000	315,000	315,000
Defined benefit pension costs		-	-	(497)	-	-	(1,154)
Banking and gilts registration services		11,490	11,490	11,490	11,332	11,332	11,332
Provisions net expense/ (release): continuing operations	19.1	40,137	40,143	45,131	(17,856)	(17,850)	(15,576)
Provisions net expense: discontinued operations	19.1	-	-	-	-	923	923
Other non cash		-	-	-	-	-	3
Total non cash items		203,972	203,978	211,647	14,408,024	14,408,953	14,412,671
Total		311,927	316,422	717,684	14,497,963	14,503,680	14,887,648

Auditors' remuneration of £72,000 (2011-12: £17,000) was incurred with the NAO. No payments (2011-12: nil) were made to the NAO in respect of non-audit services. Payments of £230,000 (2011-12: £404,000) were made to other firms for audit services. Further payments of £154,000 (2011-12: £78,000) were made to these firms in respect of non-audit services.

9. Operating income

	2012-13			2011-12 (Restated)		
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Administration income						
Letting of accommodation	10,797	10,895	10,895	2,823	2,816	2,816
Recoveries in respect of outward secondments	2,508	2,508	2,442	2,947	2,948	2,760
Recharges and other recoveries: continuing operations	16,051	16,066	15,957	1,591	1,591	1,418
Recharges and other recoveries: discontinued operations	-	3,431	3,431	-	10,332	10,332
Consultancy income	1,072	1,072	1,072	984	984	984
DMO fees and charges	-	1,921	1,921	-	6,492	6,492
Other administration income	99	103	103	3,220	3,237	3,219
	30,527	35,996	35,821	11,565	28,400	28,021
Programme income						
Fees for financial guarantees	150,011	150,011	150,011	984,659	984,659	984,659
Fees for contingent capital	320,000	320,000	320,000	320,000	320,000	320,000
Interest and fee income from loans	1,229,042	1,229,042	1,229,425	987,598	987,598	617,991
Amortisation of loans	145,500	145,500	145,500	189,633	189,633	189,633
Other financial stability income	1,227	1,227	1,227	-	-	-
Losses due to hedging ineffectiveness	(1,493)	(1,493)	(1,493)	(1,369)	(1,369)	(1,369)
Pool Re insurance premiums	32,188	32,188	32,188	35,805	35,805	35,805
FSA fine income	341,251	341,251	341,251	-	-	-
FSA fine interest	373	373	373	-	-	-
Bank of England payment	55,115	55,115	55,115	2,297,900	2,297,900	2,297,900
Royal Mint dividend	4,000	4,000	4,000	4,000	4,000	4,000
Other dividends	1,292	1,292	1,292	221	221	221
Royalty income	1,446	1,446	1,446	1,596	1,596	1,596
Sale of coinage scrap metal	7,885	7,885	7,885	892	892	892
Additional proceeds from Northern Rock sale	12,844	12,844	12,844	-	-	-
Royal Household Pension Scheme	923	923	923	967	967	967
Civil List	-	-	-	1,254	1,254	1,254
Reimbursement of grant repayment from DCLG	-	-	-	16,010	16,010	16,010
Levy income	-	-	358,667	-	-	649,420
FSCS recoveries	-	-	50,098	-	-	85,920
Sovereign Grant recharges and other income	-	-	8,522	-	-	7,052
Recoveries in respect of outward secondments	-	-	312	-	-	298
Property rental	-	-	2,996	-	-	2,741
Other programme income	94	1,011	1,109	16	1,389	1,568
Non cash						
BEAPFF and APS derivative fair value movements	17,103,300	17,103,300	17,103,300	28,443,612	28,443,612	28,443,612
Gain on disposal of investments	3,314	3,314	3,314	-	-	-
	19,408,312	19,409,229	19,830,305	33,282,794	33,284,167	33,660,170
Total operating income	19,438,839	19,445,225	19,866,126	33,294,359	33,312,567	33,688,191

10. Segment reporting

10.1 Operating segments

The operating segment analysis is reported in a manner consistent with the internal reporting provided to HM Treasury's Executive Management Board (EMB). This reporting covers Core Treasury and Agencies and excludes NDPBs and other bodies. As at 31 March 2013, HM Treasury's operating segments consisted of the following:

- Core Treasury department (excluding the Office of Tax Simplification)
- Office of Tax Simplification
- Financial Instruments
- UK Debt Management Office
- UK Financial Investments
- Office for Budget Responsibility

In addition, the Asset Protection Agency was an operating segment until its closure on 31 October 2012.

The EMB, which is responsible for allocating resources across the Treasury group, and for assessing the performance of the operating segments based on each segment's outturn against budget, has been identified as the chief operating decision maker, in accordance with accounting standards. Transactions between segments are carried out at arm's length and any material intra-group transactions and balances are eliminated on consolidation.

10.2 Segmental analysis

Group segmental reporting analysis

Analysis of net expenditure

	2012-13			2011-12 (Restated)		
	Gross Expenditure	Income	Net Expenditure/ (Income)	Gross Expenditure	Income	Net Expenditure/ (Income)
	£000	£000	£000	£000	£000	£000
Core Treasury	462,815	(19,438,839)	(18,976,024)	14,631,432	(33,294,359)	(18,662,927)
Of which:						
Administration	150,113	(30,526)	119,587	132,635	(11,565)	121,070
Equitable Life	19,791	-	19,791	20,273	-	20,273
Royal Household Pension Scheme & Civil List	4,601	(923)	3,678	13,148	(2,221)	10,927
Other Programme	135,591	(522,935)	(387,344)	49,994	(2,356,439)	(2,306,445)
Office of Tax Simplification	374	-	374	414	-	414
Financial Instruments	152,345	(18,884,455)	(18,732,110)	14,414,968	(30,924,134)	(16,509,166)
UK Debt Management Office	19,513	(3,277)	16,236	19,699	(8,429)	11,270
Asset Protection Agency	3,431	(3,431)	-	10,332	(10,332)	-
UK Financial Investments	2,199	(2,199)	-	5,693	(5,693)	-
Office for Budget Responsibility	1,732	(7)	1,725	1,705	(1)	1,704
Total reported segments	489,690	(19,447,753)	(18,958,063)	14,668,861	(33,318,814)	(18,649,953)
Reconciliation to SCNE:						
Eliminations between reported segments	(4,318)	2,703	(1,615)	(6,484)	6,484	-
Financial Services Compensation Scheme	851,741	(757,162)	94,579	763,855	(690,248)	73,607
Money Advice Service	77,455	(81,404)	(3,949)	40,943	(45,672)	(4,729)
Sovereign Grant	45,200	(11,931)	33,269	42,700	(10,282)	32,418
Eliminations with non-reported segments	(530,426)	429,421	(101,005)	(420,341)	370,341	(50,000)
Group total per SCNE	929,342	(19,866,126)	(18,936,784)	15,089,534	(33,688,191)	(18,598,657)

Analysis of net assets

	2012-13		2011-12 (Restated)	
	Total Assets	Net Assets	Total Assets	Net Assets
	£000	£000	£000	£000
Core Treasury	143,795,301	141,588,717	139,000,693	136,581,835
UK Debt Management Office	3,980	1,871	3,177	461
Asset Protection Agency	-	-	3,869	943
UK Financial Investments	331	-	734	-
Office for Budget Responsibility	271	32	393	142
Total reported segments	143,799,883	141,590,620	139,008,866	136,583,381
Reconciliation to SoFP:				
Eliminations between reported segments	(67)	-	(455)	-
Financial Services Compensation Scheme	17,460,058	(856,658)	18,146,776	(259,975)
Money Advice Service	13,768	9,511	25,455	5,563
Sovereign Grant	22,411	14,244	24,792	16,185
Eliminations with non-reported segments	(17,675,707)	572,485	(18,321,001)	3,195
Group total per SoFP	143,620,346	141,330,202	138,884,433	136,348,349

10.3 Discontinued operations

The Asset Protection Agency (APA) closed on 31 October 2012. As it was previously identified as an operating segment, it has been assessed by HM Treasury as being a major line of business and is therefore presented separately in these financial statements as a discontinued operation. A summary of its gross expenditure and income is shown below:

	2012-13	2011-12
	£000	£000
Staff costs	1,363	4,978
Administration expenditure:		
Total cash	653	2,574
Total non-cash	1,416	1,857
Programme expenditure:		
(Release)/creation of provision	(1)	923
Operating income	(3,431)	(10,332)
Net income	-	-
Less: expenditure eliminated on consolidation	(322)	(553)
Net income as per SCNE	(322)	(553)

During the year the APA incurred expenditure of £0.3 million (2011-12: £0.6 million) paid to the Debt Management Office in respect of office rental charges. This expenditure has been eliminated in the SCNE.

At the time of its closure, the APA had total assets of £1 million (2011-12: £3.9 million) and net assets of £0.6 million (2011-12: £0.9 million). On closure, all assets and liabilities transferred to Core Treasury and the Debt Management Office.

11. Property, plant and equipment

Group property, plant and equipment 2012-13

	Land	Buildings	Property Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	2012-13 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation									
At 1 April 2012 (Restated)	24,812	90,489	4,690	3,230	5,176	19,488	1,569	14,729	164,183
Transfers	-	458	10,944	91	2,579	1,115	-	(15,187)	-
Additions	-	171	780	56	477	1,546	-	831	3,861
Disposals	-	(349)	(3,023)	(45)	(1,795)	(1,646)	-	-	(6,858)
Gain/(loss) on revaluation	8,963	(11,713)	-	-	-	-	-	-	(2,750)
At 31 March 2013	33,775	79,056	13,391	3,332	6,437	20,503	1,569	373	158,436
Accumulated depreciation									
At 1 April 2012 (Restated)	-	10,149	3,780	1,356	3,291	14,539	-	-	33,115
Transfers	-	(1)	(861)	34	828	-	-	-	-
Charge in year	-	2,368	398	303	529	3,368	-	-	6,966
Released on disposal	-	(349)	(2,883)	(45)	(1,513)	(1,531)	-	-	(6,321)
(Loss) on revaluation	-	(5,077)	-	-	-	-	-	-	(5,077)
At 31 March 2013	-	7,090	434	1,648	3,135	16,376	-	-	28,683
Net book value 1 April 2012 (Restated)	24,812	80,340	910	1,874	1,885	4,949	1,569	14,729	131,068
Net book value 31 March 2013	33,775	71,966	12,957	1,684	3,302	4,127	1,569	373	129,753
Of which:									
Core Treasury	33,775	62,725	12,236	174	2,089	2,726	1,569	307	115,601
Agencies	-	-	-	2	18	665	-	-	685
NDPBs and other bodies	-	9,241	721	1,508	1,195	736	-	66	13,467
Group	33,775	71,966	12,957	1,684	3,302	4,127	1,569	373	129,753

All property, plant and equipment is owned with the exception of the 1 Horse Guards Road building. This Core Treasury asset is leased under a PFI arrangement and as at 31 March 2013 has a net book value of £62.7 million (2011-12: £71.1 million). For further details on this PFI contract see note 22.2.

Group property, plant and equipment 2011-12

	Land	Buildings	Property Improvement	Plant & Machinery	Furniture & Equipment	IT Equipment	Antiques	Assets under construction	2011-12 (Restated) Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost/valuation									
At 1 April 2011	24,812	92,015	4,668	2,778	5,663	19,016	1,570	2,645	153,167
Transfers	-	-	-	43	171	141	-	(355)	-
Additions	-	119	22	485	136	1,072	-	12,439	14,273
Disposals	-	(1,645)	-	(76)	(794)	(741)	(1)	-	(3,257)
At 31 March 2012	24,812	90,489	4,690	3,230	5,176	19,488	1,569	14,729	164,183
Accumulated depreciation									
At 1 April 2011	-	9,480	3,341	1,163	3,381	12,174	-	-	29,539
Charge in year	-	2,314	439	269	704	3,106	-	-	6,832
Released on disposal	-	(1,645)	-	(76)	(794)	(741)	-	-	(3,256)
At 31 March 2012	-	10,149	3,780	1,356	3,291	14,539	-	-	33,115
Net book value 1 April 2011	24,812	82,535	1,327	1,615	2,282	6,842	1,570	2,645	123,628
Net book value 31 March 2012	24,812	80,340	910	1,874	1,885	4,949	1,569	14,729	131,068
Of which:									
Core Treasury	24,812	71,092	730	201	463	3,503	1,569	14,212	116,582
Agencies	-	-	4	-	43	149	-	-	196
NDPBs and other bodies	-	9,248	176	1,673	1,379	1,297	-	517	14,290
Group	24,812	80,340	910	1,874	1,885	4,949	1,569	14,729	131,068

12. Intangible assets

Group intangible assets 2012-13

	Externally generated software	Software licences	Goodwill	Assets under construction	Internally generated software	2012-13
						Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2012 (Restated)	4,140	10,868	1,772	5,758	5,111	27,649
Transfers	7,237	45	-	(7,282)	-	-
Additions	-	616	-	4,728	2,129	7,473
Disposals	-	(637)	-	-	(697)	(1,334)
At 31 March 2013	11,377	10,892	1,772	3,204	6,543	33,788
Accumulated amortisation						
At 1 April 2012 (Restated)	2,836	10,113	-	-	3,507	16,456
Charge in year	2,351	408	-	-	782	3,541
Released on disposal	-	(635)	-	-	(697)	(1,332)
At 31 March 2013	5,187	9,886	-	-	3,592	18,665
Net book value 1 April 2012 (Restated)	1,304	755	1,772	5,758	1,604	11,193
Net book value 31 March 2013	6,190	1,006	1,772	3,204	2,951	15,123
Of which:						
Core Treasury	6,190	91	1,772	3,060	-	11,113
Agencies	-	566	-	143	833	1,542
NDPBs and other bodies	-	349	-	1	2,118	2,468
Group	6,190	1,006	1,772	3,204	2,951	15,123

Group intangible assets 2011-12

	Externally generated software	Software licences	Goodwill	Assets under construction	Internally generated software	2011-12
						(Restated)
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 April 2011 (Restated)	4,140	10,554	1,772	600	4,453	21,519
Transfers	-	10	-	(147)	137	-
Additions	-	304	-	5,305	939	6,548
Disposals	-	-	-	-	(418)	(418)
At 31 March 2012 (Restated)	4,140	10,868	1,772	5,758	5,111	27,649
Accumulated amortisation						
At 1 April 2011 (Restated)	1,147	9,417	-	-	3,706	14,270
Charge in year	1,689	696	-	-	219	2,604
Released on disposal	-	-	-	-	(418)	(418)
At 31 March 2012 (Restated)	2,836	10,113	-	-	3,507	16,456
Net book value 1 April 2011 (Restated)	2,993	1,137	1,772	600	747	7,249
Net book value 31 March 2012 (Restated)	1,304	755	1,772	5,758	1,604	11,193
Of which:						
Core Treasury	-	161	1,772	5,747	-	7,680
Agencies	1,304	265	-	-	1,046	2,615
NDPBs and other bodies	-	329	-	11	558	898
Group	1,304	755	1,772	5,758	1,604	11,193

13. Available-for-sale assets

Group available-for-sale assets

	At 1 April 2012	Additions	Redemptions	Fair value adjustment	Impairments	At 31 March 2013
	£000	£000	£000	£000	£000	£000
Bank of England share capital	3,387,000	-	-	(35,000)	-	3,352,000
Royal Mint Public Dividend Capital	5,500	-	-	-	-	5,500
Partnerships UK ordinary shares	10,413	-	(5,792)	(162)	-	4,459
Business Finance Partnership	-	5,216	-	-	(267)	4,949
Local Partnerships ordinary shares	869	-	-	951	-	1,820
UK Asset Resolution ordinary shares	4,676,400	-	-	588,700	-	5,265,100
Northern Rock perpetual capital notes	82,000	-	-	41,000	-	123,000
RBS ordinary shares	10,957,832	-	-	(35,680)	-	10,922,152
RBS B shares	14,096,400	-	-	-	(45,900)	14,050,500
RBS Dividend Access Share	1,799,373	-	-	(325,455)	-	1,473,918
Lloyds Banking Group ordinary shares	9,276,476	-	-	4,166,132	-	13,442,608
Total	44,292,263	5,216	(5,792)	4,400,486	(46,167)	48,646,006

All of the group's available-for-sale assets are held by Core Treasury.

On disposal of Partnerships UK ordinary shares, £3.3 million (2011-12: nil) of the available-for-sale reserve was recycled through operating income, see note 9.

HM Treasury's shares in the Bank of England, UK Asset Resolution and Local Partnerships are valued based on HM Treasury's share of net asset value. Fair value changes reflect the change in value of net assets held by these bodies. HM Treasury's shares in Royal Mint are held at historical cost.

HM Treasury's ordinary shares in RBS and Lloyds Banking Group and B shares in RBS have been revalued based on the closing share price at the reporting date. Shares have been assessed on a tranche-by-tranche basis for impairments and fair value adjustments to reflect the different acquisition costs over time.

The table below summarises the fair value adjustments and impairment charges for each tranche of shares:

	At 1 April 2012	Fair value adjustment	Impairments	At 31 March 2013
	£000	£000	£000	£000
Royal Bank of Scotland (Ordinary shares)				
Purchase of shares in October 2008	6,316,789	(20,568)	-	6,296,221
Participation in rights issue in April 2009	4,641,043	(15,112)	-	4,625,931
Total for Royal Bank of Scotland	10,957,832	(35,680)	-	10,922,152
Lloyds Banking Group (Ordinary shares)				
Purchase of shares in October 2008	889,785	399,608	-	1,289,393
Conversion of HBOS shares into Lloyds ordinary shares in January 2009	1,555,366	698,527	-	2,253,893
Participation in rights issue in June 2009	1,519,165	682,269	-	2,201,434
Participation in rights issue in December 2009	5,312,160	2,385,728	-	7,697,888
Total for Lloyds Banking Group	9,276,476	4,166,132	-	13,442,608

14. Derivative financial instruments

14.1 Group derivative financial assets

	At 1 April 2012	Cash movement	Fair value adjustment	At 31 March 2013
	£000	£000	£000	£000
BEAPFF derivative	38,468,763	(11,272,473)	17,078,300	44,274,590
APS derivative	125,000	(150,000)	25,000	-
Forward currency contracts assets	10,004	-	(10,004)	-
Total	38,603,767	(11,422,473)	17,093,296	44,274,590

14.2 Group derivative financial liabilities

	At 1 April 2012	Fair value adjustment	At 31 March 2013
	£000	£000	£000
Forward currency contracts liabilities	(8,471)	8,471	-
Total	(8,471)	8,471	-

All of the group's derivative financial instruments are held by Core Treasury.

The fair value methodology for derivatives is detailed in note 23.2.

15. Loans and receivables

15.1 Group loans

	Note	At 1 April 2012 (Restated) £000	Additions £000	Loan repayments £000	Amortisation £000	Impairment £000	Impairment reversals £000	Transfers £000	At 31 March 2013 £000
Northern Rock Asset Management loan	26	19,838,339	-	(1,914,249)	-	-	-	-	17,924,090
Bradford & Bingley working capital facility	27	7,975,000	-	(1,225,000)	-	-	-	-	6,750,000
Bradford & Bingley statutory debt	27	2,301,712	-	-	71,284	(55,292)	-	-	2,317,704
KSF statutory debt	30	89,210	-	(67,523)	4,210	-	13,287	-	39,184
London Scottish statutory debt	30	5,782	2,136	(4,676)	406	-	495	612	4,755
Heritable statutory debt	30	16,386	-	(7,700)	484	-	118	-	9,288
Icesave statutory debt ¹	30	507,535	-	(155,438)	25,577	-	49,794	1,016,319	1,443,787
Dunfermline statutory debt	31	922,203	-	(142,715)	-	-	-	-	779,488
Bradford & Bingley FSCS debt ²	27	15,654,513	-	-	-	-	-	-	15,654,513
KSF FSCS debt ²	30	954,490	65	(352,659)	-	-	-	-	601,896
London Scottish FSCS debt ²	30	186,925	6,645	(35,259)	-	-	-	(612)	157,699
Heritable FSCS debt ²	30	143,311	1	(39,023)	-	-	-	-	104,289
Icesave FSCS debt ²	30	1,008,866	-	(281,078)	-	-	-	-	727,788
Depositors' and Investors' Guarantee Fund (DIGF) loan	30	1,416,573	-	(443,794)	43,540	-	-	(1,016,319)	-
Local Partnerships loan		375	-	(375)	-	-	-	-	-
Loans given by IFUL	33.3	94,821	19,467	(2,961)	-	-	-	-	111,327
Bilateral loan to Ireland	32	1,210,110	1,210,110	-	-	-	-	-	2,420,220
Total loans and advances		52,326,151	1,238,424	(4,672,450)	145,501	(55,292)	63,694	-	49,046,028

In addition to the loans above, Core Treasury had intra-group loans of £0.1 million to the FSCS relating to amounts advanced by the Treasury to the FSCS to fund depositor payouts but not paid out by the FSCS at the reporting date (2011-12: £5.9 million). Details of all loans to the FSCS are included in note 30.

¹ Icesave statutory debt includes amounts paid to compensate depositors for amounts up to the guarantee limit in place in Iceland. These amounts were originally recognised as a loan to the DIGF but, following the ruling of the EFTA Court on 28 January 2013, are not recoverable from the Icelandic government and are recoverable from the administration. The debt has therefore been transferred to statutory debt with effect from the date of the EFTA court ruling.

² Core Treasury has made loans to the FSCS to enable payout to eligible depositors for amounts up to the FSCS guarantee limit. From a group perspective, the FSCS elements of loans represent claims in the administration of the failed banks up to the guarantee limit and statutory debt represents amounts over that limit. The loans are recoverable through the administration, or, in the case of Bradford & Bingley, wind-down of the business. Any shortfall against the FSCS element will be met by the FSCS levying the financial services industry. For further details on the allocation of loans see note 30.

15.2 Trade receivables analysis by type

	Note	2012-13			2011-12 (Restated)		
		Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
		£000	£000	£000	£000	£000	£000
Amounts falling due within one year							
Trade receivables		13,096	13,096	15,268	4,504	4,512	5,772
Taxation and social security		722	722	710	1,251	1,251	1,270
Deposits and advances		261	313	484	200	252	407
Accrued interest and dividend income		632,609	632,609	203,188	472,926	472,926	102,760
Prepayments and other accrued income		34,557	36,177	45,573	26,223	30,249	38,545
Bank of England special payment receivable		-	-	-	2,261,897	2,261,897	2,261,897
Pool Re accrued income		33,895	33,895	33,895	33,023	33,023	33,023
FSA accrued fine income		341,251	341,251	341,251	-	-	-
FSA accrued fine interest		373	373	373	-	-	-
NS&I receivable	19.2.1	173,552	173,552	173,552	332,134	332,134	332,134
Northern Rock sale receivable		-	-	-	60,000	60,000	60,000
Fees receivable for financial guarantees		83,698	83,698	83,698	141,363	141,363	141,363
Levies receivable, net of provision		-	-	39,579	-	-	61,784
Other receivables		61	116	116	1,190	1,197	372
Total due within one year		1,314,075	1,315,802	937,687	3,334,711	3,338,804	3,039,327
Amounts falling due after more than one year							
Fees receivable for financial guarantees		321,794	321,794	321,794	243,829	243,829	243,829
Pool Re accrued income		40,477	40,477	40,477	41,651	41,651	41,651
Other receivables		-	25	25	-	43	43
Total due after more than one year		362,271	362,296	362,296	285,480	285,523	285,523
Total trade receivables		1,676,346	1,678,098	1,299,983	3,620,191	3,624,327	3,324,850

15.3 Trade receivables analysis by classification

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13	2011-12 (Restated)	2012-13	2011-12 (Restated)
	£000	£000	£000	£000
Balances with other central government bodies	307,564	2,255,216	176,271	242,963
Balances with local authorities	7,266	5,985	-	-
Balances with NHS Trusts	35	(1,262)	-	-
Balances with public corporations and trading funds	5,634	8,037	-	-
Subtotal: intra government balances	320,499	2,267,976	176,271	242,963
Balances with bodies external to government	617,188	771,351	186,025	42,560
Total trade receivables	937,687	3,039,327	362,296	285,523

16. Inventories

HM Treasury pays Royal Mint for coins upon production. Production is in accordance with an agreed schedule and under the contract Royal Mint produces a 12 week supply of buffer stock. HM Treasury holds the inventory of finished coins on its Statement of Financial Position. When banks and post offices draw down supplies of finished coins from the Royal Mint stocks, they pay the face value of the coins to the Consolidated Fund.

The Royal Household holds inventories of wine and spirit funded from the Sovereign Grant. Inventories held by Core Treasury and through the Sovereign Grant are shown below. No inventories are held by any other members of the Treasury group.

	2012-13	2011-12 (Restated)
	£000	£000
Coinage scrap metal inventories	28	28
Finished coinage inventories awaiting issue	16,204	17,390
Wine and spirits	488	467
Total	16,720	17,885

17. Cash and cash equivalents

	2012-13			2011-12 (Restated)		
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Balance at 1 April (Restated)	10,713	10,714	171,838	18,265	18,280	234,856
Net change in cash balances	(1,430)	(1,430)	18,892	(7,552)	(7,566)	(63,018)
Balance at 31 March 2013	9,283	9,284	190,730	10,713	10,714	171,838
The following balances were held at 31 March:						
Government Banking Service	5,054	5,054	8,767	10,713	10,713	14,685
Bank of England	-	-	167,705	-	-	123,405
Commercial banks and cash in hand	4,229	4,230	14,258	-	1	33,748
Balance at 31 March 2013	9,283	9,284	190,730	10,713	10,714	171,838

Core Treasury's balance of £4.2 million held at commercial banks and cash in hand comprises €5 million of cash held securely as cash in Cyprus as part of the contingency measures.

The group balance at commercial banks and cash in hand include an overdraft amount of £1.4 million relating to the FSCS (2011-12: £5.4 million).

18. Liabilities

18.1 Trade payables and other liabilities

	Note	2012-13			2011-12 (Restated)		
		Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
		£000	£000	£000	£000	£000	£000
Amounts falling due within one year							
Trade payables		(371)	(367)	2,596	1,692	1,787	8,061
Taxation and social security		1,432	1,606	3,633	1,508	1,796	4,081
Deferred contingent capital fee income		240,000	240,000	240,000	240,000	240,000	240,000
Capital accruals		-	39	68	800	800	800
Other accruals and deferred income		29,634	31,352	47,244	19,981	24,005	52,345
EU Structural Fund grant repayment		16,010	16,010	16,010	16,010	16,010	16,010
FSCS advances for compensation payments not dispersed		-	-	44,927	-	-	54,089
Equitable Life payables	19.2.1	67,677	67,677	67,677	27,400	27,400	27,400
Other payables		1,029	1,143	2,754	982	1,102	3,335
PFI contract		1,942	1,942	1,942	1,804	1,804	1,804
Consolidated Fund payable for:							
Operating income outside the scope of the Estimate to be surrendered		33,895	33,895	33,895	33,023	33,058	33,058
Excess cash to be surrendered		13,245	13,245	13,245	11,041	11,041	11,041
Total falling due within one year		404,493	406,542	473,991	354,241	358,803	452,024
Amounts falling due after more than one year							
PFI contract		125,229	125,229	125,229	127,172	127,172	127,172
Deferred income		3,114	3,114	3,165	3,182	3,182	3,247
Pension liability		-	-	7,087	-	-	7,022
Consolidated Fund payable for operating income outside the scope of the Estimate		40,477	40,477	40,477	41,651	41,651	41,651
Total falling due after one year		168,820	168,820	175,958	172,005	172,005	179,092
Total trade payables		573,313	575,362	649,949	526,246	530,808	631,116

18.2 Trade payables analysis by classification

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13	2011-12 (Restated)	2012-13	2011-12 (Restated)
	£000	£000	£000	£000
Balances with other central government bodies	47,827	355,616	40,477	41,651
Balances with local authorities	237	3	-	-
Balances with NHS Trusts	-	2	-	-
Balances with public corporations and trading funds	-	(391)	-	-
Subtotal: intra government balances	48,064	355,230	40,477	41,651
Balances with bodies external to government	425,927	96,794	135,481	137,441
Total trade payables	473,991	452,024	175,958	179,092

18.3 Other liabilities – financial guarantees

	2012-13	2011-12
	£000	£000
Core Treasury		
Credit Guarantee Scheme	-	41,410
Deposit guarantees	517,144	559,255
National Loan Guarantee Scheme (NLGS)	246,014	-
Total	763,158	600,665

19. Provisions for liabilities and charges

19.1 Summary of provisions

	2012-13			2011-12 (Restated)		
	Core Treasury £000	Core Treasury and Agencies £000	Group £000	Core Treasury £000	Core Treasury and Agencies £000	Group £000
Balance at 1 April	1,283,476	1,284,459	1,290,414	1,497,939	1,498,052	1,523,600
Provided in the year	59,945	59,949	64,981	4,489	5,417	7,691
Provision utilised in year	(453,499)	(454,470)	(459,921)	(196,606)	(196,665)	(218,532)
Provision not required written back	(588)	(589)	(629)	(50,474)	(50,474)	(50,474)
Unwinding of discount	(19,221)	(19,221)	(19,221)	28,128	28,129	28,129
Balance at 31 March	870,113	870,128	875,624	1,283,476	1,284,459	1,290,414
Of which timing of discounted flows expected:						
Within one year	290,554	290,569	291,036	311,475	312,444	316,326
Between one and five years	269,043	269,043	274,075	457,132	457,146	459,219
Later than five years	310,516	310,516	310,513	514,869	514,869	514,869
Balance at 31 March	870,113	870,128	875,624	1,283,476	1,284,459	1,290,414

19.2 Analysis by provision

	2012-13					2012-13
	Equitable Life £000	Financial stability £000	Early departure costs £000	FSCS levy £000	Other £000	Total £000
Expected timing of discounted flows:						
Within one year	290,086	-	448	-	502	291,036
Between one and five years	268,955	-	88	-	5,032	274,075
Later than five years	310,450	-	63	-	-	310,513
Balance at 31 March 2013	869,491	-	599	-	5,534	875,624

	2011-12					2011-12
	Equitable Life £000	Financial stability £000	Early departure costs £000	FSCS levy £000	Other £000	Total £000
Expected timing of discounted flows:						
Within one year	306,013	3,799	1,624	3,190	1,700	316,326
Between one and five years	456,797	-	2,422	-	-	459,219
Later than five years	514,869	-	-	-	-	514,869
Balance at 31 March 2012	1,277,679	3,799	4,046	3,190	1,700	1,290,414

19.2.1 Equitable Life

As part of the Spending Review on 20 October 2010, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out upfront over the first three years of the Spending Review period. Further details on the scheme are available on the Equitable Life Payment Scheme website.⁸

Payments of £409.4 million were made during the year (2011-12: £167.9 million). Of the £409.4 million of payments, warrants of £13.5 million had not been cashed (2011-12: £27.9 million). At the reporting date, letters had been sent to policyholders confirming future payments of £67.7million (2011-12: £27.4 million). As the timing and amount of these payments are certain, they are included as payables in note 18.1, and the provision has been reduced accordingly.

National Savings and Investments (NS&I) administers payments under the scheme on behalf of HM Treasury. HM Treasury advances funding to NS&I to allow it to make payments and at the reporting date the amount advanced but not yet disbursed is a receivable from NS&I of £173.6 million (2011-12: £332.1 million). The costs of administering the scheme are met by HM Treasury and for 2012-13 were £20.1 million (2011-12: £20.3 million).

During 2012-13 the Government announced that additional ex-gratia payments will be made to those eligible policyholders who bought an Equitable Life WPA prior to 1 September 1992. Payments are expected to be made during 2013-14 and HM Treasury estimates that this measure will distribute approximately £45 million.

The value of the provision disclosed in note 19.1 reflects expected cash flows discounted using discount rates set by central Treasury in November 2012 for use by Government Departments. Were the discount rates (relating to the Equitable Life Payment Scheme) to be updated for rates effective at 31 March 2013, the total value of the provision reported in note 19.1 above would have increased by £106.7 million.

19.2.2 Early departure costs

Core Treasury and its agencies meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retired early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The full costs become a binding obligation when the early retirement is agreed and these are held in a provision.

During 2011-12, the APA created a provision for early departure costs in relation to a voluntary exit programme launched in March 2012, voluntary redundancies and, potentially, compulsory redundancies for several APA employees. The provision was fully utilised by the time of the agency's closure on 31 October 2012.

During 2011-12, MAS created a provision for early departure costs in relation to the organisational restructuring programme undertaken in the year. The provision was fully utilised with the transformation programme having ended on 31 December 2012.

19.2.3 Other provisions

Other provisions mainly comprise dilapidations and legal costs.

Provisions for dilapidations have been made by the FSCS. This relates to its lease for premises at 1 Portsoken Street, London.

⁸ <http://equitablelifepaymentscheme.independent.gov.uk>

20. Capital commitments

	2012-13	2011-12
	£000	£000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Undrawn loan commitments from IFUL	1,948	25,178
Undrawn lending commitments relating to the Business Finance Partnership ¹	399,987	-
Undrawn B&B working capital facility	4,750,000	3,525,000
Undrawn NRAM working capital facility	2,500,000	2,500,000
Bilateral loan to Ireland	806,740	2,016,890
OSCAR IT upgrade project	442	3,233
Workspace optimisation	-	600
FSCS office fit-out	-	3,201
Sovereign Grant property maintenance	4,276	2,000
Royal Train maintenance	247	200
Sovereign Grant helicopter maintenance	2,694	3,000
Other	-	200
Approved but not contracted capital commitments		
Undrawn loan commitments to FSCS	-	10,000
Sovereign Grant property maintenance	5,608	2,000
Other	-	1,506
Total capital commitments	8,471,942	8,093,008
Of which:		
Core Treasury	8,459,117	8,082,607
Agencies	-	-
NDPBs and other bodies	12,825	10,401
Total capital commitments	8,471,942	8,093,008

¹ At 31 March 2013, HM Treasury had entered contractual commitments under the Business Finance Partnership to make funding available to suitable businesses that meet the qualifying criteria set out for this credit easing scheme. The contractual commitments have been made with three fund managers who serve to identify and co-ordinate appropriate lending.

21. Other financial commitments: manufacturing coinage

HM Treasury has committed to pay the Royal Mint for the metal and manufacturing costs of supplying new UK circulating coinage to meet the demand from banks and other distributors. The manufacturing price is agreed in a Coinage Contract covering 2010-11 to 2014-15. The Royal Mint recharges HM Treasury for the metal prices it incurs, which are variable in line with market prices.

HM Treasury makes monthly payments for coins manufactured by the Royal Mint. Coins which have been produced and paid for by HM Treasury but have not yet been issued are stored by the Royal Mint and held as inventory on HM Treasury's Statement of Financial Position. The coins are later issued to the coin centres and then purchased by banks at face value when required. The payments by the banks are made into the Coinage Deposit Account and surrendered to the Consolidated Fund by the Royal Mint.

For the year 2012-13 HM Treasury paid for the production of 1,456 million coins (2011-12 1,350 million) and 1,398 million (2011-12 1,163 million) coins were despatched to the coin centre. The net inventory movement resulted in manufacturing charges of £21.7 million (2011-12: £15.7 million) to the SCNE, including VAT, and metal charges of £24.5 million (2011-12: £24.5 million).

22. Commitments under leases

22.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for a range of time periods.

	2012-13			2011-12 (Restated)		
	Core Treasury	Core Treasury and Agencies	Group	Core Treasury	Core Treasury and Agencies	Group
	£000	£000	£000	£000	£000	£000
Buildings:						
Not later than one year	298	1,452	2,431	284	1,752	3,193
Later than one year and not later than five years	16	4,630	9,429	145	4,759	7,605
Later than five years	-	3,172	5,363	-	4,326	8,107
	314	9,254	17,223	429	10,837	18,905
Other:						
Not later than one year	110	137	547	85	181	444
Later than one year and not later than five years	192	215	756	233	283	1,533
Later than five years	-	-	3,075	-	-	3,100
	302	352	4,378	318	464	5,077

22.2 Core Treasury PFI contract

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership in respect of Core HM Treasury's buildings at 1 Horse Guards Road. Applying the principals of IFRIC 12 *Service Concession Arrangements*, the provision of the serviced accommodation at 1 Horse Guards Road building is treated as an infrastructure asset of HM Treasury. A full valuation was carried out by the Valuation Office Agency (VOA) in March 2010. A desktop revaluation was carried out in February 2013 by the VOA.

The PFI contract has been assessed under IAS 39 – *Financial Instruments Recognition and Measurement* to determine that no embedded derivatives exist that need to be separately accounted for in the financial statements. This PFI finance lease obligation has been accounted for as a liability in note 18.1.

The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements: imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

	2012-13	2011-12
	£000	£000
The finance lease obligation under the PFI contract comprises:		
Rentals due within one year	11,275	11,275
Rentals due between two to five years	45,100	45,100
Rentals due thereafter	217,986	229,261
Total rental payments	274,361	285,636
Less interest element	(147,189)	(156,660)
Total	127,172	128,976

The total amount charged in the SCNE in respect of the service element (including contingent rent) was £10.9 million (2011-12: £9.3 million).

At 31 March 2012 HM Treasury was committed to pay minimum service charges in future years:

	2012-13	2011-12
	£000	£000
Service charge due within one year	11,336	10,037
Service charge due between two to five years	51,836	46,419
Service charge due thereafter	454,280	445,809
Total service charges	517,452	502,265

No other members of the Treasury group have entered into PFI arrangements.

22.3 Core Treasury IT service

In 2010-11, HM Treasury signed a contract with Fujitsu to provide information and communication technology services. These services are delivered as part of the Cabinet Office Public Sector Flex shared service framework; a shared services solution which offers benefits and economies of scale across Government.

Fujitsu is also responsible for providing support and service facilities over the five year period of the contract to 2014-15.

The accounting for the IT services contract has been assessed under IFRIC 12 *Service Concession Arrangements* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The purchase of exclusive assets required to run the service are included on HM Treasury's Statement of Financial Position and depreciated across their useful economic life. Assets paid for but not controlled by HM Treasury are charged to the SCNE over the life of the contract. The cost of the IT service is charged direct to the SCNE. Details of the contractual payments are shown below:

	2012-13	2011-12
	£000	£000
Minimum payments		
Not later than one year	7,930	8,544
Later than one year and not later than five years	6,793	17,761
Later than five years	-	-
Total	14,723	26,305

22.4 Cabinet Office services

From 1 April 2011, HM Treasury has entered into contracts on behalf of the Cabinet Office in relation to telephony and IT services. Amounts are recharged to Cabinet Office in line with an agreed memorandum of understanding.

The additional lease costs not included in note 22.3 which relate to the Cabinet Office share of the contract agreements are shown below:

	2012-13		2011-12	
	Telephony	IT Services	Telephony	IT Services
	£000	£000	£000	£000
Minimum payments				
Not later than one year	760	14,330	260	12,450
Later than one year and not later than five years	1,440	12,180	715	24,900
Later than five years	-	-	-	-
Total	2,200	26,510	975	37,350

23. Financial instruments

23.1 Classification of Group financial instruments

At 31 March 2013

Group	Derivatives	Available-for-sale assets	Loans and receivables	Financial liabilities and guarantees at amortised cost	Total financial instruments at 31 March 2013	Other assets and liabilities	2012-13
							Total assets and liabilities at 31 March 2013
	£000	£000	£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	-	-	-	-	-	129,753	129,753
Intangible assets	-	-	-	-	-	15,123	15,123
Available-for-sale financial assets	-	48,646,006	-	-	48,646,006	-	48,646,006
Loans and advances to financial institutions	-	-	49,046,028	-	49,046,028	-	49,046,028
Trade and other receivables due after more than one year	-	-	362,296	-	362,296	-	362,296
Derivative financial assets expiring within one year	44,274,590	-	-	-	44,274,590	-	44,274,590
Trade and other receivables due within one year	-	-	924,285	-	924,285	13,402	937,687
Inventories	-	-	-	-	-	16,720	16,720
Cash	-	-	-	-	-	192,143	192,143
Total assets	44,274,590	48,646,006	50,332,609	-	143,253,205	367,141	143,620,346
Liabilities							
Trade and other payables falling due within one year	-	-	-	(469,749)	(469,749)	(4,242)	(473,991)
Bank overdraft	-	-	-	(1,413)	(1,413)	-	(1,413)
Provisions due within one year	-	-	-	-	-	(291,036)	(291,036)
Financial guarantees	-	-	-	(763,158)	(763,158)	-	(763,158)
Other payables falling due after more than one year	-	-	-	-	-	(175,958)	(175,958)
Provisions due after more than one year	-	-	-	-	-	(584,588)	(584,588)
Total liabilities	-	-	-	(1,234,320)	(1,234,320)	(1,055,824)	(2,290,144)
Total taxpayers' equity	44,274,590	48,646,006	50,332,609	(1,234,320)	142,018,885	(688,683)	141,330,202
Of which:							
Core Treasury	44,274,590	48,646,006	50,714,779	(1,165,835)	142,469,540	(880,822)	141,588,718
Agencies	-	-	447	(1,871)	(1,424)	3,339	1,915
NDPBs and other bodies	-	-	(382,617)	(66,614)	(449,231)	188,800	(260,431)
Total	44,274,590	48,646,006	50,332,609	(1,234,320)	142,018,885	(688,683)	141,330,202

At 31 March 2012

Group	Derivatives	Available-for-sale assets	Loans and receivables	Financial liabilities and guarantees at amortised cost	Total financial instruments at 31 March 2012	Other assets and liabilities	2011-12
							(Restated)
	£000	£000	£000	£000	£000	£000	Total assets and liabilities at 31 March 2012
							£000
Assets							
Property, plant and equipment	-	-	-	-	-	131,068	131,068
Intangible assets	-	-	-	-	-	11,193	11,193
Available-for-sale financial assets	-	44,292,263	-	-	44,292,263	-	44,292,263
Loans and advances to financial institutions	-	-	52,326,151	-	52,326,151	-	52,326,151
Trade and other receivables due after more than one year	-	-	285,523	-	285,523	-	285,523
Derivative financial assets expiring within one year	38,603,767	-	-	-	38,603,767	-	38,603,767
Trade and other receivables due within one year	-	-	3,039,327	-	3,039,327	-	3,039,327
Inventories	-	-	-	-	-	17,886	17,886
Cash	-	-	-	-	-	177,255	177,255
Total assets	38,603,767	44,292,263	55,651,001	-	138,547,031	337,402	138,884,433
Liabilities							
Trade and other payables falling due within one year	-	-	-	(447,943)	(447,943)	(4,081)	(452,024)
Bank overdraft	-	-	-	(5,418)	(5,418)	-	(5,418)
Provisions due within one year	-	-	-	-	-	(316,326)	(316,326)
Derivative financial liabilities expiring within one year	(8,471)	-	-	-	(8,471)	-	(8,471)
Financial guarantees	-	-	-	(600,665)	(600,665)	-	(600,665)
Other payables falling due after more than one year	-	-	-	-	-	(178,192)	(178,192)
Provisions due after more than one year	-	-	-	-	-	(974,088)	(974,088)
Total liabilities	(8,471)	-	-	(1,054,026)	(1,062,497)	(1,472,687)	(2,535,184)
Total taxpayers' equity	38,595,296	44,292,263	55,651,001	(1,054,026)	137,484,534	(1,135,285)	136,349,249
Of which:							
Core Treasury	38,595,296	44,292,263	55,952,283	(953,398)	137,886,444	(1,304,609)	136,581,835
Agencies	-	-	4,136	(4,274)	(138)	1,541	1,403
NDPBs and other bodies	-	-	(305,418)	(96,354)	(401,772)	167,783	(233,989)
Total	38,595,296	44,292,263	55,651,001	(1,054,026)	137,484,534	(1,135,285)	136,349,249

23.2 Fair value of financial assets and liabilities

(i) Derivatives

At 31 March 2013, the only financial instrument measured by HM Treasury at fair value through the SCNE is the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative. The fair value of the derivative represents the best estimate of the amount due to HM Treasury from Bank of England on settlement of the scheme. The derivative is fair valued on the basis of the difference between the fair value of the BEAPFF's assets and liabilities.

The asset value of £44.3 billion reflects interest income recognised since inception of £38.7 billion, realised losses on financial instruments of £0.2 billion and mark-to-market gains of £21.7 billion, less cash transfers to HM Treasury of £11.3 billion and interest expense and similar charges of £4.6 billion.

Of the BEAPFF's net assets of £44.3 billion, £23.6 billion was held as cash at the reporting date (2011-12: £23.8 billion). The remaining £20.7 billion comprised financial assets of £396.0 billion less the loan from the Bank of England of £375.3 billion used to finance asset purchases. The majority of the BEAPFF's holdings are gilts and as such their market value is sensitive to interest rate changes. Over time, changes in interest rates will result in the BEAPFF recording changes in mark-to-market gains on the current gilt portfolio. Losses could be crystallised to the extent that gilts are sold before their maturity and the speed by which this is done in the Bank's overall exit strategy.

For a sensitivity analysis of the BEAPFF derivative see note 23.5.1 and for an analysis of assets held see note 23.6.1.

Up until October 2012, HM Treasury held forward currency contracts relating to the Credit Guarantee Scheme. These forward currency contracts were used to hedge non-Sterling fee receipts. The contracts were held at fair value, which at initial recognition was zero, and was subsequently determined with reference to an equivalent forward contract that could be acquired at the reporting date that would mature on the same specified date as the forward currency contract in the future.

(ii) Available-for-sale assets

HM Treasury's available-for sale assets are detailed in note 13 and include:

- ordinary and B shares in RBS, and ordinary shares in Lloyds Banking Group;
- a single RBS dividend access share (DAS);
- share capital of public bodies, including UKAR, the Bank of England and Public Dividend Capital of the Royal Mint; and
- perpetual capital notes received as part of the sale proceeds of Northern Rock.

The fair value of HM Treasury's investments in the ordinary shares of RBS and Lloyds Banking Group is determined by using the published share prices as at the reporting date. While RBS B shares are not listed on a stock exchange, they can be converted into ordinary shares at the option of HM Treasury at any time. Therefore, it is assumed they are worth the market value of the underlying ordinary shares and are valued using the closing price of RBS ordinary shares.

The value of the DAS has been estimated using an option based valuation model using market observable and non-observable data and assumptions. Details of the data and assumptions are included in note 2.3.

The DAS value estimate is highly sensitive to underlying assumptions, the dividend start dates in particular. RBS's ability to start DAS related dividend payments will be dependent on the evolution of its earnings prospects and its capital position, though ultimately depends on the discretion of the RBS Board. The former two underlying factors are both heavily influenced by economic and regulatory developments. Based on external forecasts and other market benchmarks as of the valuation date, DAS related dividend payments are assumed to be made at some point between 2017 and 2022, with

different probabilities assigned to each year. A sensitivity analysis on the value of the DAS for a range of reasonable alternative inputs into the model is included in note 23.5.2.

Investments in public bodies, excluding Public Dividend Capital, are carried at fair value. As there is no observable market data for shares in these bodies, HM Treasury's share of net asset value is used as a measure of fair value. In accordance with the FReM, investments in Public Dividend Capital are carried at historical cost less any impairment recognised. This applies to HM Treasury's investment in the Royal Mint. Therefore, a fair value comparative for this body is not disclosed. Further details on all available-for-sale assets are included in note 13.

The value of the perpetual capital notes has been estimated using a valuation model. The perpetual capital notes have a par value of £150 million and receive discretionary interest at a rate of 10.5 per cent per annum from 2013. They can be converted into shares on a successful sale or listing of Virgin Money or if its capital ratio were to fall below a fixed level. The valuation approach adopted uses market data to estimate a value for a Lower Tier 2 security and to then estimate the premium for a Tier 1 over a Lower Tier 2 security; the approach does not ascribe any value to the conversion feature.

Details of HM Treasury's most significant shareholdings are shown below:

	2012-13			
	Bank of England	UK Asset Resolution Ltd	Royal Bank of Scotland Group plc	Lloyds Banking Group plc
HM Treasury ownership by class of share holding				
Equity capital	100%	-	-	-
Ordinary Shares	-	100%	64%	39%
B Shares	-	-	100%	-
Dividend Access Share	-	-	100%	-
Financial Information	£m	£m	£m	£m
Share capital and reserves	3,352	5,140	70,448	44,684
Profit / (Loss) ¹	20	564	(5,806)	(1,343)

	2011-12			
	Bank of England	UK Asset Resolution Ltd	Royal Bank of Scotland Group plc	Lloyds Banking Group plc
HM Treasury ownership by class of share holding				
Equity capital	100%	-	-	-
Ordinary Shares	-	100%	66%	40%
B Shares	-	-	100%	-
Dividend Access Share	-	-	100%	-
Financial Information	£m	£m	£m	£m
Share capital and reserves	3,387	4,551	76,053	46,594
Profit / (Loss)	36	1,161	(1,969)	(2,714)

¹ Figures are reported in respect of the most recent set of published accounts at the reporting date. For the Bank of England this is the year ended 28 February 2013 and for UK Asset Resolution Ltd, Royal Bank of Scotland Group plc and Lloyds Banking group plc it is 31 December 2012.

(iii) Loans and receivables

Loans and receivables are carried at amortised cost at the reporting date. Details of loans are included in note 15.1.

Loans provided by HM Treasury predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. It is not possible to provide a reliable estimate of the current fair values of these loans.

Northern Rock (Asset Management) and Bradford & Bingley have not been accessing financial markets to raise new funding and, if they did, market interest rates would be distorted by their being in public ownership. For the statutory and FSCS loans, the counterparties are failed financial institutions which are in administration or wind-up. Therefore, there are no current market prices for loans to these bodies.

Although fair values are not available, the table below provides an indication of the cost to HM Treasury of providing the loans, at current rates of interest, by discounting future cash flows receivable at HM Treasury's cost of borrowing, as approximated by UK gilt prices of a comparable maturity.

	2012-13		2011-12	
	Amortised cost	Discounted at cost of borrowing	Amortised cost	Discounted at cost of borrowing
	£000	£000	£000	£000
Northern Rock Asset Management loan	17,924,090	17,318,222	19,838,339	17,623,432
Bradford & Bingley working capital facility	6,750,000	7,596,799	7,975,000	8,551,099
Bradford & Bingley statutory debt	2,317,704	2,646,911	2,301,712	2,588,756
KSF statutory debt	39,184	41,080	89,210	91,892
London Scottish statutory debt	4,755	4,993	5,782	5,965
Heritable statutory debt	9,288	9,574	16,386	18,066
Icesave statutory debt	1,443,787	1,487,738	507,535	515,822
Dunfermline statutory debt	779,488	946,123	922,203	921,485
Bradford & Bingley FSCS debt	15,654,513	15,950,160	15,654,513	15,778,786
KSF FSCS debt	601,896	616,704	954,490	942,603
London Scottish FSCS debt	157,699	174,751	186,925	187,242
Heritable FSCS debt	104,289	106,929	143,311	147,250
Icesave FSCS debt	727,788	728,811	1,008,866	1,000,217
Depositors' and Investors' Guarantee Fund (DIGF) loan	-	-	1,416,573	1,473,255
Local Partnerships loan	-	-	375	375
Loans given by IFUL	111,327	117,409	94,821	102,452
Ireland loan	2,420,220	2,516,508	1,210,110	1,431,766
Total	49,046,028	50,262,712	52,326,151	51,380,463

(iv) Financial liabilities and guarantees at amortised cost

Financial liabilities at amortised cost comprise trade and other payables (excluding deferred income). Details are included in notes 18.

Financial guarantees relate to deposit guarantees and guarantees provided under the National Loan Guarantee Scheme. HM Treasury assesses the probability of default within the guarantee schemes at each reporting date and increases the carrying value of the liability above its amortised cost if necessary. As in prior years, default is not considered probable against any of the guarantees.

Two banks participating in the National Loan Guarantee Scheme have issued guaranteed debt. Although default is not considered probable, we can calculate the expected loss on debt as implied by credit default swap rates in order to approximate the fair value of the guarantees.

	2012-13
	Carrying value Calculated expected loss on debt
	£000 £000
Barclays	93,012 91,989
Lloyds Banking Group	153,002 95,980
Total	246,014 187,969

As no payout is expected under the financial guarantees they do not impact liquidity risk. Details on the liquidity risk associated with trade and other payables are included in note 23.7.

23.2.1 Valuation hierarchy of financial instruments carried at fair value

	Level 1	Level 2	Level 3	Other ¹	Total
	£m	£m	£m	£m	£m
Available-for-sale financial assets	24,365	22,678	1,597	6	48,646
Of which:					
RBS and Lloyds ordinary shares	24,365	-	-	-	24,365
RBS B shares	-	14,051	-	-	14,051
Shares in public bodies ²	-	8,622	-	-	8,622
BFP investments	-	5	-	-	5
RBS Dividend Access Share	-	-	1,474	-	1,474
Northern Rock perpetual capital note	-	-	123	-	123
Royal Mint public dividend capital	-	-	-	6	6
BEAPFF derivative financial asset	-	44,275	-	-	44,275
Total	24,365	66,953	1,597	6	92,921

¹This column comprises available-for-sale assets which are held at historical cost in accordance with the FReM. These assets cannot be classified within the fair value hierarchy.

²Shares in public bodies comprise investments in the Bank of England, UKAR, Partnerships UK and Local Partnerships where net asset value is used as a proxy for fair value under the special accounts direction.

The valuation hierarchy above classifies financial instruments carried at fair value into three levels according to the source of information used to determine the fair values.

Level 1 fair values are measured using unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 fair values are measured using inputs other than quoted prices that are either directly or indirectly observable. Level 3 fair values are measured using at least one unobservable input which could have a significant effect on the instrument's valuation.

There were no transfers between any levels during the year.

23.3 Income and expense from financial instruments

The income and expense recognised in the SCNE in relation to financial instruments comprises:

	Note	2012-13 £m	2011-12 (Restated) £m
Fees, interest and dividend income:			
Financial guarantee fees	9	150	985
RBS contingent capital fees	9	320	320
Interest and dividend income	9	1,286	658
Special Liquidity Scheme closure income	9	-	2,262
Other income and expense:			
Loss on Northern Rock disposal	9	-	(315)
Additional Northern Rock proceeds	9	13	-
Fair value adjustments of APS derivative	9	25	475
Fair value adjustments of BEAPFF derivative	9	17,078	27,969
Impairment of financial assets	8	(37)	(14,100)
Losses due to hedging ineffectiveness	9	(1)	(1)
Financial guarantee recognition expense	8	(109)	-
Amortisation of loans	9	146	190
Total		18,871	18,443

23.4 Financial risk management and financial risk factors

HM Treasury has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. The financial services interventions expose it to a variety of financial risks: market risk, credit risk and liquidity risk. In return for taking on financial risk, HM Treasury charges fees to institutions participating in interventions, as detailed in note 23.3.

Integral to HM Treasury's approach to financial risk management has been the design of the interventions and the terms and conditions imposed. Through the design of the interventions and their subsequent management, HM Treasury seeks to minimise the overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate. For further details, see notes 26 – 34 on the background to financial stability schemes and interventions.

The HM Treasury Board is ultimately responsible for risk management and HM Treasury's overall risk management programme. The risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on HM Treasury's financial performance. Financial risks are continually monitored and evaluated through normal management processes and form a core part of day-to-day operations for HM Treasury's policy teams and sub-committees.

23.5 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: foreign exchange risk, price risk and interest rate risk. Following the closure of the Credit Guarantee Scheme and Asset Protection Scheme, HM Treasury is not exposed to significant foreign exchange risk. It is, however, exposed to price risk and interest rate risk.

(i) Price risk

HM Treasury is exposed to price risk for the equity securities it holds as available-for-sale assets. No market exists for the remaining investments, which are primarily other Government bodies, some of which are never intended for sale. Such investments are accounted for at net asset value or historical cost.

Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and RBS are listed on the London Stock Exchange. In addition, RBS' B-shares are considered to be equivalent in market value to RBS's ordinary shares. A sensitivity analysis for the RBS dividend access share is given separately in note 23.5.2.

The analysis below shows the impact on net operating income and reserves of a 10 per cent and 25 per cent increase or decrease in the market price of investments in RBS and Lloyds Banking Group, excluding the RBS dividend access share. These variances were considered reasonably possible as at the reporting date.

Change in market price	2012-13		2011-12	
	Net operating income	Reserves	Net operating income	Reserves
	£m	£m	£m	£m
Increase of 10 per cent	46	3,796	1,806	1,627
Increase of 25 per cent	46	9,558	4,515	4,067
Decrease of 10 per cent	(1,405)	(2,436)	(1,806)	(1,627)
Decrease of 25 per cent	(5,823)	(3,781)	(8,665)	82
Holding value of the shares at 31 March		38,415		34,331

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of fluctuations on future cash flows arises on variable rate loans. The table below shows the effect of movements in LIBOR or Bank of England Base Rate on the SCNE for variable rate loans.

Change in interest rates	2012-13	2011-12
	£m	(Restated) £m
Increase 10 bps	42	46
Decrease 10 bps	(42)	(46)
Variable rate interest receivable in year	1,237	893

The risk of fluctuations in fair value arises on fixed interest rate and zero interest loans. As at the reporting date, HM Treasury had provided one loan at a fixed interest rate which is the bilateral loan to Ireland. If interest rates were to increase by 100 basis points, a degree considered reasonably possible, the fair value of the loan would decrease by approximately £164 million. There would be no impact on the SCNE as the loan is carried at amortised cost using the effective interest rate to discount future cash flows.

For statutory debt, where HM Treasury does not receive any interest, an increase in market interest rates would have the effect of decreasing the underlying fair value of the loans. If interest rates were to increase by 100 basis points, the fair value of the statutory debt loans would decrease by approximately £176 million.

23.5.1 Market risk and sensitivity analysis for the BEAPFF derivative

Market risk in the BEAPFF's asset portfolio arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets as a result of changes in market interest rates. Risk is

monitored through the value at risk and in the form of 'delta'. Value at risk estimates the potential loss that might arise if existing positions were unchanged for ten business days under normal market conditions, given the historical volatility of the returns on different returns on assets, and the historical correlation between those returns. Delta is the change in valuation from a one basis point increase or decrease in market interest rates. The value at risk at 31 March 2013 was £10.0 billion (2011-12: £10.6 billion) and the delta was £389 million (2011-12: £313 million).

23.5.2 Market risk and sensitivity analysis for the Dividend Access Share (DAS)

The valuation of the DAS is based on the potential dividend cash flows that may be realised by HM Treasury in the future. HM Treasury's right to the DAS expires when the RBS share price equals or exceeds 650p per share over a certain period. The financial model therefore estimates the potential dividends paid before this trigger is reached, and then discounts these expected dividends to establish a present value. Details of the base case assumptions used are included in note 2.3.

The value of the DAS decreases as the underlying share price goes up, as this increases the likelihood of the share price reaching 650p and dividend payments consequently ending. The valuation is also sensitive to the volatility of the RBS share price and the discount rate used in the financial model. The table below provides a sensitivity analysis for a range of scenarios considered plausible at 31 March 2013:

At 31 March 2013 Input to the model	Increase in DAS value		Decrease in DAS value	
	Input	£m	Input	£m
Share price sensitivity	-100p	924	+100 p	(630)
Credit spread sensitivity	-100bps	423	+100bps	(334)
Volatility sensitivity	+5%	225	-5%	(247)
Weighted dividend payment date	-1 year (to 2016-2021)	449	+1 year (to 2018-2023)	(362)

At 31 March 2012 Input to the model	Increase in DAS value		Decrease in DAS value	
	Input	£m	Input	£m
Share price sensitivity	-100p	791	+100p	(625)
Credit spread sensitivity	-100bps	262	+100bps	(227)
Volatility sensitivity	+5%	125	-5%	(136)
First dividend payment date	-1 year (to 2014)	601	+1 year (to 2016)	(454)

23.6 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss to HM Treasury by failing to discharge an obligation. HM Treasury is exposed to credit risk through schemes entered into by the Government. The Treasury's credit risk arises from loans issued to financial institutions and financial guarantees. See notes 26 to 34 for a description of the individual investments and schemes and their related exposures.

The table below shows the credit rating and utilisation of credit facilities of HM Treasury's most significant counterparties at the reporting date. These credit ratings are produced by Standard and Poor's and will reflect improvements in the credit worthiness of UK financial institutions as a result of Government interventions in providing loans and advances or financial guarantees.

As at 31 March	2012-13				2011-12 (Restated)	
	Credit rating	Exposure £m	Total facility £m	Credit rating	Exposure £m	Total facility £m
Loans and advances:						
Northern Rock (Asset Management) plc	A	17,924	20,424	A	19,838	22,338
Bradford & Bingley plc, including statutory debt	A-	9,068	13,818	A-	10,277	13,802
Other statutory debt	Not rated	2,277	2,277	Not rated	1,541	1,541
Recoverable compensation payments made by the FSCS ¹	A-	17,246	17,246	A	17,948	17,958
Depositors' and Investors' Guarantee Fund	BBB-	-	-	BBB-	1,417	1,417
Bilateral loan to Ireland	BBB+	2,420	3,227	BBB+	1,210	3,227
Loans given by IFUL	Not rated	111	116	Not rated	95	120
Financial guarantees fees receivable:						
Northern Rock (Asset Management) plc	A	106	-	A	89	-
Bradford & Bingley plc	A-	130	-	A-	203	-
Lloyds Banking Group	A-	114	-	A-	-	-
Barclays	A+	54	-	A+	-	-
Other significant debtors:						
Financial Services Authority	Not rated	342	-	Not rated	-	-
Pool Re	Not rated	74	-	Not rated	75	-
NS&I	AA	174	-	AAA	332	-

¹ The credit rating of FSCS debt has been approximated using the weighted average credit rating of top 10 levy payers. This is on the basis that any shortfall in the administration process will be met by levying the financial services industry.

HM Treasury manages credit risk in relation to its investments in Northern Rock (Asset Management) and Bradford & Bingley through UK Financial Investments Limited (UKFI) and UK Asset Resolution (UKAR). UKAR has been established to facilitate the orderly management of the closed mortgage books of both organisations and manages both organisations. The individual business plans of both Northern Rock (Asset Management) and Bradford & Bingley as prepared and implemented by UKAR project full repayment of loans to HM Treasury. On behalf of HM Treasury, UKFI monitors the implementation of agreed business plans and reports its findings to HM Treasury. Both HM Treasury and UKFI are satisfied with the planned repayment schedule.

In addition, as security on the loan to Northern Rock (Asset Management) plc, HM Treasury holds a floating charge over the entire company's assets including its mortgage pool. As at 31 December 2012, the fair value of the company's assets was £48.6 billion (2011: £55.3 billion). HM Treasury holds no other security over its loan assets.

In addition to Bradford & Bingley statutory debt, HM Treasury also has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the administrators. A sensitivity analysis of the level of capital recovery for statutory debt loans from administrators is shown below.

Loan	Total amount lent	Current recovery	Forecast recovery	2012-13	
				SCNE impact of change in forecast recovery by:	
				+5%	-5%
	£m	%	%		
KSF	494	77	85	23	(23)
London Scottish	31	34	50	1	(1)
Heritable	92	78	88	4	(4)
Icesave ¹	3,073	49	100	-	(153)
Dunfermline ²	1,540	49	100	-	-
Total	5,230			28	(181)

¹ Following the ruling of the EFTA Court, the loan to the Depositors' and Investors' Guarantee Fund is not recoverable from the Icelandic authorities and is recoverable from the administration of the Icesave estate

² For the Dunfermline statutory debt, HM Treasury can recover its shortfall in the administration from the FSCS, subject to a cap. Therefore the change in forecast recovery has no impact on the SCNE for the range considered reasonably possible above.

Loan	Current recovery	Forecast recovery	2011-12	
			SCNE impact of change in forecast recovery by:	
			+5%	-5%
	%	%		
KSF	63	82	23	(23)
London Scottish	19	42	1	(1)
Heritable	68	88	4	(4)
Icesave	30	100	-	(40)
Depositors' and Investors' Guarantee Fund ¹	30	100	-	(113)
Dunfermline	40	100	-	-
Total			28	(181)

HM Treasury provides a loan facility to FSCS to repay depositors the FSCS guaranteed portion of retail debts. The loans with FSCS are anticipated to be fully recoverable. The repayments by FSCS will be made through recoveries from administrators and any shortfall will be raised through industry levies.

HM Treasury has monitoring arrangements in place for the Ireland loan. Ireland can only request each draw downs against the loan facility following the successful completion of each quarterly IMF and European Commission review. In addition to reviewing the IMF and European Commission assessments, HM Treasury assesses whether there has been a material and adverse change affecting Ireland's ability to repay the bilateral loan. To date all requests for loan draw downs have been approved.

23.6.1 Credit risk ratings for BEAPFF assets

The table below analyses debt securities held by BEAPFF by credit risk groupings, based on external rating agency designation or equivalent:

Credit risk rating	2012-13		2011-12	
	Nominal holdings	% of holdings	Nominal holdings	% of holdings
	£m		£m	
AA (UK Government gilts) ¹	326,296	100.00	318,998	99.88
AA (other)	-	-	21	0.01
A	6	0.00	187	0.06
BBB	2	0.00	164	0.05
Total	326,304	100.00	319,370	100.00

¹The UK Government gilts had a credit rating of AAA in 2011-12.

23.6.2 Impairment of financial instruments

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date, based on objective evidence of impairment.

In-year and cumulative impairment charges for financial instruments comprise:

Impairments as at 31 March	2012-13			
	Opening cumulative impairments charged to the SCNE	Impairments charged to the SCNE in year	Impairments reversed in the SCNE in year	Closing cumulative impairments charged to the SCNE
	£m	£m	£m	£m
Loans and receivables	(1,359)	(55)	64	(1,350)
Available-for-sale financial instruments	(32,530)	(46)	-	(32,576)
Total	(33,889)	(101)	64	33,926

The following assets (comprised solely of aged trade receivables) are past due as at 31 March 2013, but have not been impaired as they are expected to be fully recoverable:

Assets past due but not impaired as at 31 March	2012-13 £m	2011-12 (Restated) £m
Past due up to three months	1.62	0.94
Past due three months to six months	0.03	0.02
Past due over six months	-	-
Total	1.65	0.96

23.7 Liquidity risk

Liquidity risk is the risk that HM Treasury is unable to meet its payment obligations associated with its financial liabilities as they fall due. HM Treasury's liquidity management controls include monitoring cash flows to ensure that daily cash requirements are met and re-assessing the net cash requirement on a regular basis and reporting this to Parliament through Estimates.

The table below presents the undiscounted cash flows payable by remaining contractual maturities at the reporting date, or, in the case of provisions, by expected timing of outflow.

Group	2012-13				2011-12 (Restated)
	Up to 3 months	3-12 months	Over 1 year	Total	Total
	£m	£m	£m	£m	£m
Trade and other payables ¹	187	47	173	407	375
Provisions	73	218	585	876	1,290
Total	260	265	758	1,283	1,665

¹Trade and other payables exclude deferred income relating to contingent capital fees as this liability will not result in an outflow of cash and guarantee liabilities as no payment is anticipated for these liabilities.

In addition to the financial liabilities shown above, HM Treasury has a maximum exposure under quantifiable contingent liabilities of £25.9 billion (2011-12: £123.2 billion). For further details on contingent liabilities, see note 24.

24. Contingent liabilities

24.1 Contingent liabilities disclosed under IAS 37

Northern Rock (Asset Management) plc

HM Treasury has confirmed to the Financial Services Authority⁹ 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. Maximum potential liabilities under this intervention are estimated to be £1.6 billion.

Northern Rock plc

Under the terms of the sale of Northern Rock, HM Treasury has provided certain warranties and a tax indemnity to Virgin Money. The warranties and tax indemnity are both time-limited and subject to an overall cap (100 per cent of the final consideration in relation to the warranties in relation to title, capacity and authority and 35 per cent of the final consideration in other cases). The warranties in relation to title, capacity and authority are considered to be so remote as to not meet the definition of a contingent liability. Maximum potential liabilities under the remaining warranties are estimated to be £310 million.

Bradford & Bingley plc

HM Treasury has confirmed to the FCA its intention to take appropriate steps (should it prove necessary) to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the FCA which may vary as circumstances demand.

The Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 requires HM Treasury to give a guarantee or to make other arrangements for the purposes of securing that the assets of the remaining section of the Bradford & Bingley Pension Scheme are sufficient to meet its liabilities. HM Treasury has therefore guaranteed to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. The size of the contingent liability is £60.9 million as at 31 March 2013, based on the most recent published accounts of Bradford & Bingley.

Royal Bank of Scotland plc (RBS)

HM Treasury has made available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum. This commitment is in place for 5 years, until 22 December 2014, but can be ended early by the bank with the consent of the Financial Services Authority. The contingent capital would, if drawn down, be injected in tranches in the form of B-shares, should the core tier one capital ratio of RBS fall below 5 per cent. Maximum potential liabilities under this intervention are £8 billion.

Compensation schemes

Under the Northern Rock plc Compensation Scheme Order 2008 an independent valuer was appointed to assess what compensation, if any, is payable to former shareholders and others as a result of the company being taken into public ownership. On 30 March 2010 the valuer issued Assessment Notices and a Final Document, in which he concluded that no compensation is payable. Under the Order any affected party may request the valuer to reconsider his assessment, and may refer his revised assessment to the Upper Tribunal (formerly the Financial Services and Markets Tribunal). The valuer issued a revised assessment notice on 4 October 2010 upholding his view that the amount payable is nil.

⁹ With effect from 1 April 2013 the Financial Services Authority has been abolished and superseded by the Financial Conduct Authority and the Prudential Regulation Authority. From 1 April 2013, HM Treasury's confirmation is to the Financial Conduct Authority.

A number of former shareholders referred the case to the Upper Tribunal where a hearing took place in May 2011. The Upper Tribunal upheld the valuer's decision. Subsequently, former shareholders applied to the Upper Tribunal for permission to appeal to the Court of Appeal. The Upper Tribunal granted permission to appeal and a two day hearing before the Court of Appeal took place on 22-23 January 2013. On 9 May 2013, the Court of Appeal handed down its judgment on the two day hearing. The Court of Appeal upheld the independent valuer's interpretation of the statutory valuation assumptions. Accordingly, the independent valuer's determination that no compensation is payable to Northern Rock shareholders (and to those whose rights to receive shares have been extinguished) stands subject to any further appeal to the Supreme Court. Maximum potential liabilities under this intervention are considered unquantifiable.

In accordance with Section 4 of the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, HM Treasury was required to appoint a panel to appoint 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 of the Panel and the performance of the Panel's functions. No claims against the indemnity have been made in 2012-13 or in prior years. Maximum potential liabilities under this intervention are considered unquantifiable.

Pool Re and Pool Re (Nuclear) Limited

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies, owned by insurers. They provide terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption following a terrorist attack in Great Britain. HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. The total reserves of Pool Re as at the date of their last published accounts (December 2012) were £4.9 billion (2011: £4.5 billion) and of Pool Re (Nuclear) were £25.6 million (2011: £26.5 million). In the event of losses exceeding their available resources, HM Treasury will fund the difference which will be repaid over time. Maximum potential liabilities under this arrangement are considered unquantifiable. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Royal Mint Trading Fund

The Royal Mint Trading Fund has a Memorandum of Understanding arrangement with the National Loans Fund by which it can draw down against a financing facility, with an upper limit of £36 million. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50 million. If the Royal Mint Trading Fund was unable to meet this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met by HM Treasury.

24.2 Financial guarantees, indemnities and letters of comfort

The Department has entered into the following guarantees and indemnities. None are contingent liabilities under IAS 37 as the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39.

Director indemnities

HM Treasury has guaranteed indemnities provided by Northern Rock (Asset Management) plc, Bradford & Bingley plc, UK Asset Resolution Ltd, Infrastructure Finance Unit Ltd, and UK Financial Investments Ltd to directors against liabilities and losses incurred in the course of their actions whilst the companies are in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has also guaranteed indemnities provided by the BEAPFF for its officers and directors against liabilities and losses incurred in the course of their actions in relation to the operation of the Asset Purchase Facility. Maximum potential liabilities under this intervention are considered unquantifiable.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The Government has indemnified the Bank of England and the fund specially created to implement the facility from any losses arising out of or in connection with the facility. The maximum authorised value of purchases under the APF is £385 billion. The current fair value of assets purchased under the scheme is £396.0 billion (2011-12: £319.4 billion), and a BEAPFF derivative asset of £44.3 billion is carried at fair value on the Statement of Financial Position as at the reporting date (2011-12: £38.5 billion).

National Loan Guarantee Scheme

The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and will help businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point.

Under the NLGS, the government will allow eligible banks to issue limited quantities of government guaranteed debt, currently £2.9 billion worth of NLGS bonds have been issued. Banks will be required to pass on the resultant reduction in funding cost through a reduction in the interest rate (by up to 1 percentage point) charged on new loans to small businesses; businesses with turnover of less than £250 million per annum.

The £2.9 billion contingent liability is unlikely to increase in the short term, in light of the Bank of England's Funding for Lending Scheme (FLS).

Northern Rock plc and Northern Rock (Asset Management) plc guarantees

HM Treasury announced guarantee arrangements with effect from 1 January 2010 in respect of retail deposits and wholesale liabilities transferred to Northern Rock plc pursuant to the restructuring of the bank. HM Treasury continues to guarantee fixed term retail deposits existing at 24 February 2010 until their maturity. Maximum potential liabilities under this intervention are estimated to be £184.0 million based on guaranteed deposits at the reporting date (2011-12: £454.6 million), of which a financial guarantee liability of £10.6 million is carried at fair value on the Statement of Financial Position at the reporting date (2011-12: £18.0 million).

HM Treasury 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. Maximum potential liabilities under this intervention are estimated to be £8.9 billion as at the reporting date (2011-12: £10.6 billion), of which a financial guarantee liability of £99.7 million is carried at fair value on the Statement of Financial Position (2011-12: £85.7 million).

Bradford & Bingley guarantees

In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley. Maximum potential liabilities under this intervention are estimated to be £2.8 billion as at 31 March 2013 (2011-12: £3.2 billion), of which a financial guarantee liability of £406.8 million is carried at fair value on the Statement of Financial Position at the reporting date (2011-12: £455.6 million).

UK Guarantees

At the reporting date, HM Treasury had offered to issue a guarantee for Drax Power for the partial conversion of their power station to biomass and to the Greater London Authority for the Northern Line extension project. As HM Treasury is not contractually bound to provide a guarantee and no debt has been issued, no liability is recognised on the Statement of Financial Position. Once the guarantee has been issued, the maximum potential liability will be £75 million for Drax Power and £1 billion for the Greater London Authority.

Barlow Clowes

HM Treasury continues to indemnify the liquidators and receivers of the collapsed Barlow Clowes group of companies pursuant to the deeds of indemnity dated 3 April 1991 and 29 March 1994. Maximum potential liabilities under this intervention are unquantifiable.

Insurance Brokers' Registration Council

Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the Insurance Brokers' Registration Council (IBRC) passed to HM Treasury. HM Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity. Maximum potential liabilities under this intervention are considered unquantifiable.

24.3 Financial guarantees, indemnities and letters of comfort which have expired during the year

Asset Protection Scheme (APS)

In December 2009, RBS acceded to the APS, insuring an asset pool of £282 billion. The value of assets covered by the pool as at 1 April 2012 was £120.8 billion with a maximum exposure to HM Treasury estimated at £54.7 billion. On 18th October 2012, RBS reached the minimum fee of £2.5 billion. The Government agreed to allow RBS to exit, extinguishing the contingent liability without any payouts.

Credit Guarantee Scheme

The Credit Guarantee Scheme (CGS) provided a Government guarantee for new short and medium term debt issuance to eligible institutions. The Scheme became operational in October 2008 and closed to new issuance in February 2010. Maximum potential liabilities under this intervention were estimated to be £24.2 billion at 1 April 2012. The CGS closed at the end of October 2012 following the last guaranteed debt issuance reaching maturity. The contingent liability has been extinguished without any payouts.

25. Losses and special payments

The administration costs of the Treasury and its agencies include £125,000 of losses. Of the £125,000 of losses, £110,000 relates to interest on late payments of VAT incurred by Core Treasury (2011-12: nil). The remaining £15,000 arose from contract terminations, claims for losses, and claims waived or abandoned (2011-12: £10,000 from 25 claims).

Payments of £99,000 arose from three special severance payments (2011-12: nil) in relation to staff exit costs for the Asset Protection Agency. There were no special payments relating to HM Treasury or its other agencies. Further details on exit packages can be found in the Remuneration Report in Chapter 6.

Background to financial stability interventions and credit easing schemes

Notes 26 to 34 of these resource accounts provide a summary of the key developments in 2012-13 for each financial stability intervention and for new credit easing schemes. The summary includes significant financial transactions and these reflect actual cash flows for loans and other interventions. The summary includes details of statutory debt payments. These were payments made to compensate deposit holders for amounts above the FSCS compensation limit in place at the time. For accounting purposes, HM Treasury loans for statutory debt payments are recognised on a net present value basis with adjustments made for impairment and amortisation of cost, see note 15.1 for details.

For further information on the period before 1 April 2013, please see HM Treasury's Annual Report and Accounts 2011-12.

26. Northern Rock and Northern Rock (Asset Management) additional information

26.1 Northern Rock sale additional proceeds

On 17 November 2011 the Chancellor announced the sale of Northern Rock to Virgin Money plc. The Treasury received initial proceeds of £747 million of cash from Virgin Money on closing on 31 December 2011, plus a perpetual Tier 1 capital note with a par value of £150 million, valued at £66 million on acquisition. Further payments totalling £73 million were received in July 2012 as post-closing adjustments, compared to a forecast amount of £60 million. The additional £13 million has been recognised in the SCNE in 2012-13.

Overall, the estimated value of the total proceeds is £886 million, resulting in a loss of £302 million on disposal. In addition to the proceeds, the sale agreement includes a clause through which a successful sale or listing of Virgin Money before the end of 2016 would result in payments to Treasury of up to £80 million. In addition, NRAM announced in July 2012 the sale of £465 million of mortgages to Virgin Money at par value of the portfolio.

26.2 Independent valuer

HM Treasury has a contingent liability in relation to compensation payable to former shareholders of Northern Rock. As detailed in note 24.1, the independent valuer has concluded that no compensation is payable. A two day hearing on the interpretation of the statutory valuation assumptions that the independent valuer was required to apply took place before the Court of Appeal on 22-23 January 2013. The Court of Appeal handed down its judgment on 9 May 2013, upholding the independent valuer's interpretation of the statutory valuation assumptions. Further details and updates to legal proceedings can be found on the Northern Rock valuer's website¹⁰.

26.3 Recovery of costs and related income

Northern Rock and NRAM pay a monthly fee in respect of existing retail and wholesale guarantee arrangements. The fee receipts totalled £13.9 million in 2012-13 (2011-12: £15.6 million).

26.4 HM Treasury loan to NRAM

In December 2011, it was announced that UKAR had identified certain Consumer Credit Act (CCA) regulated loans in the NRAM portfolio where the loan documentation is not compliant with CCA requirements. The total cost of remediating the interest charges on affected accounts is estimated to be £271 million. This remediation is not expected to delay materially the final repayment of the loan from HM Treasury to NRAM.

As at 31 March 2013, the outstanding loan to NRAM is £17.9 billion (2011-12: £19.8 billion). This reflects repayments of £1.9 billion during 2012-13 (2011-12: £1.8 billion).

¹⁰ www.northernrockvaluer.org.uk

The interest income from HM Treasury's loan to NRAM for 2012-13 is £271.0 million (2011-12: £153.3 million).

HM Treasury also provides a working capital facility 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.

HM Treasury expects the loan facilities provided to NRAM to be repaid in full over the period of wind down as per the business plan.

27. Bradford & Bingley additional information

27.1 Independent valuer

HM Treasury had a contingent liability in relation to compensation payable to former shareholders of Bradford & Bingley. The independent valuer has concluded that no compensation is payable. The Upper Tribunal concluded on 19 July 2012 that the valuer carried out his valuation in accordance with the Compensation Scheme and did not grant permission to any of the former shareholders to appeal to the Court of Appeal. Consequently the contingent liability has been extinguished. Further details can be found on the Bradford & Bingley valuer's website¹¹.

27.2 Recovery of costs and related income

Bradford & Bingley pay a monthly fee in respect of the wholesale deposit guarantee arrangements. The fee receipts totalled £46.0 million in 2012-13 (2011-12: £67.5 million).

27.3 HM Treasury loans to Bradford & Bingley and the FSCS

As at 31 March 2013, the outstanding Bradford & Bingley working capital loan balance is £6.8 billion (2011-12: £8.0 billion), the outstanding FSCS loan is £15.7 billion (2011-12: £15.7 billion) and the HM Treasury statutory debt is £2.8 billion (2011-12: £2.8 billion). Following impairment and amortisation of statutory debt, the net present value is £2.3 billion (2011-12: £2.3 billion), see note 15.1.

Bradford & Bingley pay interest on the working capital facility. Interest receivable for 2012-13 totalled £406.6 million (2011-12: £367.3 million).

The FSCS pay interest on the loan from HM Treasury relating to Bradford & Bingley deposits. Interest accrued during 2012-13 totalled £386.4 million (2011-12: £315.4 million). This will be paid on 1 October 2013.

28. Lloyds Banking Group additional information

There have been no financial transactions with Lloyds Banking Group during 2012-13.

¹¹ www.bandbvaluer.org.uk

29. Royal Bank of Scotland additional information

29.1 Asset Protection Scheme exit

The Asset Protection Scheme (APS), announced in January 2009, was created to enable the UK Government to provide participating institutions with protection against future credit losses on defined portfolios of assets in exchange for a fee. By limiting potential losses in this way, the purpose of the APS was to support the stability of the UK financial system and increase confidence in participating financial institutions.

On 22 December 2009, RBS acceded to the APS. Under the terms of the APS, RBS paid an annual fee of £700 million for the first three years, and subsequently £500 million per calendar year for the remaining term of its participation in the APS.

On 18 October 2012, RBS reached the minimum fee of £2.5 billion. With no payout under the scheme deemed likely, the Government agreed to allow RBS to exit.

29.2 Recovery of costs and related income

During 2012-13, RBS paid £150.0 million in fees for inclusion in the APS (2011-12: £250.0 million), £1.2 million in APS interest charges (2011-12: £0.5 million), and £320 million in contingent capital fees (2011-12: £320 million). In addition, Asset Protection Agency operating costs of £3.4 million were recharged to RBS (2011-12: £10.3 million).

30. FSCS and statutory debt additional information

30.1 Recoveries from administrators

To date, the administrators for Heritable, London Scottish, KSF and Icesave have paid out dividends to FSCS and HM Treasury totalling £5.1 billion. Dividends are allocated as repayments against statutory debt and FSCS loans. The table below summarises dividend allocations:

	Heritable	LSB	KSF	Icesave
	£000	£000	£000	£000
Dividends received as at 1 April 2012	384,776	50,276	1,938,523	1,353,119
Dividends received during 2012-13	46,723	39,935	420,182	880,310
Dividends received as at 31 March 2013	431,499	90,211	2,358,705	2,233,429
Of which allocated to:				
HM Treasury ¹	71,111	79,647	379,044	1,520,300
FSCS	360,388	10,564	1,979,661	713,129
Total dividends received as at 31 March 2013	431,499	90,211	2,358,705	2,233,429

¹HM Treasury's share of dividends for Icesave includes amounts originally recognised against the DIGF loan

No repayments have been received from Bradford & Bingley relating to FSCS and statutory debt loans.

30.2 Due diligence adjustments

The London Scottish loan was subject to adjustment following FSCS due diligence during the year. The due diligence reallocated amounts drawn down by the FSCS between FSCS and statutory debt loans based on whether amounts paid out to depositors were above or below the FSCS compensation limit.

The table below shows the loans and statutory debts (undiscounted) made by Core Treasury to the FSCS up to 31 March 2013:

	B&B £000	Heritable £000	KSF £000	London Scottish £000	Icesave £000
FSCS loan balance as at 1 April 2012	15,654,509	149,237	954,490	186,874	1,008,922
Draw downs	-	-	-	6,788	-
Decrease in FSCS loan balance following due diligence	-	-	-	(612)	-
FSCS loan repayments	-	(44,927)	(352,659)	(35,259)	(281,078)
FSCS loan balance as at 31 March 2013¹	15,654,509	104,310	601,831	157,791	727,844
HM Treasury statutory debt as at 1 April 2012 (before impairment)	2,761,702	28,314	182,966	22,850	557,855
Draw downs	-	-	-	2,136	-
Increase in statutory debt following due diligence	-	-	-	612	-
Statutory debt repayments during the year	-	(7,700)	(67,523)	(4,676)	(155,438)
Transfer of DIGF loan to Icesave statutory debt (cash balance)	-	-	-	-	1,149,515
HM Treasury statutory debt balance as at 31 March 2013	2,761,702	20,614	115,443	20,922	1,551,932
Carrying value of statutory debt following impairment and amortisation	2,317,704	9,288	39,184	4,755	1,443,787

¹FSCS loan balances are £101,000 higher than those shown in note 15.1 as note 15.1 excludes loan amounts which had been advanced from Core Treasury to the FSCS but not yet used to compensate depositors and therefore internal to the group (2011-12: £5,927,000).

30.3 Recovery of costs and related income

No interest is accruing on HM Treasury's statutory debt loans.

HM Treasury charges interest on the loans to the FSCS at a rate equal to the higher of 12-month sterling LIBOR plus 100 basis points and the DMO gilt reference rate for the applicable loan term. Interest accrued during 2012-13 totalled £429.4 million (2011-12: £370.2 million) and will be paid on 1 October 2013. The table below shows interest receivable on each of the FSCS loans:

	2012-13 £000	2011-12 £000
B&B	386,433	315,421
Heritable	2,880	3,573
KSF	16,336	21,077
LSB	4,336	4,066
Icesave	19,435	26,029
Total	429,420	370,166

Professional fees incurred by HM Treasury relating to FSCS and statutory debt loans are included in the total financial stability costs in note 7.2.

31. Dunfermline Building Society additional information

31.1 Independent valuer

HM Treasury had a contingent liability in relation to compensation payable to persons whose rights might have been affected by the Dunfermline Transfer Order. In accordance with Section 4 of the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, HM Treasury is liable to pay to specified third parties any amount of compensation determined to be payable by the independent valuer. On 31 July 2012 the valuer set out his assessment that no compensation is payable. Any creditor who may be dissatisfied with the independent valuer's determinations had until 31 October 2012 to write to the independent valuer to request him to reconsider his determination, setting out the reasons for any such request. No requests were made and consequently this contingent liability has been extinguished.

The independent valuer has also assessed the amount that the FSCS would have been likely to have recovered from Dunfermline Building Society in insolvency. This is used by the FSCS and HM Treasury to determine the FSCS's contribution to the costs of the Dunfermline resolution.

31.2 Recoveries from the administration

To date, the administrator for Dunfermline has paid out dividends to HM Treasury totalling £760.3 million, reducing HM Treasury's claim in the administration to £779.5 million as at the reporting date. Further dividends are expected over the period of the administration as determined by the administrators.

31.3 Recovery of costs and related income

The professional fees incurred by HM Treasury in connection with the resolution of Dunfermline are included in total financial stability costs in note 7.2.

Interest is recoverable on the FSCS's contribution towards HM Treasury's costs and a receivable of £72.7 million has been included on the Statement of Financial Position.

32. Ireland bilateral loan additional information

32.1 Background

In December 2010 following Parliamentary approval through the Loans to Ireland Act 2010¹² the Government agreed to provide a £3.2 billion bilateral loan to Ireland as part of an international package of financial assistance for Ireland.

Subject to conditions set out in the loan agreement (the full terms of which are set out in the credit facility agreement, available on the Parliament website¹³), disbursements under the loan facility are made following the successful completion of the relevant financial assistance programme reviews by the IMF and the European Commission, following consultation with Member States. At 31 March 2013, six disbursements totalling £2.4 billion had been made, including £1.2 billion disbursed in 2011-12. Each loan must be repaid in full 7.5 years after its disbursement date.

Further information on the loan to Ireland is provided to the House of Commons on a biannual basis under section 2 of the Loans to Ireland Act 2010.

32.2 Recovery of costs and related income

On 4 October 2012 the interest rate on the Ireland loan was revised, reducing the interest rate to the UK's cost of funding plus a service fee of 0.18 per cent. The UK's cost of funding for this purpose is defined as the average yield on gilt issuance in the 6 months prior to the disbursement of a tranche. The new interest rate was applied retrospectively to all tranches previously disbursed.

Interest accrued during 2012-13 totalled £45.9 million (2011-12: £8.1 million).

Professional fees incurred by HM Treasury relating to the Ireland loan are included in the total financial stability costs in note 7.2.

32.3 Wider UK involvement in European financial assistance interventions

In addition to the bilateral loan to Ireland, the UK has continued to support IMF programme loans through the National Loans Fund (NLF). Details on support provided to the IMF can be found in the NLF's 2012-13 accounts.

The UK holds contingent liabilities for the European Financial Stabilisation Mechanism, which is available to all EU Member States, and the European Balance of Payments Facility, which is available only to non-euro area Member States. Both these mechanisms are financed by the European

¹² <http://www.legislation.gov.uk>

¹³ <http://www.parliament.uk>

Commission raising money on capital markets, guaranteed by the EU budget. The contingent liabilities for these mechanisms are reflected in the Consolidated Fund Accounts 2012-13.

33. Financial stability schemes

33.1 Credit Guarantee Scheme

The Credit Guarantee Scheme (CGS) closed at the end of October 2012 following the last CGS guaranteed debt issuance reaching maturity. The guarantee liabilities and contingent liabilities have therefore been extinguished without any payouts.

Total income recognised during 2012-13 for the scheme was £41.4 million (2011-12: £926.2 million) and over the life of the scheme, fees received from participating institutions totalled £4.3 billion.

33.2 Bank of England Asset Purchase Facility Funds

At 31 March 2013, the authorised limit of asset purchases is £385 billion, comprising £375 billion financed from central bank reserves and a further £10 billion for the purchase of private sector assets financed from central bank reserves, Treasury Bills, and the DMO's cash management operations.

HM Treasury's indemnity of the Bank's quantitative easing operations gives rise to a derivative on the Statement of Financial Position. Total fair value derivative movements recognised by HM Treasury during 2012-13 were £17.1 billion (2011-12: £28.0 billion). During 2012-13, £11.3 billion of accumulated excess cash was transferred from the Asset Purchase Facility to HM Treasury, resulting in a corresponding reduction in the derivative value.

The Bank of England has published Asset Purchase Facility Fund accounts for the year ended February 2013. For further details see the Bank of England's website.¹⁴

33.3 Infrastructure Finance Unit Limited

Infrastructure Finance Unit Limited continues to lend to one PFI project, committing loans of £116 million in relation to the Greater Manchester Waste Disposal Authority PFI scheme. At 31 March 2013, the net amount lent to the PFI project is £111.3 million (2011-12: £94.8 million).

34. Credit easing schemes

34.1 Business Finance Partnership

During the Budget 2012, the Business Finance Partnership (BFP) was announced to increase the credit flow to small and medium sized business. The Government intends to invest up to £1.1 billion through non-bank lending channels that lend directly to mid-sized businesses and/or SMEs in the UK. This investment will be made alongside private sector investors on fully commercial terms.

During 2012-13, the Infrastructure Finance Unit Ltd entered into partnership arrangements with fund managers, who identify suitable co-investing opportunities. At 31 March 2013, one investment of £5 million had been made under the scheme. For details, see note 13.

34.2 National Loan Guarantee Scheme

The NLGS works by providing participating banks with guarantees on unsecured debt in return for a fee. This enables participating banks to borrow at a cheaper rate, and these banks will pass on the entire benefit they receive from these guarantees to smaller businesses through cheaper loans.

The first guarantees were issued in April 2012. At 31 March 2013, guarantees totalling £2.9 billion have been issued under the scheme. Total fees received from participating institutions during 2012-13 were £32.2 million.

¹⁴ www.bankofengland.co.uk.

34.3 UK Guarantees

On 18 July 2012 the Chancellor announced the UK Guarantees scheme and the enabling legislation, the Infrastructure (Financial Assistance) Act 2012, received Royal Assent in October 2012. The scheme was launched in response to constraints in the long-term debt markets by providing a sovereign-backed guarantee to help infrastructure projects raise debt finance. Up to £40 billion of Guarantees can be offered in aggregate.

At 31 March 2013, no guarantees had been made under the scheme.

35. Related party transactions

HM Treasury is the parent to the agencies, and sponsor of the NDPBs and other bodies, listed in note 1.2. These bodies are regarded as related parties. The Treasury has had material transactions only with the FSCS. These are disclosed in more detail in note 30.

Although the Bank of England, the Royal Mint, Northern Rock (Asset Management), Bradford & Bingley, Partnerships UK, Local Partnerships, Royal Bank of Scotland and Lloyds Banking Group fall outside the resource accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Dividends and other income received from these bodies are material and recorded in the Statement of Comprehensive Net Expenditure. Details of significant transactions with the above entities are disclosed in notes 26 to 34.

HM Treasury in its role as custodian of the Consolidated Fund has transactions with other Government departments and Central Government bodies but those transactions are outside the scope of the Resource Accounts and are disclosed instead in the Consolidated Fund statements.

Core Treasury has had various material transactions with other government departments and central government bodies. The most significant of these are National Savings and Investments, Her Majesty's Revenue and Customs and the Cabinet Office.

Other organisations within the Treasury group have had transactions with other government bodies. The most significant of these are the Commissioners for the Reduction of the National Debt, the Public Works Loans Board, the Department for Energy and Climate Change, the Attorney General's Office, and the Financial Services Authority (from 1 April 2013 the Financial Conduct Authority).

In the normal course of business the FSCS has borrowing facilities, on standard commercial terms, from a syndicate of banks including LBG and RBS.

Baroness Hogg, HM Treasury's Lead Non Executive Director, provided consultancy services to the department. Consultancy fees totalled £4,200 for 2012-13 (2011-12: nil).

Kirstin Baker, Group Director, Finance and Commercial, was appointed as a non-executive board member of UKFI in January 2013. In this capacity she also chairs UKFI's Audit Committee. She receives no remuneration for this role. Prior to January 2013, Julian Kelly, Group Director, Public Spending, was a non-executive board member of UKFI and chaired UKFI's Audit Committee. He received no remuneration for this role.

Jim O'Neill, UKFI's Chief Executive, was appointed as a non-executive member of the boards of UK Asset Resolution, Bradford & Bingley and Northern Rock (Asset Management) in June 2012. Up until August 2012, Keith Morgan, UKFI's Head of Wholly Owned Investments, was a non-executive member of the boards of UK Asset Resolution, Bradford & Bingley and Northern Rock (Asset Management).

For directors' remuneration, see the remuneration report. No minister, board member, key manager or other related party has undertaken any other material transaction with Core Treasury, its agencies or its NDPBs and other bodies during the year.

36. Third party assets

The third party assets relate to residual application monies and uncashed forfeiture refunds.

During the privatisation process, residual application monies arose because many share offers were oversubscribed and all the original cheques received from subscribers were cashed. Subsequently, the monies remitted by some subscribers, along with their applications for shares, needed to be partially or wholly refunded.

Uncashed forfeiture refunds relate to monies received from subscribers in respect of instalment payments for shares, after the original application had been accepted. Having paid the first instalment, some of the applicants failed to pay the further instalments. Therefore, it was necessary to refund the monies received.

In both cases refund cheques were sent to subscribers, however many of these were never cashed. Consequently the balances relating to the uncashed cheques remained as deposits in the bank accounts. These are not departmental assets and are not included in the accounts. The bank balances held at the reporting date are set out in the table below:

Monetary Assets	2011-12	Gross inflows	Gross outflows	2012-13
	£000	£000	£000	£000
Deposit accounts	1,137	-	-	1,137
Total	1,137	-	-	1,137

37. Events after the reporting period

No significant events have been identified.

38. Date authorised for issue

The financial statements were authorised for issue by the Permanent Secretary on 12 July 2013.

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