HM Treasury

Whole of Government Accounts

year ended 31 March 2013

HC 93

June 2014

HM Treasury

Whole of Government Accounts

year ended 31 March 2013

Presented to the House of Commons pursuant to section 11 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed on 10 June 2014

HC 93

Any enquiries regarding this publication should be sent to us at public.enquiries@hm-treasury.gov.uk

You can download this publication from www.gov.uk

Print ISBN 978-1-4741-0541-5
Web ISBN 978-1-4741-0542-2
PU1668

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 27051422 06/14

Printed on paper containing 75% recycled fibre content minimum

Contents

1 Foreword

Introduction

1.1 The Whole of Government Accounts (WGA) consolidates the audited accounts of 3,800 organisations across the public sector in order to produce a comprehensive, accounts based picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector and provides a complement to the published National Accounts based measures used for managing the public finances.

1.2 WGA is a major step forward in accountability and the government places great importance on fiscal transparency and the role it plays in the management of the public finances. Publication of the WGA supports the government agenda to make more public data available. The WGA is independently audited giving both Parliament and the outside world greater confidence in the figures, and supports effective scrutiny by Parliament through the Public Accounts Committee.

1.3 This is the fourth year of publication of the WGA, which means a body of data is now building up to help decision makers compare financial data across the public sector and understand trends over time. For example the effect of two full years of spending consolidation in the public sector is starting to show in the WGA data, as set out below and in Chapter 2. The information in WGA is already supporting the decision making process and contributing to the formulation of future policy.

The 2012-13 WGA

1.4 In summary, the 2012-13 WGA shows:

- Tax revenue has increased, driven mainly by higher indirect and local tax revenue such as VAT, driven by rate increases, and business rates, driven by a broader tax base. Income Tax and Corporation Tax fell in the year, in part due to changes in allowances and reductions in Corporation Tax rates, intended to support overall economic growth;
- An increase in directly controlled expenditure from £647.8 billion to £665.8 billion in 2012-13, mainly driven by discount rate changes and increases in welfare spending;
- A reduction in net expenditure from £185 billion in 2011-12 to £179 billion in 2012-13;
- An increase in the net liabilities of government to £1,630 billion from £1,347 billion in 2011-12, driven by an increase in government borrowing, growth in the expected level of pension liabilities (largely due to fall in the discount rate from 2.8% to 2.4%) and in provisions for other future liabilities; and
- An overall reduction in the level of contingent risk for the public finances with £79 billion of contingent liabilities extinguished due to the closure of the Asset Protection Scheme and the Credit Guarantee Scheme, reflecting an improvement in the position of the UK financial sector.

1.5 The accounts are set against the context of continuing fiscal consolidation within the public sector, where reductions in spending are being realised. Increases in expenditure are shown in areas subject to inflation, such as social security benefits. These movements are set out in more detail in Chapter 2. Nevertheless the WGA provides a focus on the challenges of preparing to meet future costs driven by an ageing population and managing the legacy of past decisions e.g. nuclear decommissioning.

Improvements in the quality of WGA

1.6 The accounts for 2012-13 represent a significant improvement in the quality of the WGA. They have been published 15 months after the financial year end, one month ahead of the 2011-12 accounts. Our target for future publications is to produce the WGA within 12 months for 2013-14 and within 9 months for the 2014-15 accounts.

1.7 The number of qualifications this year is the same as 2011-12. Further steps have been taken to address the issues leading to audit qualifications and considerable progress has been made. In particular, the Treasury has continued work to improve the quality of academies data. Although issues do still remain, the Treasury has actions in place to continue to improve data quality in this and other areas. The audit qualifications apply to limited areas of the accounts and partly reflect differences in policy view between HM Treasury and the National Audit Office (NAO), and do not in my view diminish the fundamental value and usefulness of these accounts.

1.8 The underlying data quality has continued to improve in comparison to previous years. The process of consolidating the underlying accounts in WGA requires adjustments to remove transactions between component entities. The volume of data that could not be removed fell by £5 billion to £9.9 billion, an improvement of 32%. Work to eliminate counter-party transactions in 2012-13 has identified further information about local government grants that represents a useful foundation for the future.

Accounting adjustments in WGA

1.9 The WGA are an accounts based view of the public finances and they are subject to a range of accounting adjustments that influence both the net expenditure for the year and the net liabilities on the balance sheet. Some of these adjustments can appear counter-intuitive so it is worthwhile drawing attention to the key adjustments and how they impact on the accounts.

Box 1: Accounting issues that impact on the WGA

- Provisions – The value of provisions set out on the balance sheet are subject to discounting to reflect current prices. Therefore the value of the liability shown in WGA is what would have to be set aside today to meet the liability when it falls due for payment. This value will fluctuate depending on interest rate assumptions. In 2012-13 approximately £5 billion of the increase to the value of provisions was due to a reduction in the discount rate used to value the liability.
- Pensions – The actuarially determined value of the public sector pension liability is also subject to discounting to reflect current prices. This is standard accounting practice to reflect the long term nature of the pension liability as the cash costs associated with settling the liability are spread over more than 30 years. Therefore, small adjustments in the discount rate can have a large impact. This led to an increase of £58 billion to the value of the pension liability. Further details are set out in Chapter 2 and note 27 to the accounts.
- Current deficit and government borrowing – The annual net expenditure (£179 billion) measured in WGA is an accruals based view of the public sector and as discussed above includes non-cash related transactions. The increase in government borrowing on the balance sheet represents the cash needed to meet actual payments in year and therefore is not a direct comparison to the net expenditure figure.

WGA in context

1.10 WGA provides an accounting standard based presentation to offer new insights into long-term sustainability, as well as presenting the figures in a format familiar to the commercial sector. Real-time fiscal measures published by the Office of National Statistics are used to assess the economic and fiscal position of the UK for policy purposes. Two of the main measures used for fiscal management are the current deficit (surplus on current budget) and public sector net debt (PSND). Two of the main measures in WGA are net expenditure and net liabilities.

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

Box 2: Current deficit vs. WGA net expenditure

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

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

Box 3: Public Sector Net Debt (PSND) vs. WGA net liabilities

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

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

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

How the WGA is used

1.15 The WGA data provide a comprehensive picture of the government's assets and liabilities, including "off-balance sheet" liabilities that are not in national account measures, and this enables more informed decision-making, for example, on how government uses property and financial assets and how it controls the build-up of liabilities. In addition to the published WGA, the wealth of underlying data gathered in the WGA production process is being used in the Treasury's spending control as an additional tool to support and challenge decision-making.

1.16 WGA data have also been used to look at the public sector asset base and challenge how assets are being used in the delivery of public services. This has led to a stronger focus on property management and the development of a control total for the off-balance sheet Private Finance 2 (PF2) contracts.

1.17 The Treasury also uses the WGA to monitor contingent liabilities as these are potential public spending risks and a close review of these, particularly financial guarantees, are crucial for effective management of the public finances.

1.18 The Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances in its annual Fiscal Sustainability Report, drawing on the data published in WGA. This includes analysis of liabilities on the WGA balance sheet, such as public sector pensions, provisions, PFI contracts and a comparison between WGA and National Accounts based measures. This enables the OBR to set out a broader analysis of the public finances.

Future improvements to the WGA

1.19 The Treasury has a programme underway to improve the quality of the accounts year on year. For 2013-14 the main focus will be to reduce the number of qualifications in WGA. Local authorities will be asked to provide full depreciated replacement cost valuations for highways infrastructure assets as part of the process of addressing the qualification on the alignment of accounting systems. Other planned future improvements include:

- Consolidation of the assets and liabilities of Northern Rock (Asset Management) Plc and Bradford & Bingley Plc in the 2013-14 accounts;
- Consolidation of the assets and liabilities of Network Rail from 2014-15;
- Improvements in academy schools data, particularly in respect of the valuation of fixed assets;
- Work with CIPFA to implement a consistent accounting policy for Highways Infrastructure Assets by 2016-17 and deliver improvements in the underlying data quality;
- Publication of WGA by the end of March 2015 for 2013-14 and the end of December 2015 by 2014-15; and
- Working with CIPFA to implement a consistent accounting policy for schools in local government from 2014-15.

1.20 We consider this programme of work will help us to significantly raise the quality of WGA and help remove some of the current qualifications to the Comptroller & Auditor General's opinion on WGA over the next 12 to 18 months.

Conclusion

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

1.22 Chapter 2 of this document explains the 2012-13 WGA financial statements in more detail.

Sharon White
Accounting Officer

4 June 2014

2 Performance report

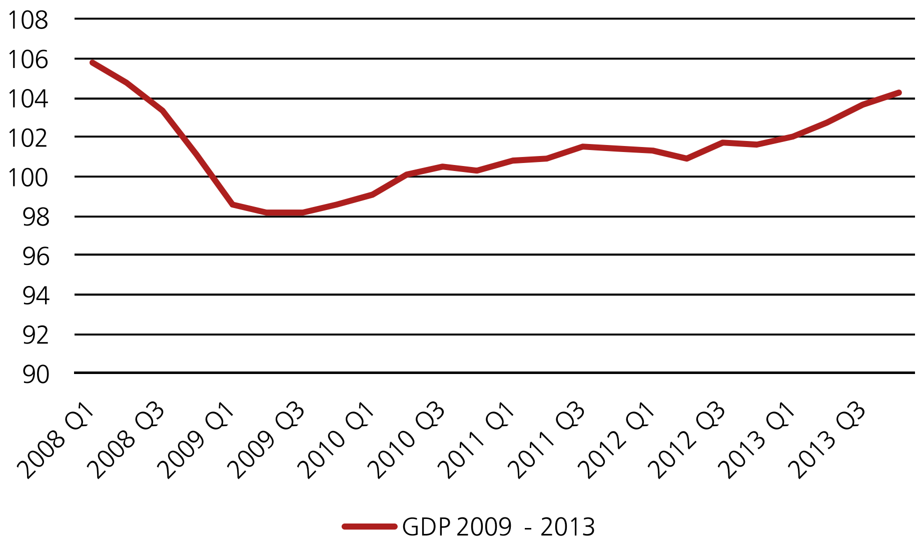
Overview

2.1 The figures reported in the 2012-13 WGA sit within the context of a number of policy decisions made by the government to reduce the current deficit (surplus on current budget) as defined on the basis of the National Accounts. These decisions have successfully reduced the National Accounts current deficit from a peak of £109 billion in 2009-10 to £85 billion in 2012-13. The WGA shows that net expenditure is reducing in line with the government policy of continuing fiscal consolidation. As the economy recovers tax receipts are increasing and expenditure in the public sector is reducing in real terms. This parallels the reduction in the net deficit in the National Accounts.

Box 4: Economic context

The economy recorded real GDP growth of 0.3% in 2012-13, but was 1.4% below the peak before the financial crisis. Growth in the first quarter of 2013 was 0.4% on the previous quarter. Public sector net debt excluding financial sector interventions rose during 2012-13 from 70.9% to 73.8% of GDP, reflecting the national accounts current deficit measure of £86 billion.

Chart 2.1: GDP 2008 – 2013



2.2 Paragraphs 2.3 to 2.111 analyse the WGA data in more detail. The terminology used is explained in Annex 5 of this document, but key elements of the spending frameworks are presented here to help put the narrative into context and as an aid to understanding the rest of the performance report.

Box 5: WGA in context

- Fiscal Framework and National Accounts: The fiscal measures used to monitor the public sector finances are based on a European set of standards (ESA95), which are similar to WGA accounting standards (IFRS), but with a number of differences. These are explained in detail in Chapter 3 to help readers understand the links between net expenditure in WGA and the current deficit measure used in National Accounts.
- Public Sector Spending Framework: The Treasury uses a budgetary framework to allocate and monitor departmental spending. This is split into Departmental Expenditure Limits (DEL), the amount government departments have been allocated to spend, and Annually Managed Expenditure (AME), which is money spent in areas outside budgetary control such as welfare, pensions and debt interest.
- WGA trends: When comparing to previous WGA data, it is important to understand that prior year data are not adjusted for inflation (i.e. not presented in real terms). Therefore part of the movement can be explained by inflation and does not reflect increases in public spending in real terms. The WGA data is restated for the previous year when significant changes occur (e.g. new entities or accounting policy changes) however the rest of the time series is not adjusted.

Income and expenditure

2.3 **In 2012-13 income was stable with a slight (0.6%) increase to £621 billion from £617 billion in 2011-12.** Increases in income from indirect taxation were largely offset by reductions in the rate of Corporation Tax and increases in personal allowances. The composition of and movements in the income of government are discussed in greater detail from paragraph 2.17. Tax receipts are closely linked to the performance of the economy, and therefore reflected the path of earnings and profits.

2.4 Direct tax receipts fell in both 2011-12 and 2012-13. This reflects the government's decision in the June 2010 Budget to reduce Corporation Tax to stimulate growth in the economy and to increase the threshold at which individuals pay Income Tax.

2.5 Overall, the government's total income has been growing year on year partly as a consequence of higher levels of indirect taxes such as a £1.3 billion increase in VAT receipts, driven by increased activity in the automobile industry and business services. The government also received additional income from one-off sales, such as the sale of the 4G spectrum in 2012-13, which raised £2.4 billion.

2.6 **The total figure for expenditure before financing costs was relatively stable, showing a slight increase to £717.3 billion in 2012-13 from £715.1 billion in 2011-12.** Public spending reflected the impact of economic performance on cyclical areas of expenditure, such as social security, inflation and the policy decisions of the government, including its consolidation plans. The underlying movements are due to increases in the costs of social security benefits and pensions largely as a consequence of an ageing population, with 94,000 new pension claimants in 2012-13, offset by a lower level of charges for impairments on government owned bank shares. The increase in social security benefits is an ongoing trend, with similar levels of increase also seen in 2010-11 and 2011-12. The composition of and movements in expenditure are discussed in greater detail in paragraph 2.28.

2.7 **While overall expenditure continues to exceed income, in the fiscal context this is in line with expectations. The extent to which expenditure is exceeding income reduced in 2012-13 with a 4.3% reduction in net expenditure to £179 billion in 2012-13 from £185 billion in 2011-12.** This was largely a consequence of a reduction in the overall financing costs of government which fell to £79.4 billion in 2012-13 from £88.1 billion in 2011-12.

2.8 **The process of fiscal consolidation set out in the Spending Review 2010 continued in 2012-13 with departments significantly ahead of their consolidation targets.** Budget 2013 estimated departments were on course to deliver 65% of the spending reductions in 2012-13 planned by 2014-15, compared to around 50% at the time of the Spending Review 2010. Faster progress in delivering savings as well as improvements in spending control, particularly increased scrutiny of end-of-year spending that historically has tended to rise, meant that departmental underspends were higher than usual. At Budget

2013, the Office for Budget Responsibility (OBR) expected departments to spend £11.5 billion less in 2012-13 than the forecasts made at Budget 2012. This is significantly above the annual average of underspends of the previous 3 years (£4.0 billion across total Departmental Expenditure Limits).

Assets and liabilities

2.9 The government's balance sheet is broadly in line with expectations given the economic and fiscal context. Overall the net liability of the government increased to £1,630 billion at 31 March 2013 from an equivalent net liability of £1,347 billion at 31 March 2012. The main factors leading to this increase were an increase in total government borrowing, growth in the expected level of pension liabilities (largely due to fall in the discount rate from 2.8% to 2.4%) and in provisions for other future liabilities. £62.5 billion of the increase in net liabilities can be attributed to a change in the discount rates used across the public sector.

2.10 Total government borrowing increased from £965.5 billion at 31 March 2012 to £996.2 billion at 31 March 2013. The main factor behind this position is an increase in borrowing through government gilts due to the ongoing current deficit and to finance the Funding for Lending Scheme.

2.11 Pension liabilities have increased to £1,172 billion from £1,006 billion in 2011-12. This is partly as a consequence of the demographic trend of an ageing population as mentioned above, but also as a consequence of changes in the actuarial assumptions used to calculate the pension liability. £57.5 billion (35%) of the £165.8 billion increase is attributable to the change in discount rates. The government expects its public service pension reforms to save an estimated £430 billion in current GDP terms over the next 50 years. The Public Service Pensions Act containing these reforms was introduced to Parliament in September 2012 and received Royal Assent in April 2013. The measures introduced include changing the uprating of pensions from RPI to CPI, increasing pension contributions, and reforming existing schemes. The Act received Royal Assent on 25 April 2013. The changes in pension liability are explained in more detail in paragraph 2.92.

2.12 In preparation for the sale of Royal Mail shares in October 2013, the pension scheme liabilities and assets were transferred to the public sector in April 2012. The total liability that transferred to Royal Mail Statutory Pension Scheme (RMSPS) on 1 April 2012 was £30.6 billion and relates to benefits accrued for qualifying members of the Royal Mail Pension Plan (RMPP) up to 31 March 2012. Further details are set out in note 27.

2.13 Provisions for other liabilities where it is considered likely the government will bear the future cost have increased by £17.7 billion year on year. £5 billion of this increase (28%) is attributable to the change in discount factor. While this is largely a consequence of increasing provisions for the cost of nuclear decommissioning and clinical negligence, £3.8 billion of the increase relates to a new provision for the loss of revenue as a consequence of oil and gas field decommissioning. This was previously shown as a £20 billion contingent liability. The change in discount factors used to calculate the current cost of provisions for future liabilities has also contributed to the increase (as further explained below).

2.14 The value of quantifiable contingent liabilities disclosed has fallen by £12.9 billion, representing a reduction in the risk to the government's financial position. However, once the removal of the £20 billion adjustment for oil and gas field decommissioning is taken into account, there is an underlying increase of £7.1 billion. This has largely been driven by the increase in export guarantees of £2.8 billion and clinical negligence of £2.1 billion.

2.15 There has also been a significant reduction in the level of contingent liabilities that are reported to Parliament but where their likelihood is assessed as remote. In 2012-13 the government's potential exposure reduced significantly with the closure of the Asset Protection Scheme and the Credit Guarantee Scheme, extinguishing £78.9 billion of contingent liabilities, reflecting an improvement in the position of the UK financial sector.

2.16 The government's policy is to sell assets where they are not required for the delivery of policy priorities and where a sale represents value for money. On 20 February 2013, Ofcom announced the winning bidders of the 4G spectrum auction, raising £2.4 billion of receipts.

2012-13 Key figures

Statement of Revenue and Expenditure

The Statement of Revenue and Expenditure sets out the scale and nature of the flows to and from the government and changes arising from changes in the value of public sector assets and liabilities. It shows that in 2012-13 the public sector:

- **received £621 billion (2011-12: £617 billion)** in taxation and other operating revenue, including income from direct taxation of £289 billion (2011-12: £291 billion), indirect taxation of £179 billion (2011-12: £178 billion), and local taxation of £56 billion (2011-12: £55 billion);
- **spent £666 billion (2011-12: £648 billion) on direct expenditure** including £215 billion (2011-12: £210 billion) on social benefit payments, which are outside departmental budgets, and £148 billion (2011-12: £148 billion) employing staff (excluding pension scheme costs). The largest elements of social security benefits were the state pension at £84 billion (2011-12: £78 billion), and tax credits at £31 billion (2011-12: £31 billion);
- **incurred £51.5 billion (2011-12: £67 billion)** on other operating expenditure relating to impairments of assets and pension scheme charges;
- **incurred £82 billion (2011-12: £87 billion)** on financing costs, investment revenue, interest on the pension liability, and gains and losses on assets;

which resulted in **net expenditure for the year of £179 billion** (2011-12: £185 billion).

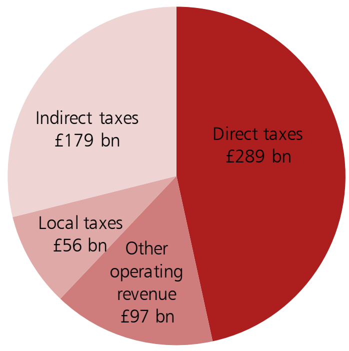
Statement of Financial Position

The Statement of Financial Position sets out the assets held and liabilities owed by the government, in a snapshot of the public sector balance sheet as at 31 March 2013. It shows that the public sector:

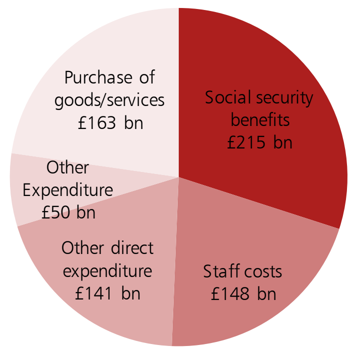
- held **assets valued at £1,264 billion** (restated 2011-12: £1,271 billion), including:
  - £747 billion (restated 2011-12: £745 billion) of property, plant and equipment, including buildings, infrastructure, equipment, hardware and software, PFI assets, plant and machinery, transport assets, and a range of other assets;
  - £45 billion (restated 2011-12: £41 billion) of equity investments in public sector banks;
  - £137 billion (restated 2011-12: £142 billion) of trade and other receivables, including £82 billion (2011-12: £85 billion) of accrued tax revenue and £26 billion (2011-12: £26 billion) of tax receivables before provisions; and
  - £334 billion (restated 2011-12: £343 billion) of other assets, including £47 billion (2011-12: £51 billion) of loans and advances by the Treasury to financial institutions, £36 billion (2011-12: £33 billion) of student loans, and other assets such as intangible fixed assets, investment properties, inventories, debt securities, loans, deposits, and cash.
- had **total liabilities of £2,893 billion** (restated 2011-12: £2,618 billion), including:
  - a £1,172 billion (restated 2011-12: £1,006 billion) liability for public service pensions;
  - £996 billion (2011-12: £966 billion) of debt in the form of government borrowing and financing such as gilt-edged securities and Treasury bills;
  - £131 billion (restated 2011-12: £113 billion) of provisions; and
  - £595 billion (restated 2011-12: £533.2 billion) of other liabilities, including trade and other payables and obligations under leases and PFI of £152 billion (restated 2011-12; £159 billion), and deposits held by the Bank of England of £297 billion (2011-12: £218 billion).

The public sector therefore had a **total net liability of £1,630 billion** (restated 2011-12: £1,347 billion).

Chart 2.2: Summary of revenue and expenditure 2012-13



Total revenue £621 billion



Total operating expenditure £717 billion

Chart 2.3: Summary of revenue and expenditure 2010 to 2013

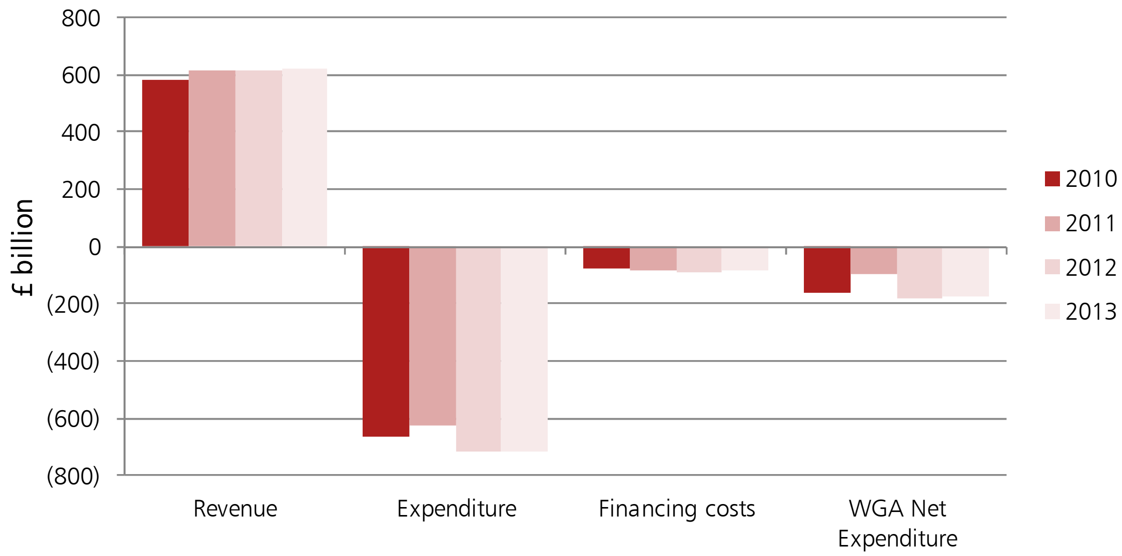
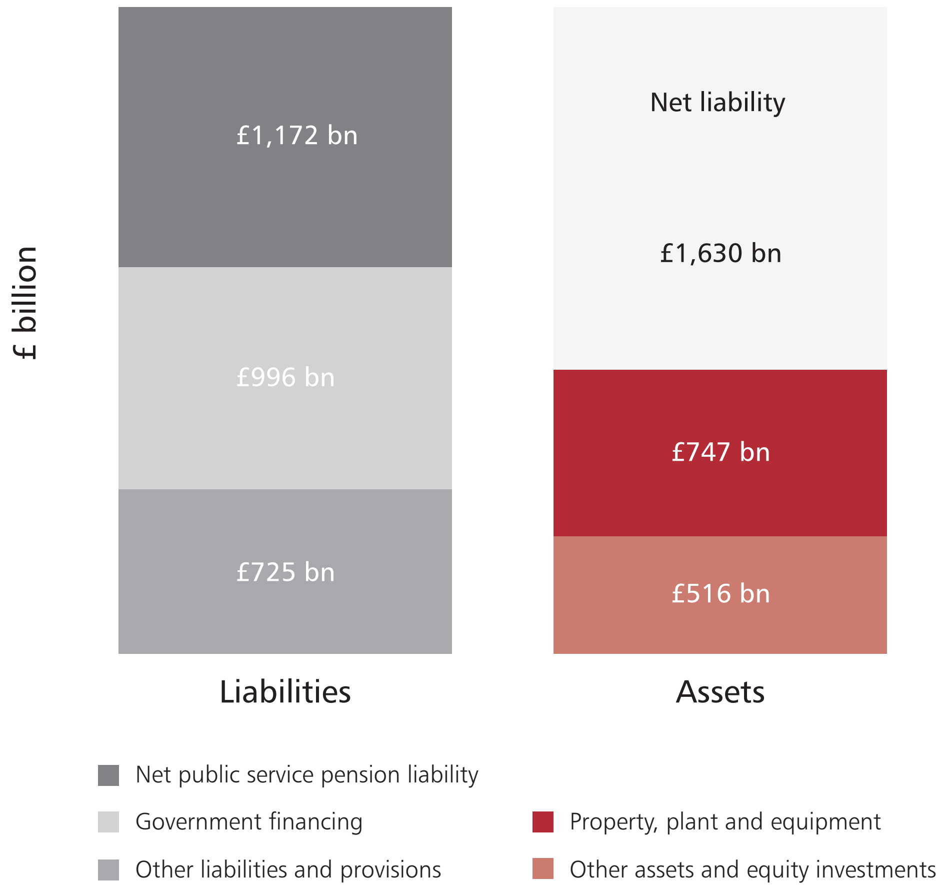


Chart 2.4: Summary of assets and liabilities as at 31 March 2013

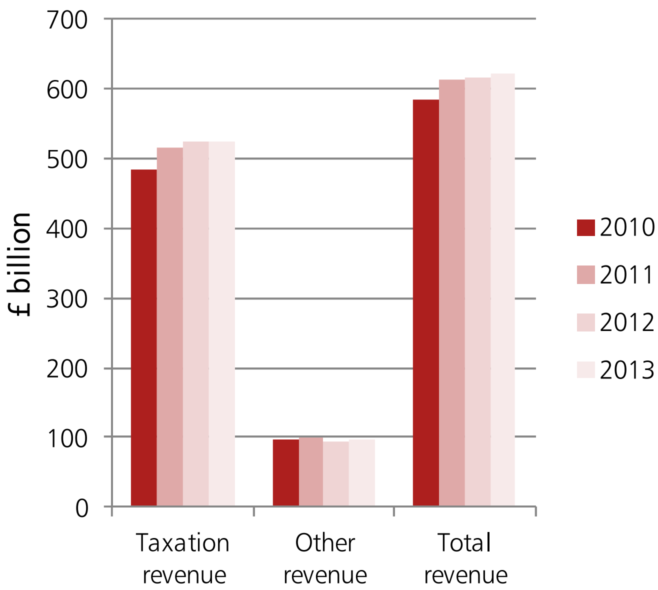


The government's income and expenditure

Revenue

2.17 The primary source of income is taxation, which forms 85% of total public sector receipts. Taxes can be direct such as Income Tax, indirect such as VAT, or collected by local authorities. The primary purpose of the tax system is to raise revenue to fund public services and other government activities.

Chart 2.5: Revenue 2010 to 2013



Taxation revenue

2.18 **Tax revenue increased by £0.7 billion** in the year from £523.7 billion to £524.4 billion. This increase came largely from VAT and business rates.

Table 2.1: Changes in taxation revenue

	2012-13 £ bn	2011-12 £ bn	2010-11 £ bn	Change from 2011-12 to 2012-13 %
Income Tax , social security	241.6	242.7	243.6	(0.5)
VAT	99.1	97.8	88.2	1.3
Local government taxes	55.9	54.8	52.8	2.0
Corporation tax	38.9	40.0	45.7	(2.8)
Hydrocarbon oils duty	26.5	26.9	27.2	(1.5)
Other indirect taxes	27.2	26.1	25.6	4.2
Excise duties	26.6	26.7	25.2	(0.5)
Bank Levy	1.6	1.5	0.7	6.7
Other direct taxes	7.0	7.2	6.4	(2.8)
Total taxation revenue	**524.4**	**523.7**	**515.4**	**0.1**

2.19 Income Tax was £150.9 billion (2011-12: £151.8 billion), and National Insurance £90.7 billion (2011-12: £90.9 billion), together accounting for 46% of all taxes. Income Tax receipts have reduced over the last 3 years, although the rate of decline halved from 2% to 1% in the current year.

2.20 Local government taxes include Council Tax, which is retained by local authorities, and national non-domestic rates, which are levied on local businesses and returned to central government. Council Tax amounted to £30.4 billion (2011-12: £30.4 billion), which remained unchanged due to the government's commitment to freeze Council Tax in 2012-13 and national non-domestic rates amounted to £25.5 billion (2011-12: £24.4 billion), an increase of 4.5%. Since 2009, the trend has been for revenue collected from local taxes to increase steadily, almost wholly driven by increased revenues from national non-domestic rates. Council Tax revenue is driven by the number of occupied properties and the annual rate set by authorities. Revenue from non-domestic rates, a fixed payment, regardless of profit, has increased in line with RPI used to calculate the rate.

2.21 Corporation Tax decreased by £1.1 billion (2.8%) in the year, and accounted for 7% of total tax revenues. The decrease was primarily due the policy decision to lower the Corporation Tax rate from 26% to 24% which took effect on 1 April 2013, to help stimulate economic growth. In 2011-12 the rate was also reduced by 2%, from 28% to 26%, yet revenues from Corporation Tax fell by a significantly larger £5.7 billion. Improved economic activity during 2012-13 has helped to offset the impact of the rate cut, resulting in a much smaller drop in revenues. The Corporation Tax will be reduced to 23% in 2013-14, and 21% 2014-15, in line with the government strategy to stimulate economic growth.

2.22 Hydrocarbon oils duty or fuel duty, a consumption-led tax, was £26.5 billion (2011-12: £26.9 billion), £0.4 billion (1.5%) lower. This was mainly due to reduced demand due to relatively high petrol prices, and as a consequence of the reduction in fuel duty announced in Budget 2011.

2.23 Excise duties, such as alcohol duty, and tobacco duties were £26.6 billion (2011-12: £26.7 billion), £0.1 billion (0.4%) lower primarily due to a fall in both tobacco and alcohol consumption.

2.24 VAT increased by 1.3%, as a result of growth in both the business services and automotive sectors. VAT receipts grew significantly in 2010-11 and 2011-12 as a consequence of the rise of the VAT rate from 15% to 17.5% in 2010-11 and a subsequent increase to 20% in January 2011. The increases spanned 2 years, with a partial effect being seen in year 1 (2010-11) and a full year effect in year 2 (2011-12).

2.25 Other taxes, which account for 6.8% of total tax revenue, were £35.8 billion (2011-12 £34.8 billion), £1.1 billion (3.2%) higher. This increase was attributable to a number of factors including a £0.8 billion increase in stamp duty, reflecting the improved position of the housing market in 2012-13. The bank levy raised £0.1 billion more revenue than a year earlier, providing £1.6 billion in receipts (2011-12: £1.5 billion).

Non-tax revenue

2.26 The major component of non-tax revenue was revenue from the sale of goods and services. Local authorities received revenue from services provided to the public (£22.5 billion (2011-12: £22.1 billion)), which included fare revenue from the London bus and underground transport service (£3.8 billion (2011-12: £3.5 billion)). Revenue streams were earned by public corporations for services (£14.8 billion (2011-12: £14.7 billion)), such as postal services (£9.9 billion (2011-12: £9.4 billion)).

2.27 Income was also received from fees, levies and charges made by central government entities to recover the cost of services, rental income from social housing, grants from the EU, and receipts into pension schemes from employees and those employers that are not an entity within WGA. One-off income relating to the sale of the 4G spectrum amounted to £2.4 billion in 2012-13. Additional income is expected in 2013-14, with the sale of shares in both Lloyds bank and Royal Mail.

Expenditure

Overview

2.28 Net expenditure of £179 billion compares to £185 billion reported in the 2011-12 WGA. This difference was largely due to continuing public spending reductions and the impact of lower financing costs in 2012-13.

2.29 The difference between net expenditure and the government's chosen measure for fiscal management of current deficit is explained in Chapter 3. WGA and the National Accounts are two frameworks of accounting that have been designed to suit different purposes. While the National Accounts are the measures used to assess to economic and fiscal position of the public finances, WGA provides an international accounting standards-based presentation to offer further insights into long-term sustainability, as well as presenting the figures in a format familiar to the private sector.

Total expenditure

2.30 Total expenditure in 2012-13 was £717.3 billion (restated 2011-12: £715.1 billion). This was £2.2 billion (0.3%) higher than 2011-12.

2.31 Over the last 4 years, movements in expenditure have been influenced by a number of significant factors including inflation, structural change in government, interventions to maintain financial stability, and the assumption of risks by government, including support to the banking sector. Other factors giving rise to significant changes in expenditure are the charges imputed as a consequence of changes in the valuation of future liabilities for pensions and other costs, such as nuclear decommissioning.

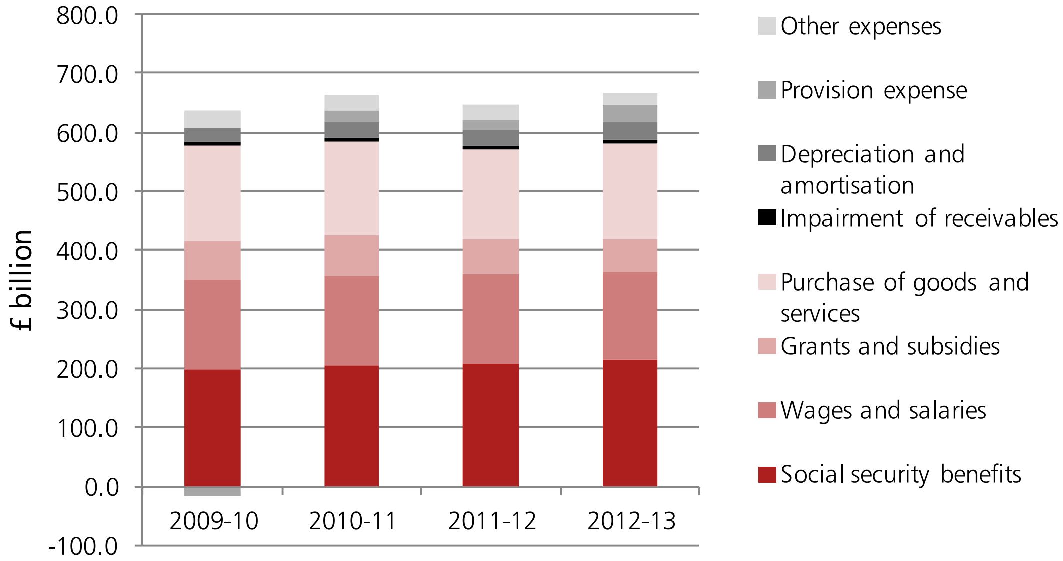
Table 2.2 Total expenditure

	2012-13 £bn	2011-12 £bn	2010-11 £bn
Social security benefits	215.0	209.7	204.0
Staff costs (excluding pension scheme costs)	148.4	148.9	153.0
Grants and subsidies	56.3	61.6	68.4
Purchase of goods and services	163.0	153.8	159.2
Impairment of receivables	5.6	4.8	5.5
Depreciation and amortisation	29.2	27.6	27.4
Provision expense	29.0	17.4	18.3
Other expenses	19.3	24.0	27.5
Direct expenditure	**665.8**	**647.8**	**663.3**
Other impairment of assets	16.3	32.0	47.5
Pension scheme costs and actuarial revaluations	35.2	35.3	(85.9)
Total expenditure	**717.3**	**715.1**	**624.9**

Direct expenditure

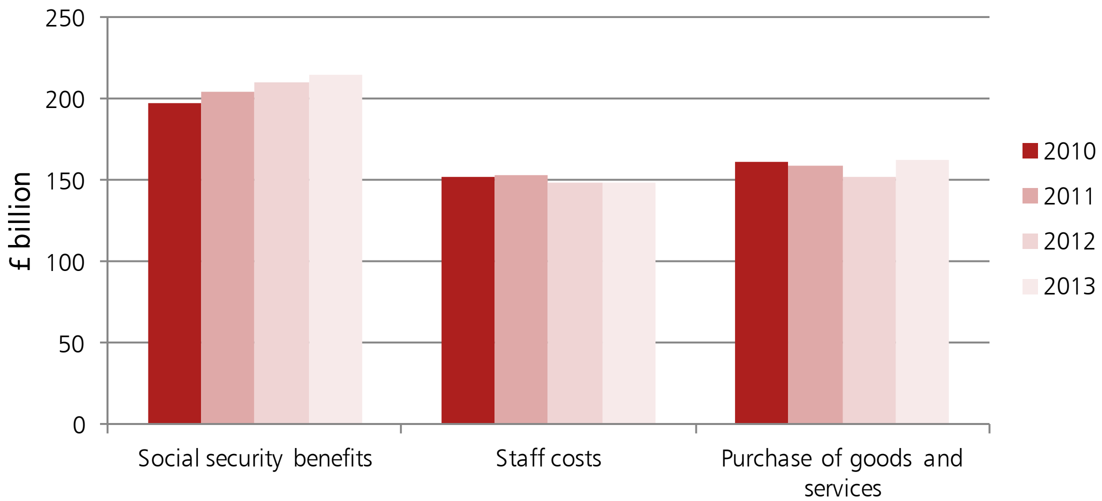
2.32 **Direct spend in 2012-13 was £665.8 billion** (2011-12 £647.8 billion), £18.0 billion higher than the previous year. Direct spend is monies incurred in the direct delivery of the government's policies and includes expenditure controlled by departments (DEL) and expenditure outside budgets (AME), such as welfare spending and pensions. Other items recognised in the Statement of Revenue and Expenditure result from the revaluation of assets or are actuarially determined.

Chart 2.6: Analysis of direct spend



2.33 The most significant elements of expenditure were social security benefits, staff costs and purchase of goods and services, which are discussed in further detail below.

Chart 2.7: Significant elements of expenditure 2010 to 2013



Social security benefits

2.34 Expenditure on social benefits increased in the year by £5.3 billion from £209.7 billion to £215.0 billion (2.5%)[1]. This increase reflected the uprating of benefits, pensions and tax credits in line with

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

inflation, and an increase in the number of pensioners. Housing and Council Tax Benefit fell by £1.5 billion from £30.0 billion to £28.5 billion (5%), as a result of a fall in market rent prices associated with the economic slowdown. While social benefit payments have increased year on year since 2009-10, the rate of increase is declining, from 3.5% 2010-11, to 2.8 % in 2011-12, and 2.5% in 2012-13. Social benefit spending is part of Annually Managed Expenditure (AME), and not part of departmental budgets.

2.35 The state pension was the largest benefit at £83.8 billion (2011-12: £78.1 billion), accounting for 39% of all benefits. This benefit increased by £5.7 billion (7%), as a result of more people reaching pensionable age and the uprating of pensions by 5.2% from £102.15 per week to £107.45 per week. Whilst the state pension has grown in every year since 2009-10, the rate of growth has fluctuated in line with the Consumer Price Index.

2.36 Tax credits accounted for 14% of benefits, and were £30.8 billion (2011-12: £30.5 billion), £0.3 billion (1%) higher than the previous year. This was due to inflation uprating the rates of tax credit paid to individuals.

2.37 Housing and other local government benefits amounted to £28.5 billion (2011-12: £30.0 billion), £1.5 billion (5%) lower than the previous year and accounted for 13% of social security benefits. Further reductions are expected in 2013-14, as from 1 April 2013 welfare reform measures reduced the amount of benefit that working age claimants can receive if they are deemed to have a spare bedroom in their council or housing association home.

2.38 Disability Living Allowance was £15.5 billion (2011-12: £14.6 billion), £0.9 billion (6.2%) higher than the previous year, and accounted for 7.2% of social security benefits. This increase was due to a number of factors, including the inflation uprating and increased number of claimants.

Staff costs

2.39 Staff costs represent the cost to the government of employing staff in the public sector including those delivering front line services. Staff numbers include permanent employees, temporary staff and contractors. They include salaries and wages, but exclude pension costs and National Insurance payments from one part of the public sector to another, as these do not represent an overall net cost to the public sector. More details of staff costs and numbers are provided in Note 7.

2.40 At Autumn Statement 2011 the Chancellor announced that public sector pay awards would average 1% for 2013-14 and 2014-15 and Budget 2013 announced that that pay awards would continue to be limited to 1% in 2015-16. At Spending Round 2013, the government announced further action to reduce automatic pay increases and ensure tighter control over the public sector pay bill.

2.41 Wages and salaries in the public sector fell by £0.1 billion between 2011-12 and 2012-13 from £147.7 billion to £147.6 billion.

2.42 The public sector workforce has reduced in size by 2.2% (103,682) in 2012-13 and by 2.7% (125,827) since 2010-11. This reduction also includes an increase in staff owing to schools converting to academies and appearing in the public sector finances for the first time. Excluding academies staff, numbers have reduced by 4.1% (186,495) in 2012-13. The cost of exit packages due to compulsory redundancies and other agreed departures of staff was £2.0 billion, representing the upfront cost of reducing the overall workforce cost to produce substantially higher savings over the longer term.

Purchase of goods and services

2.43 Goods and services were purchased to deliver public services. These included: maintenance of public sector buildings, such as schools and hospitals; maintenance of the London Underground network; maintenance of the road network; the purchase of equipment for the Armed Forces; materials for schools; medicines; and the costs of occupying property, such as rent and utilities.

2.44 The total value of goods and services purchased was £163.0 billion (2011-12 £153.8 billion), a £9.2 billion (6%) increase on the prior year. This increase reflected higher costs within the NHS and increasing utility costs.

2.45 The value of goods and services purchased by central government was £89.0 billion (2011-12: £84.7 billion), £67.2 billion (2011-12: £63.1 billion) by local government (which included Transport for London and the majority of schools), and £6.8 billion (2011-12: £6.0 billion) by public corporations (which includes the BBC). Some of the increases seen in central government relate to the Department of Health (£3.3 billion) and academies (£0.9 billion), which transfer from local authority to central government control at the point of acquiring academy status. As more schools receive academy status, more costs will shift to central government, with a corresponding offset in local government.

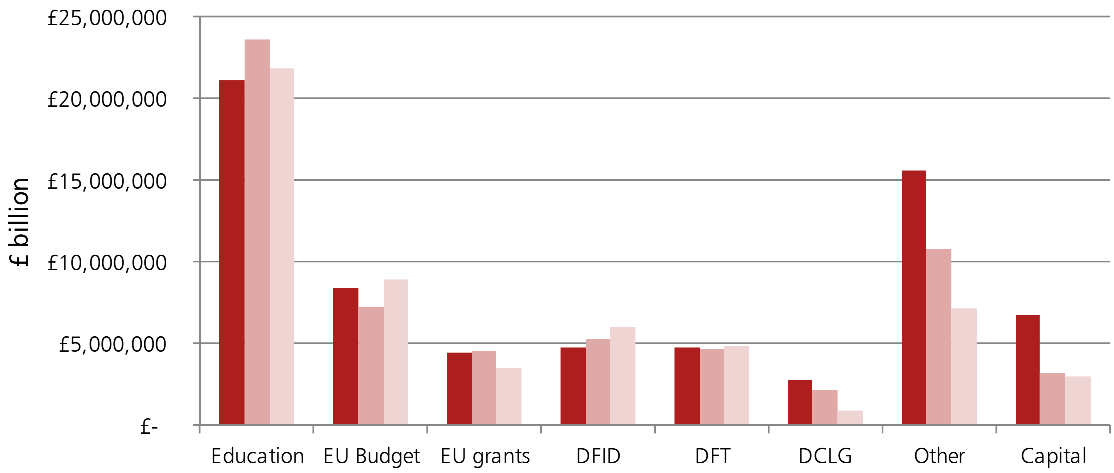
Grants and subsidies

2.46 The public sector makes grant and subsidy payments to private sector and third sector organisations to deliver public services directly or indirectly. This includes funding for further and higher education, housing associations, EU grants and railway investment. Grants can be given to fund the creation of new assets (capital grants), or to support ongoing services (revenue grants or subsidy payments).

2.47 Total grants and subsidies were £56.3 billion (2011-12: £61.6 billion), of which £10.6 billion (2011-12: £12.0 billion) were capital and £45.7 billion (2011-12: £54.1 billion) were revenue. Since 2010-11, grants have fallen by 18% (£12.1 billion).

2.48 Reductions to revenue grants continue to be made to numerous schemes across the public sector, including social housing and adult education. "Other" grants, which include grants to private and charity sector, have fallen from £15.3 billion in 2010-11 to £7.8 billion in 2012-13. The UK's net contribution to the European Union's budget was £8.9 billion (2011-12: £7.2 billion), being the amount the UK pays directly to the EU less any subsidies. Ongoing negotiations are expected to reduce the UK contribution in future years.

Chart 2.8: Government grants and subsidies 2010 to 2013



Depreciation and impairments

2.49 Depreciation and impairment charges for the year were £51.1 billion (2011-12: £64.4 billion). The charges in the year comprised depreciation and amortisation of tangible and intangible non-current assets of £29.2 billion (2011-12: £27.6 billion), and impairments and revaluations of £21.9 billion (2011-12: £36.8 billion). The fall in 2012-13 reflects a one-off impairment charge of £14 billion in 2011-12, relating to the government's share holding in Lloyds bank as at 31 March 2012.

2.50 Impairments to receivables were £5.6 billion (2011-12: £4.8 billion). These included £5.1 billion (2011-12: £4.2 billion) relating to tax debts. These impairments were made up of remissions (debts theoretically capable of recovery but which HMRC decided not to pursue on the grounds of value for money) and write-offs (debts that were irrecoverable as a consequence of insolvency where there was no practical means of pursuing the liability).

2.51 Impairments included £12 billion (2011-12: £13.4 billion) of reductions to the value of non-current assets, such as buildings, that reduced their value below their original value.

2.52 Impairments also included a £2.5 billion reduction in the value of the student loan book, reflecting the risk that graduate earnings may not reach the levels predicted when student loans were issued. These can lengthen the time period before loans are in repayment and extend the repayment period, both of which impact on the value of the loans in the accounts. This has also been compounded by the earnings threshold for repayment not being adjusted to reflect slow earnings growth as a result of the recession and the 30 year limit which increases the risk of non-payment.

Net financing cost

2.53 The net financing cost was £79.4 billion (2011-12: £88.1 billion), £8.7 billion (10.1%) lower than the previous year. Decreases in interest on pension scheme liabilities (£59.0 billion (2011-12: £64.8 billion)) and finance costs (£36.3 billion (2011-12: £42.3 billion)) have been partially reduced by decreases in the expected return on pension scheme assets of £11.1 billion (2011-12: £13.8 billion) and investment revenue of £4.8 billion (2011-12: £5.2 billion).

2.54 Interest costs in respect of government borrowing and financing decreased by £5.8 billion from £36.8 billion to £31.0 billion in the year, partly as a result of increased holdings of gilts by the Bank of England for quantitative easing and reduced expense associated with index linked gilts due to a decrease in the rate of inflation.

The government's assets and liabilities

Overview

2.55 The cost of servicing the government's liabilities and payment for the ongoing provision of public services are mainly met by tax revenue receipts. As well as decisions on public spending, the government has the power to set tax rates to meet its funding requirements. For this reason, the Accounting Officer adopts the going concern basis (valuing assets and liabilities on the basis that the government will continue its functions) in preparing the financial statements.

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

2.57 Overall, the position of the government's balance sheet from 2009-10 to 2012-13 shows net liabilities have increased by £401.7 billion, or 33%. The valuation of liabilities is highly sensitive to accounting adjustments, which affect key balances such as the pension provision. One of the effects of the financial crisis over the last 4 years has been a huge rise in the value of deposits financial institutions are holding at the Bank of England. These have increased from £18.1 billion in 2009-10 to £334 billion in 2012-13 and show as liabilities in WGA.

2.58 The net liability of £1,630 billion compares with the equivalent National Accounts public sector net debt measure of £1,185 billion. This difference is explained in Chapter 3. The nature of government financing is such that WGA can be expected to show a net liability. Other countries producing an equivalent set of accounts show the same trend, such as the US and New Zealand.

Property, plant and equipment

2.59 Property, plant and equipment of £747.1 billion (2011-12 restated: £744.5 billion) included all of the assets owned by the public sector to carry out its functions. It included £348.0 billion (2011-12 restated: £347.8 billion) of land, buildings and dwellings (e.g. schools, hospitals and social housing), £273.5 billion (restated 2011-12: £269.1 billion) of infrastructure (e.g. roads and the London Underground), and £35.7 billion (2011-12: £34.6 billion) of military equipment.

2.60 The value of the government's fixed asset portfolio has increased by 5.0%, or £34.3 billion, since 2009-10. The 2 largest areas of increase are infrastructure and buildings. Infrastructure (e.g. roads, telecommunications) has increased by £39.2 billion, however only £18.6 billion (47%) relates to genuinely new infrastructure. The remainder relates to revaluations of the road network to current replacement cost. Buildings have increased by £10.2 billion in 3 years, however £3 billion of this amount relates to academies that were not previously recognised within WGA. The remainder of the increase mainly relates to the NHS, reflecting investment in new hospitals and health facilities.

Table 2.3 Property, plant and equipment – changes on 2012-13

	2012-13 £ bn	2011 -12 Restated £ bn	Change on 2011-12 %
Buildings, dwellings and land	348.0	347.8	0.4
Infrastructure assets	273.5	269.1	1.6
Assets under construction	39.3	43.8	(10.3)
Military equipment	35.7	34.6	3.2
Other	50.6	49.2	3.0
Net book value	**747.1**	**744.5**	**0.5**

2.61 Asset disposals with a net book value of £3.5 billion took place in the year (2011-12: £2.3 billion). This reflects the disposal of military equipment following the Strategic Defence and Security Review and the disposal of life expired plant and machinery.

2.62 Infrastructure assets include highways infrastructure assets (HIA) held by local authorities (£56.3 billion (2011-12: £54.9 billion)) and motorways and trunk roads held by the Highways Agency (£108.9 billion (2011-12: £107.4 billion)). There has been an increase in the value of the motorway and trunk road network primarily due to the revaluation of the network to reflect current prices.

2.63 Local authorities value highways infrastructure assets on the basis of their historic cost rather than the depreciated replacement cost basis used by central government. The best proxy available for the depreciated replacement cost of local government HIA was the calculated asset value for local government "Other Structures" used by the Office for National Statistics from their perpetual inventory model (PIM). This estimated the value of the road network at £275 billion (2011: £266 billion) as at 31 December 2012[2]. Therefore, infrastructure assets reported in WGA are likely to be understated by at least £200 billion. As requested by the Treasury, local authorities are working towards calculating a depreciated replacement cost valuation of HIA for inclusion in WGA, pending the accounting policy change in 2016-17. This will bring local authorities into line with central government.

Private Finance Initiative funded assets

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

2.65 At 31 March 2013 the net book value of PFI assets was £37.0 billion (2011-12: £38.7 billion), and the associated liability for capital repayments was £36.6 billion (2011-12: £36.1 billion).

2.66 There are three key elements to the annual charge: the service element to run the project (which could include cleaning, catering, maintenance and security), repayment of the capital asset built and interest on the capital. The present value of future PFI obligations, including service charges, increased to £156.6 billion (2011-12 £149.4 billion). The increase is largely due to higher future commitments from existing contracts as PFI facilities are commissioned and start to deliver services following

[2] UK National Accounts, The Blue Book, 2013, Table 10.9 'Other Structures'

completion of construction. The total interest payable on these capital commitments is expected to be £42.2 billion (2011-12: £42.3 billion).

Financial sector interventions

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

2.68 Since 2008, the government has acquired shareholdings in Royal Bank of Scotland Group Plc, Lloyds Banking Group Plc, Northern Rock Plc, Northern Rock (Asset Management) Plc and Bradford & Bingley Plc. Details about the government's dealings with these financial institutions are provided in Note 37 to the Accounts.

2.69 The equity investments in these institutions totalled £45.2 billion (2011-12: £40.8 billion) at 31 March 2013. The value of the government's investments increased by £4.4 billion primarily reflecting an increase in the Royal Bank of Scotland and Lloyds Bank Group share prices. Shares are revalued annually at 31 March, and are therefore subject to fluctuations. In June 2013 the Chancellor announced that the Treasury would actively consider options for sale in its Lloyds holdings. This was realised on 19 September 2013 with the Treasury selling 16% of its share holding in Lloyds with a subsequent sale of 24% of its remaining holding on 26 March 2014. By the end of 2013-14 the Treasury had disposed a little over one third of the shares it held on the 2012-13 balance sheet.

2.70 The government has provided support to financial institutions in the form of loans and advances, financial guarantees and indemnities, which, when the risk of them crystallising is not remote, are included in the accounts as contingent liabilities as at 31 March 2013. Arrangements between bodies within the WGA boundary, such as guarantees and indemnities between the Treasury and the Bank of England, are not included, as they eliminate on consolidation.

2.71 At 31 March 2013, the total outstanding support to the financial sector is shown below. The Asset Purchase Scheme and Credit Guarantee Scheme closed in October 2012, extinguishing the contingent liabilities to nil in these schemes.

Table 2.4 Analysis of support to financial sector

	Note	2012-13 £bn	2011-12 £bn	2010-11 £bn
Equity investments	*18*	45.2	40.8	59.5
Loans and advances	*22*	46.6	51.0	54.9
Total support to the financial sector impacting the balance sheet		**91.8**	**91.8**	**114.4**
Contingent liabilities	*32*	9.9	9.9	9.9
Remote contingent liabilities	*33*			
Asset Purchase Scheme		-	54.7	110.0
Credit Guarantee Scheme		-	24.2	115.0
Guarantees to depositors		11.9	14.3	20.6

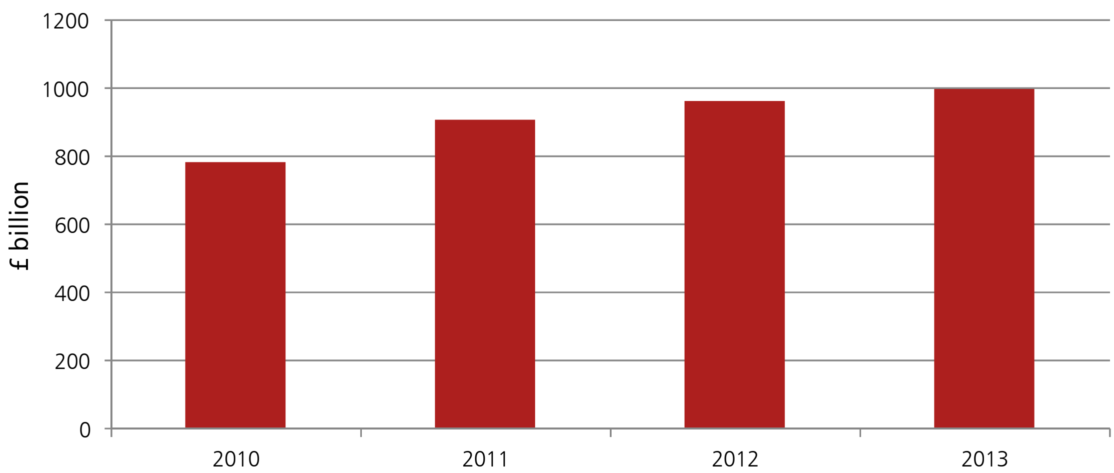
2.72 The financial statements of the public sector banks have not been consolidated in WGA for 2012-13. Northern Rock (Asset Management) plc and Bradford & Bingley plc will be consolidated into WGA from 2013-14, as they are will be a permanent part of government until their mortgage business has wound down. The remaining banks will continue to be held as available-for-sale financial assets and liabilities. There is no intention for the government to retain the assets and liabilities of these public sector banks in the long term and, in due course, they will return to the private sector. In line with this intention, the government sold Northern Rock plc in January 2012, and by 31 March 2014 had divested itself of 36% of its shareholding in Lloyds. Were these entities consolidated, the scale would dwarf other aspects of WGA, distorting the accounts and making it difficult to determine trends.

Government borrowing and financing

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

2.74 The Bank of England and the Treasury launched the Funding for Lending Scheme (FLS) on 13 July 2012. The FLS is designed to incentivise banks and building societies to boost their lending to the UK real economy. It does this by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to institutional lending performance. On 24 April 2013 the Bank and the Treasury announced an extension to the FLS to January 2015, with incentives to boost lending focused on small and medium sized enterprises (SMEs).

Chart 2.9: Government borrowing and financing 2010 to 2013



2.75 At 31 March 2013, the government had current borrowing and financing liabilities due to be repaid within a year, or payable on demand, of £214.3 billion (2011-12: £224.2 billion), comprising NS&I products (£102.0 billion (2011-12: £102.7 billion)), Treasury bills (£60.5 billion (2011-12: £74.3 billion)) and gilt-edged securities (£51.8 billion (2011-12: £47.2 billion)). In addition, it had non-current gilt-edged securities of £781.8 billion (2011-12: £741.1 billion) and NS&I products of £0.1 billion (2011-12: £0.2 billion) that need to be repaid over periods longer than a year. The increase in borrowing is net of the Bank of England's purchase of UK government debt through quantitative easing. Before eliminations, the nominal value of gilts held by the Bank of England for quantitative easing amounted to £375.0 billion in 2012-13 (2011-12: £286.8 billion).

2.76 Total government borrowing continued to rise in 2012-13, reaching £996.2 billion at 31 March 2013 compared to £965.5 billion at 31 March 2012. The main factor behind this position is a £36 billion increase in government gilts to finance the Funding for Lending Scheme.

Working capital

2.77 Working capital is a measure of current assets less current liabilities and stood at negative £450.7 billion (2011-12 restated: negative £386.0 billion). The deterioration in working capital is driven primarily by growth in deposits held by the Bank of England as a consequence of quantitative easing.

Trade and other receivables

2.78 Current and non-current trade and other receivables are amounts owed to the public sector due to its day to day operations from suppliers and taxpayers. Trade and other receivables decreased by £4.6 billion in the year to £137.3 billion. This included tax receivables of £22.6 billion (2011-12: £21.6 billion) which represented all taxpayer liabilities that were established, irrespective of whether due or overdue, for which payments had not been received. It also included accrued tax revenue of £82.4 billion (2011-12: £85.2 billion) which represented estimates of taxes and duties relating to the current financial year that were not yet due or received from taxpayers.

2.79 Receivables included a current provision for bad debt of £14.2 billion (2011-12: £13.6 billion). The majority of this related to tax, where the estimate of tax at risk of not being collected was £9.5 billion (2011-12: £8.8 billion), based on historical trends in debt recovery and consideration of future economic conditions.

2.80 Since 2009-10, trade receivables have fallen by £6.5 billion, or 4.6%. The relative value of provisions compared to receivables has fallen from 12.8% to around 10%.

Table 2.5 Analysis of current trade receivables

	2012-13	2011-12	2010-11	2009-10
Trade and other receivables (net)	135.9	139.6	144.7	142.4
Provision for doubtful debts	14.2	13.6	14.0	18.2
Provision as a percentage of receivables	10.4%	9.7%	9.7%	12.8%

Other assets

2.81 Inventories included consumable items such as military equipment and medical items, as well as finished goods for resale and assets to be sold under long term contracts. The Ministry of Defence held 62.3% (2011-12: 63.2%) or £7.6 billion (2011-12: £7.2 billion), of all public sector inventories. It received an audit qualification in respect of the valuation of its inventory, but has a programme of work underway to address the audit issues.

2.82 Gold of £10.5 billion increased by £0.1 billion in the year due to fair value movements.

Trade and other payables

2.83 Trade and other payables are the amounts of money owed by the public sector to private and third sector suppliers, households, and financial and international institutions. Trade and other payables were £151.9 billion, £7.0 billion lower than the previous year, primarily driven by a decrease in accruals and deferred income of £2.2 billion. Within this category, the amounts owed to suppliers, has fallen each year, by 2% in 2010-11, 3% in 2011-12, and 4% in 2012-13, reflecting government policy to pay suppliers quickly.

2.84 As at 31 March 2013, current trade and other payables comprised: trade and other payables for goods and services (£37.3 billion (2011-12: £39.6 billion)); accruals and deferred income (£34.9 billion (2011-12: £37.1 billion)); and amounts owed to taxpayers (£23.2 billion (2011-12: £22.9 billion)). Accruals and deferred income related to goods and services received but not invoiced at the year-end or monies received for services not yet provided. Amounts owed to taxpayers were in respect of tax overpayments, refunds and receipts in advance of the tax period.

2.85 Non-current trade and other payables included amounts payable under PFI contracts (£35.3 billion (2011-12: £34.8 billion)) and amounts owed in line with contractual obligations (£15.7 billion (2011-12: £15.4 billion)).

Financial assets and liabilities

2.86 **Financial assets** comprised £116.3 billion (2011-12 restated: £125.5 billion) of current financial assets and £126.8 billion (2011-12 restated: £125.0 billion) of non current financial assets. Since 2009, Financial Assets have grown by £53.3 billion. Of this amount, £35.9 billion relates to Student Loans, which were reclassified from Trade and Other Receivables in 2010-11. The underlying growth is therefore £17.4 billion, or 9%.

2.87 The increase in **non-current financial assets** of £1.8 billion in the year was primarily due to increases to student loans of £2.7 billion to £34.0 billion, increases to equity investments of £4.7 billion to £21.6 billion due to increases in investment in the European Investment Bank of £1.8 billion, increases in shares held by BIS following the transfer of Royal Mail pension assets of £1.5 billion and due to general increase in fair value of the assets. These increases have been partially offset by a reduction in loans and deposits with banks of £3.2 billion to £54.8 billion. This included a reduction to loans and advances made to financial institutions by the Treasury of £4.4 billion, reducing them to £46.6 billion, reflecting payments by the respective institutions.

2.88 The value of **student loans** due to be collected after 1 April 2014, reflected an estimate of the present cost of subsidising interest on loans over the life of the loan (interest subsidy impairment) and an estimate of the future cost of policy write offs (policy write off impairment), which reflects the fact that not all of the loans issued will be recoverable due to low wages and the loan won't be recovered beyond 30 years of working life. Further details regarding student loans are available in Note 1.22.9.

2.89 The decrease in **current financial assets** of £9.2 billion was primarily due to a decrease in loans and deposits with banks of £7.4 billion to £56.3 billion, and a decrease in securities held for trading by the Debt Management Office of £4.8 billion to £1.1 billion.

2.90 **Financial liabilities** included current and non-current amounts of £408.9 billion and £34.1 billion respectively. Current financial liabilities increased by £67.8 billion in the year largely because of increased deposits with the Bank of England.

2.91 Current financial liabilities included deposits by banks of £334.2 billion (2011-12: £267.2 billion) as part of the government's cash management operations, and a liability to the International Monetary Fund (IMF) for the UK's allocation of IMF Special Drawing Rights of £10.0 billion (2011-12: £9.8 billion). Financial liabilities have increased by £400 billion since 2009-10, however this is predominantly related to the quantitative easing programme. The rate of growth has slowed in 2012-13, reflecting lower levels of additional QE taking place following the initial launch.

Pension liability

2.92 Public service pensions form a significant part of the government's total liabilities, with a **total net pension liability of £1,171.6** as at 31 March 2013 (2011-12 restated: £1,005.8 billion).

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

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

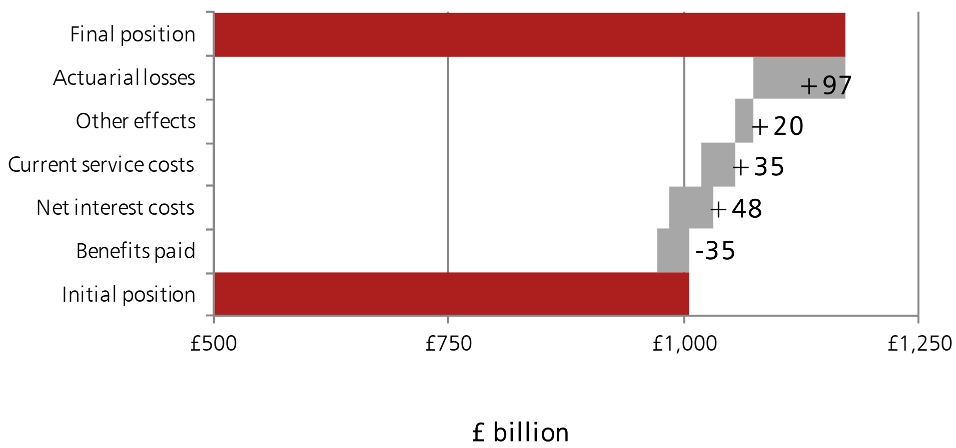
Table 2.6 Net pension liability by type of scheme

	2012-13 £bn	2011-12 Restated £bn	Change %
Unfunded schemes (gross)			
Teachers (UK)	258.5	231.2	11.8
NHS (UK)	325.1	282.7	15.0
Civil Service	176.5	155.1	13.8
Armed Forces	118.1	105.6	11.8
Police	118.0	101.6	16.1
Fire	22.9	21.1	8.5
Other unfunded	53.2	20.0	166.0
	1072.3	**917.3**	16.9
Funded schemes (net)			
Local government	90.5	78.4	15.4
Other funded	8.8	10.1	(12.9)
	99.3	**88.5**	12.2
Total net pension liability	**1,171.6**	**1,005.8**	**16.5**

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

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

Chart 2.10: Change in the net public service pension liability in 2013



2.97 There are a number of key assumptions that are used to calculate public service pension liabilities. These include the rate of increase in salaries and pensions inflation as well as the discount rate. As with all long-term economic projections, these assumptions are inherently subject to significant uncertainty. The value of the public service pension liability is very sensitive to changes in these assumptions. For example, of the total actuarial loss of £97.4 billion, £57.5 billion is as a consequence of the change in discount rate from 2.8% in 2011-12 to 2.4% in 2012-13 (a movement of 0.4% year on year).

2.98 The accounting standards require that entities set the discount rate to reflect the yield on high quality corporate bonds. Central government schemes use a centrally set real discount rate determined by the Treasury, having obtained advice from the Government Actuary's Department. Other entities set their own discount rate, generally after obtaining the advice of an actuary. Note 27 describes in more detail the assumptions made in calculating the liability as at 31 March 2013.

Provisions

2.99 As at 31 March 2013, provisions amounted to £130.7 billion (restated 2011-12 restated: £113.0 billion), an increase of £17.7 billion (16%) in the year. As with 2011-12 the most significant provisions were the nuclear decommissioning provision and the provision for clinical negligence. Over the period 2009-10 to 2012-13, the provision for nuclear decommissioning has increased by 23%, clinical negligence by 53%, and other types of provision by 24%.

2.100 The **provision for nuclear decommissioning was £69.8 billion** (restated 2011-12: £63.8 billion) which included the cost of dealing with radioactive waste, nuclear fuels and materials, capital facilities, redundant facilities and contaminated materials. The provision and recoverable balances are expressed at current price levels to take account of the time value of money for the very long timescales over which work will be carried out, currently expected to be over 100 years. The ultimate liability will vary as a result of the subsequent information and events, and may result in significant changes to the overall costs of decommissioning. The provision increase in the year was largely the result of changes to the discount rates set by the Treasury in 2012-13, increasing the provision by £3.8bn. Not all nuclear decommissioning provisions are increasing, as shown by the table below. In fact, most provisions are relatively constant, or have fallen since 2010-11. Due to the nature of the Sellafield site, a thorough review is underway and as additional liabilities are uncovered the provision is updated.

Table 2.7 Nuclear Decommissioning Analysis

	2012-13 £bn	2011-12 £bn	2010-11 £bn
Sellafield (Other)	34.7	26.9	24.3
Sellafield Legacy Ponds and Silos	8.1	10.5	7.3
Low Level Waste Repository	4.2	4.1	4.1
Research Sites	3.3	3.0	4.2
Fuel Manufacturing	8.6	8.4	9.3
Ministry of Defence	3.7	3.7	4.5
Other	7.2	7.2	7.2
Total	69.8	63.8	60.9

2.101 The **provision for clinical negligence was £24.0 billion** (2011-12: £19.4 billion) an actuarially determined assessment of individual incidents that have occurred, where it was more than 50% probable that the claim would be successful and the amount of the claim could be reliably estimated. Clinical negligence claims that are less likely to succeed are disclosed as contingent liabilities. The increase in the provision was due to a combination of higher claims volumes and the faster reporting of claims rather than a substantive increase in clinical negligence itself.

2.102 The government also held a number of other provisions totalling £36.9 billion (2011-12 restated: £29.8 billion), which included provisions for taxes subject to challenge, in relation to legal cases, matters relating to medical costs and government schemes such as the Financial Assistance Scheme. This also included a provision for the oil and gas field decommissioning of £3.8 billion which was shown as a £20 billion contingent liability in 2011-12. Further details are set out in note 25.

Contingent liabilities

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

2.104 Total quantifiable contingent liabilities were £87.9 billion (2011-12 £100.8 billion), a decrease of £12.9 billion. This reduction was largely because of the removal of the contingent liability for the loss of tax revenues from oil and gas fields that are currently being decommissioned (2011-12 £20 billion). This has been offset by an increase of £2.8 billion of contingent liabilities relating to export credit guarantees, reflecting an improved export market for UK produced goods.

2.105 The majority of the government's quantifiable and remote contingent liabilities remained as a consequence of the guarantees and indemnities provided as part of the financial stability interventions. As detailed in the Treasury's 2012-13 accounts, they included:

- an agreement to provide contingent capital to the Royal Bank of Scotland (£8.0 billion (2011-12: £8.0 billion));
- an agreement to provide capital to meet regulatory requirements of Northern Rock (Asset Management) Plc (£1.6 billion (2011-12: £1.6 billion));
- guarantees and indemnities in relation to Northern Rock Plc and Bradford & Bingley Plc; and
- non-quantifiable contingent liabilities arising from the financial interventions, including indemnities to the directors of Northern Rock Plc, Northern Rock (Asset Management) Plc, Bradford & Bingley Plc, and related companies such as United Kingdom Asset Resolution Plc, a guarantee to the Financial Services Authority that the Treasury will ensure that Bradford & Bingley Plc will meet their regulatory capital requirements, and compensation schemes established in relation to Northern Rock Plc, Bradford & Bingley Plc and Dunfermline Building Society.

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

Future capital and financial commitments

2.107 The government made capital commitments for future capital expenditure of £37.7 billion (2011-12: £37.7 billion, 2010-11: £44 billion). These were made primarily in relation to defence, transport and health assets.

2.108 The government also had a financial commitment for future payments of £49.3 billion (restated 2011-12 £61.8 billion, 2010-11: £65.8 billion,) as a result of other non-cancellable contracts entered into by a range of central and local government bodies. The decrease reflected a drop in transport commitments for future payments (£4.7 billion from £8.8 billion in 2011-12) and in future education grants by the Higher Education Funding Council for England (£6.3 billion from £7.5 billion in 2011-12).

Segmental analysis

2.109 The tables below show the net amounts reported for each sector after the consolidation adjustments to eliminate transactions and balances between WGA entities have been taken into account. For example, taxation revenue only shows the tax due from households and the private and not-for profit sectors.

2.110 Further information on segmental reporting can be found in note 2 to these accounts.

Table 2.8 Net contribution by sector 2012-13

	Central Government £ bn	Local Government £ bn	Public Corporations £ bn	Whole of Government £ bn
Taxation revenue	(468.4)	(55.9)	(0.1)	(524.4)
Other revenue	(42.6)	(37.8)	(15.9)	(96.3)
Total operating revenues	**(511.0)**	**(93.7)**	**(16.0)**	**(620.7)**
Social security benefits	186.5	27.9	0.6	215
Staff costs	108.5	65.3	9.5	183.3
Pension past service costs	0.2	0.1	-	0.3
Other expenses	219.2	87.4	12.1	318.7
Net expenditure/(revenue) before financing costs	**3.4**	**87**	**6.2**	**96.6**
Net financing cost	69.6	9.8	-	79.4
Net loss on revaluations and disposals of assets and liabilities	2.4	0.4	(0.1)	2.7
Net expenditure/(revenue) for the year	**69.9**	**102.7**	**6.1**	**178.7**
Property, plant and equipment	388.9	297.2	61.0	747.1
Other non-current assets	212.3	17.8	4.5	234.6
Current assets	219.9	37.6	24.6	282.1
Total assets	**821.1**	**352.6**	**90.1**	**1,263.8**
Current government borrowing and financing	(214.3)	0.0	-	(214.3)
Other current liabilities	(117.2)	(24.2)	(377.1)	(518.5)
Non-current government borrowing and financing	(781.9)	-	-	(781.9)
Net pension liability	(934.7)	(235.4)	(1.5)	(1,171.6)
Other non-current liabilities	(162.7)	(38.3)	(6.1)	(207.1)
Total liabilities	**(2,210.8)**	**(297.9)**	**(384.7)**	**(2,893.4)**
Net assets/(liabilities)	**(1,389.7)**	**54.7**	**(294.6)**	**(1,629.6)**

Table 2.9 Net contribution by sector 2011-12

	Central Government £ bn	Local Government £ bn	Public Corporations £ bn	Whole of Government £ bn
Taxation revenue	(465.5)	(54.9)	(3.3)	(523.7)
Other revenue	(40.9)	(36.5)	(15.5)	(92.9)
Total operating revenues	**(506.4)**	**(91.4)**	**(18.8)**	**(616.6)**
Social security benefits	179.6	29.5	0.6	209.7
Staff costs	106.8	68.2	8.2	183.2
Pension past service costs	0.2	0.8	0.0	1.0
Other expenses	222.9	88.0	10.3	321.2
Net expenditure/(revenue) before financing costs	**3.1**	**95.1**	**0.3**	**98.5**
Net financing cost	78.7	9.4	0.0	88.1
Net loss on revaluations and disposals of assets and liabilities	(1.7)	0.5	(0.1)	(1.3)
Net expenditure/(revenue) for the year	**80.1**	**105.0**	**0.2**	**185.3**
Property, plant and equipment	388.0	300.4	56.1	744.5
Other non-current assets	203.4	17.2	8.9	229.5
Current assets	235.6	34.6	26.4	296.6
Total assets	**827.0**	**352.2**	**91.4**	**1,270.6**
Current government borrowing and financing	(224.2)	0.0	0.0	(224.2)
Other current liabilities	(131.4)	(27.9)	(299.1)	(458.4)
Non-current government borrowing and financing	(741.3)	0.0	0.0	(741.3)
Net pension liability	(799.4)	(202.9)	(3.5)	(1,005.8)
Other non-current liabilities	(145.6)	(35.8)	(6.4)	(187.8)
Total liabilities	**(2,041.9)**	**(266.6)**	**(309.0)**	**(2,617.5)**
Net assets/(liabilities)	**(1,214.9)**	**85.6**	**(217.6)**	**(1,346.9)**

Events since 31 March 2013

2.111 Since the accounts of the individual entities that form WGA were prepared, there have been a number of events that could have a bearing on the balance sheet position as at 31 March 2013. These events are shown in Note 38.

3 Comparison to National Accounts

Broader fiscal framework

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

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

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

Comparison to National Accounts

3.3 WGA is a complement to, rather than a substitute for, the financial information the government and other independent bodies already publish, such as the statistics published by the ONS, which follow the internationally-agreed National Accounts framework.

3.4 The National Accounts must adhere to international standards, specifically the European System of Accounts, to ensure international comparability. These standards are updated periodically to reflect economic or technological developments and changes in user needs. In September 2014 the UK will be required to publish the National Accounts aggregates consistent with the European System of Accounts 2010 (ESA10). This framework replaces the European System of Accounts 1995 (ESA95). The 2013-14 WGA will include a reconciliation on an ESA10 basis.

3.5 In contrast, WGA is prepared using International Financial Reporting Standards (IFRS) adapted and/or interpreted for the public sector.

3.6 Both accounting frameworks have core similarities. They are both prepared on an accruals basis (recognition of economic events regardless of when cash transactions occur) and they each prepare a statement of financial position, income and expenditure analysis and details of other changes; although with presentational variances. There are, however, some differences in how the accruals' concept is applied at a detailed level. For example, with regards to some taxes and student loans. The ONS article *Comparison between Public Sector Finance measures from the National Accounts and Whole of Government Accounts (June 2011)* explains the main conceptual differences between the National Accounts and WGA.

3.7 The National Accounts are updated on a monthly basis to strict timescales, whereas WGA is an annual exercise produced after the year end of the financial period.

3.8 A number of other differences exist between WGA and the National Accounts framework. This is partly due to the independence of each framework and differing international standards, resulting in differing treatments, and partly because they have evolved for different purposes.

3.9 The National Accounts remain the measure used to assess the economic and fiscal position of the UK for policy purposes. In the National Accounts, any transaction must balance out across the economy's sectors or across different economies; for example, where there is an asset there is a corresponding liability within the framework. This makes it useful for economic analysis and in policy creation.

3.10 IFRS does not necessarily require an asset in one entity's account to be mirrored by an equal and opposite liability in another entity's account. WGA is prepared using a common global language for business as well as presenting the figures in a format familiar to the commercial sector. WGA provides an accounting standards-based presentation offering new insights into long-term sustainability and is useful to a wide range of users in making economic decisions.

3.11 In regards to consolidation methodology, the National Accounts take a broad view and eliminate internal transactions at an aggregate level; for example, using the total reported from central government sources for central to local government grants. WGA methodology differs in that consolidation occurs at a more detailed entity level, allowing for more closely aligned matching of transactions.

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

Reconciliations between WGA and National Accounts

3.13 Two of the key fiscal aggregates based on the National Accounts are the public sector net debt and the current deficit (surplus on current budget). These are used as the basis for the government's fiscal mandate and supplementary target for debt. The nearest equivalents in WGA are net liabilities and net expenditure for the year. It is worth noting that the measures of public sector net debt and the current deficit used in setting fiscal policy "exclude" the public sector owned banks and the Bank of England's Asset Purchase Facility Fund Limited. That is these entities are treated as being outside the public sector. It is also worth noting that the ONS have announced that the basis of these aggregates will change in September 2014 and the Bank of England's Asset Purchase Facility Fund Limited will no longer be excluded. The reconciliation of these aggregates to WGA and the key differences between the 2012-13 WGA and the National Accounts[3] measures are further explained below.

Public Sector Net Debt

	2012-13 £bn	2011-12 (restated) £bn	2010-11 £bn
Net liabilities (WGA)	**1,630**	**1,347**	**1,186**
Net public service pensions liability	(1,172)	(1,006)	(961)
Provisions	(131)	(113)	(108)
PFI contracts	(32)	(31)	(27)
Unamortised premium or discount on gilts	(31)	(23)	(15)
Property, plant and equipment	747	745	710
Investment property	13	13	13
Intangible assets	34	35	34
UK Asset Resolution (UKAR) net impact on net debt	74	83	94
Trade and other payables	(48)	(50)	(51)
Accruals and deferred income	(39)	(41)	(37)
Net taxation and duties due	3	3	5
Inventories	12	11	12
Trade and other receivables	35	35	40
Prepayments and accrued income	77	81	77
Investments	23	17	17
Other	(10)	-	16
Public sector net debt (National Accounts)	**1,185**	**1,106**	**1,005**

[3] ONS Statistical Bulletin, Public Sector Finances, April 2014

3.14 Public sector net debt is an aggregate that includes most financial liabilities (except for payables) and liquid financial assets. The public sector financial liabilities largely consist of government bonds (known as gilts), Treasury bills and National Savings liabilities. Liquid assets mainly comprise foreign exchange reserves and bank deposits. The exclusion of non-financial liabilities and the netting off of only liquid assets results in a narrow definition of net debt but, makes for a more useful control total and fiscal aggregate for government.

3.15 Public sector net debt does not take account of other illiquid financial and other assets within working capital such as receivables and payables. Under the Maastricht treaty these are not considered to be debt instruments and public sector net debt only recognises financial instruments under the treaty. In contrast, the WGA net liability balance is a fully accrued statement of financial position, including all payables, receivables, fixed assets and all financial assets. Public sector net debt also does not take account of other non-financial assets.

3.16 The areas that account for the largest divergence between public sector net debt and WGA net liabilities are explained below.

Differences in relation to pensions

3.17 In general, WGA recognises a wider range of liabilities than the National Accounts. The most material difference between WGA and the National Accounts relate to the public sector pensions paid by the government as an employer.

3.18 WGA is prepared on an accruals basis in accordance with international accounting standards; it takes into account all future pension liabilities from the service already provided by past and current public servants. Therefore, WGA net liabilities include the net public service pension liability for public sector pension schemes. In contrast, the National Accounts recognise only the cash payments and receipts associated with these pensions. The public service pension liability is not included in public sector net debt as it is a contingent liability.

3.19 This does not impact on the state pension, which is treated the same in WGA and the National Accounts.

Differences in relation to provisions

3.20 The WGA measures of net liabilities include provisions. These take account of liabilities that will be met in the future arising from events that have occurred in the past that create a legal or constructive obligation that can be measured reliably. The National Accounts measure of public sector net debt does not record the creation of or movements in provisions. As such, provisions are treated as contingent liabilities (due to uncertainty around timing and amount), as they are not cash-based, and only crystallise when payments occur.

Differences in relation to PFI

3.21 PFI contracts involve private sector bodies providing public sector infrastructure and/or services. Judgements must be made about which entity (public or private) accounts for the associated assets and finance lease liabilities. WGA takes into account PFI contracts that are not classified to the public sector in the National Accounts. The National Accounts recognition of PFI contracts is determined by judgements on the balance of risks and rewards arising from the contract, whereas the WGA recognition of a PFI contract is determined by judgments on the balance of control of the contract in accordance with IFRS. If the application of IFRIC 12 indicates that the private sector does not control the infrastructure, on certain tests, then the implication is the public sector does. As a result, the value of PFI contracts held on WGA's statement of financial position is larger than in the National Accounts.

3.22 Within WGA, PFI contracts are included within liabilities and their associated assets are counted in property, plant and equipment. Non-current and current PFI finance lease contracts are excluded from public sector net debt where the judgement is that the balance of risks and rewards is with the private sector. The judgements are approximately aligned with the principles under UK GAAP (Generally Accepted Accounting Principles) meaning that more PFI contracts are classified to the private sector in the National Accounts. If these PFI schemes were classified to the public sector in the National Accounts, the value of these contracts would increase public sector net debt.

3.23 The inclusion of the PFI contracts, classified to the public sector under IFRIC12, on WGA's statement of financial position gives a clear indication of future liabilities under these PFI contracts and the leveraging of private sector investment.

Differences in relation to assets

3.24 Another key difference is in relation to non-current assets, such as: property; plant and equipment; intangible fixed assets; payables and receivables; investments; and other illiquid financial assets. These are included in WGA's measures of net liabilities in accordance with IFRS, but are not included in the National Accounts based measures of public sector net debt, which measures only financial liabilities and liquid assets. Trade receivables and trade payables are also not included within public sector net debt, as these are principally cash-based measures.

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

Differences in relation to UK Asset Resolution

3.26 UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) Plc and Bradford & Bingley plc. WGA's assets include shares in UKAR at net asset value. Public sector net debt includes UKAR's own debts to the private sector and exclude their non-liquid financial and other assets.

Other differences – net debt

3.27 There are a number of other differences between the National Accounts' measures and WGA. The most significant of these relate to the treatment of unamortised premium or discount on gilts. Public sector net debt includes gilts based on their historical cost, whereas WGA follows the accounting standard that requires discounts and premiums to be amortised. The unamortised premium or discount on gilts in WGA of £31 billion (2011-12: £23 billion) has increased. The movement is a function of increased gilt issuance in recent years and also due to reduced market interest rates.

Public Sector Current Budget Deficit

	2012-13	2011-12 (restated)	2010-11
	£bn	£bn	£bn
Net expenditure (WGA)	**179**	**185**	**94**
Public service pensions	(49)	(52)	79
Depreciation and amortisation charges	(5)	(4)	(7)
Impairment and revaluations of assets	(21)	(35)	(53)
Capital grants	(12)	(15)	(18)
Provisions	(16)	(6)	(6)
Net gains/losses on sale of assets	(3)	(0)	(4)
Military expenditure not capitalised	6	6	5
UK Asset Resolution (UKAR) net impact on current deficit	-	(1)	(1)
Other	6	11	12
Current deficit (National Accounts)[4]	**85**	**89**	**101**

3.28 The public sector current budget deficit (surplus on current budget) is the measure which forms the basis of the government's fiscal mandate. The current deficit is the difference in the financial year between accrued current revenue and expenditure as defined in the National Accounts.

[4] ONS Statistical Bulletin, Public Sector Finances, April 2014

3.29 The difference between the National Accounts and WGA measures of net deficit/expenditure is primarily due to the differing treatments of pensions, movements on provisions impairment charges, and capital grants. The material conceptual differences are considered below.

Differences in relation to pensions and provisions

3.30 As discussed above, future liabilities for public service pensions and provisions are not accounted for in the National Accounts. The same rationale applies to the differences between WGA net expenditure and the current deficit in relation to: interest on pension liabilities of £59 billion (2011-12: £64.8 billion) which is included in WGA but not in the National Accounts; expected return on pension scheme assets of £11.2 billion (2011-12: £13.8 billion); and service charges of £1.0 billion (2011-12: £1.5 billion).

3.31 For unfunded pensions, the surplus on current budget includes only the cash payments and receipts associated with pensions, but do not take account of movements in future pension liabilities. WGA is prepared on an accruals basis and recognises an estimate of the liability associated with accrued pension rights. In line with IAS19, interest on all liabilities and (returns on assets for funded schemes) are charged in the year they occurred, thus net interest is recognised in WGA but not in the National Accounts.

3.32 Similarly, the National Accounts do not recognise the in-year movement of provisions of £29.0 billion (2011-12: £17.4 billion) as current expenditure but related expenditure (i.e. provisions' expenditure crystallising in 2012-13) of £12.7 billion (2011-12: £11.7 billion) in the same period is included in the National Accounts.

Impairments and depreciation

3.33 Impairments are accounting transactions to expense the amount by which the carrying value of an asset exceeds its recoverable amount. There are conceptual differences between the National Accounts' treatment and WGA as only impairments caused by normal obsolescence and normal accidental damage are included in the National Accounts' measures of depreciation. However, as mentioned in paragraph 3.25, these are calculated from a statistical model rather than on an accounting basis. The WGA measure of expenditure includes depreciation and impairments resulting from an annual review of asset values and consequently includes all impairments, no matter what their cause.

Differences in relation to capital-related spend

3.34 WGA treats capital grants as current expenditure, as the investment does not create assets directly for public sector bodies. However, the National Accounts treat such grants as capital expenditure as they do finance the creation of an asset in the wider economy and therefore are not part of the current deficit.

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

3.36 National Accounts' rules require that purchases of military weapons and the equipment needed to deliver them are scored at the point of purchase and treated as a current expense contributing to the current deficit. WGA treat this equipment as a non-current asset, depreciated over its useful life. This will change in September 2014 as part of the updating of the National Accounts framework to an ESA10 basis.

4 Statement of Accounting Officer's responsibilities

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

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

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

4.2 The account is prepared on an accruals basis and in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2012-13 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of government's finances.

4.3 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM, and in particular to:

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

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

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

4.5 The responsibilities of an Accounting Officer are set out in Managing Public Money[5] published by HM Treasury and include the need for efficiency, economy, effectiveness, and prudence in the administration of public resources to deliver value for money.

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

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

5 Governance Statement

Scope of Accounting Officer's responsibility

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

5.2 The WGA governance framework is designed to minimise the risks to the process of preparing and publishing the consolidated account. The accounts of individual entities consolidated within WGA are subject to their own governance frameworks.

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

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

5.5 In producing WGA, I must rely on the accounting officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process. The major risks identified from the underlying accounts are set out in paragraphs 5.16 to 5.18 below. The key risks in the preparation of the Whole of Government accounts include:

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

5.6 To manage the key risks to the WGA consolidation and preparation process, HM Treasury maintains a risk register to assist in identifying and implementing mitigating actions. HM Treasury also maintains a control and validation framework to define the controls over the preparation of the accounts and to monitor the effectiveness and completeness of the controls in place.

5.7 The WGA governance framework has been in place for the year ended 31 March 2013 and up to the date of approval of the account, and accords with HM Treasury guidance, including the Corporate Governance in Central Government: Code of Good Practice, to the extent that it is deemed relevant and practical.

The WGA governance framework

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

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

findings on the accounts to Parliament. More information about the respective responsibility of the auditor and preparer can be found in the Comptroller & Auditor General's audit certificate. The Comptroller & Auditor General and his staff have access to all HM Treasury papers and attend HM Treasury's Audit Committee and the WGA Advisory Group.

5.9 In November 2009, an assurance committee for WGA was set up. This committee provided exclusive focus on WGA, better supporting the initial issues relating to publishing the first set of accounts. Following the production of the second set of accounts, and in response to an internal audit report, in September 2012, the Treasury Audit Committee took on the responsibility for assurance of activities relating to WGA, embedding them into the Treasury's usual processes[6]. A WGA advisory group was retained from October 2012 to assist the future development of WGA, providing advice on key issues as they affect the presentation, quality and use of the account.

5.10 The advisory group has private and public sector members. For the 2012-13 Account, membership was as follows:

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

5.11 The WGA Advisory Group meets 3 times per year. It met on 21 May 2013, 2 October 2013 and 4 March 2014. The effectiveness of the Advisory Group is evaluated through an annual review of the terms of reference by the committee. The effectiveness of the audit committee is assessed in HM Treasury Annual Report and Accounts.

HM Treasury's role in managing financial risk

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

- The Managing Public Money framework – provides departments with guidance and sets out requirements on how to handle public funds properly.
- Spending Reviews – the process through which spending is allocated to areas of government activity including public services, social security, and administration costs, according to the government's priorities. Spending Reviews set firm and fixed spending budgets over several years for each department.
- The budget and estimates process for central government departments - the government uses the annual budgeting system to plan and control public expenditure. The Treasury presents estimates of budgetary plans to Parliament to obtain the statutory authority to consume resources and spend cash. The budgetary system has two main objectives:

[6] Membership of the Treasury Audit Committee is set out in its accounts, which can be found at https://www.gov.uk/government/publications/hm-treasury-annual-report-and-accounts-2012-to-2013.

1. To support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the government's fiscal framework; and
2. To provide good incentives for departments to manage spending well so as to provide high quality public services that offer value for money for the taxpayer.

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

Review of effectiveness

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

5.13 The NAO has examined the financial management of central government departments for many years. In its report *"Financial management in government*[7]*"*, published in 2013, it considered financial management to be improving. However, the NAO caution that further improvements in strategic financial management will be required if the delivery of public services with fewer resources is to be sustained over the longer term.

5.14 The Treasury actively supports improvements in financial management. The Finance Transformation Programme is well underway and continues to be an integral component of the Civil Service Reform Programme. Its focus is on improving the financial management capability of both the finance and non-finance communities. The organisational restructuring, carried out in 2012, has improved financial management capability within the Treasury by embedding professional finance staff alongside policy colleagues in spending teams. This ensures that WGA data is used to evaluate departmental plans to tackle long term issues, such as clinical negligence, and to inform policy decisions. In June 2013, the Treasury launched a review of how to strengthen financial management further within central government. The recommendations of the review, announced in December 2013 were as follows:

- Leadership of government finance:
  - Strengthen financial leadership within government by creating a new Director General for spending and finance, who will be responsible for leadership of the finance function and overall public spending;
  - Strengthen the management relationship between the director general for spending and finance and the Whitehall finance community via a "dotted line" arrangement to the 17 main departments' directors; and
  - Give greater prominence to the Finance Leadership Group.
- Management controls:
  - Make the investment to (i) better understand the costs of activities and (ii) ensure this understanding will be used to better inform decision-making;

[7] http://www.nao.org.uk/wp-content/uploads/2013/06/10097-001_Executive-summary1.pdf

- Define standards for costing and management information;
- Continue to develop skills across government; and
- Accelerate current initiatives required to support a common framework, including adopting the common chart of accounts.

- Spending controls:
  - Develop and apply, over the medium-term, a framework within which departments can take greater responsibility for some areas of expenditure that are currently controlled by the centre;
  - Set a long-term objective of consolidating controls and central government oversight within a single gateway in the Treasury;
  - Lead a shorter term project to improve the alignment of HM Treasury and Cabinet Office processes.
- Internal audit
  - Consolidate internal audit services over the medium-term providing a single, integrated internal audit service, which will be an independent agency of the Treasury;
  - Strengthen the role of the Head of Profession for Internal Audit, to become "the Head of Government Internal Audit", which will report to the Director General for Spending and Finance in the Treasury; and
  - Provide an internal audit service to government departments and to government as a whole.

5.15 Implementation of the review recommendations has commenced in 2014.

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

5.17 Those that are material to WGA are:

- The Ministry of Defence identified several significant internal control issues. Weaknesses regarding inventory and stock management and control that were previously identified by the NAO remain. During 2012-13 the department established an exercise to systematically review inventories, representing a commitment to address previous recommendations. Despite this, the process is not yet sufficiently robust to provide the necessary assurance over the valuation of capital spares and inventory, leading the Comptroller & Auditor General to disclose a limitation of scope in relation to weaknesses in inventory control.

  The accounts were also qualified due to material error arising from adopting policies in relation to accounting for lease-type arrangements which did not fully comply with International Financial Reporting Standards.

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

  The 2012-13 accounts of both departments received a qualified opinion on regularity in relation to these matters. HMRC estimated that in 2011-12 error and fraud resulted in overpayments of between £1.9 billion and £2.3 billion (2010-11: between £2.1 billion and £2.5 billion) and underpayments of between £0.2 billion and £0.4 billion (2010-11: between £0.2 billion and £0.3 billion)[8]. The data for 2012-13 is not yet available.

[8] Further information is set out in the 2011-12 and 2012-13 accounts of HMRC.

DWP estimated in 2012-13 that error and fraud resulted in overpayments of benefits of £3.5 billion (2011-12: £3.2 billion) and underpayments of benefits of £1.5 billion (2011-12: £1.3 billion).

- Without qualifying his opinion on the 2012-13 Department of Health accounts, the Comptroller & Auditor General disclosed an emphasis of matter relating to the uncertainties inherent in "the incidents incurred but not yet reported" claims provision for the clinical negligence scheme for NHS Trusts. Given the long-term nature of the liabilities and the number and nature of the assumptions on which the estimate is based, a considerable degree of uncertainty remains over the value of the liability reported by the NHS Litigation Authority. Significant changes to the liability could occur as a result of the subsequent information and events which are different from the current assumptions.
- The Department for Education included the financial results of academy schools for the first time within their 2012-13 consolidated accounts. Through the Education Funding Agency (EFA) the department provides funding to academy trusts for their activities and consolidates the data for 2,823 academies in their statement of accounts. The Comptroller & Auditor General qualified the accounts on both regularity and the preparation of its financial statements, due to misstatements and uncertainties in the academy data. In addition, the department recognised land and buildings of £25.1 billion in respect of academies, but was unable to demonstrate that these all met the recognition criteria for a non-current asset under IAS 16 *Property, Plant and Equipment*.
- Without qualifying his opinion on the 2012-13 Department of Business, Innovation and Skills Accounts, the Comptroller & Auditor General included an emphasis of matter relating to the uncertainty inherent in the valuation of student loans. This was due to the long term nature of the recovery of the loans, the number and volatility in the assumptions underpinning their valuation in the accounts.

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

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

5.19 In 2012-13, HM Treasury introduced a data collection pack as part of the migration to a new IT consolidation system to collect financial data from WGA entities and prepare the consolidated accounts. The new data collection arrangements support further analysis of expenditure, addressing some of the recommendations made the Comptroller & Auditor General.

5.20 Additional effort was invested in ensuring the data collection was not compromised by the introduction of the new system. A thorough migration exercise took place over the summer of 2013, with extensive data reconciliations to ensure the validity and accuracy of the data at both an entity and group level. Work continues in the following areas:

- Continued strengthening of data collection controls by improving data validation checks during the completion of data collection packs;
- improved analytical review processes to ensure the quality and robustness of balances;
- improved the feedback given to entities regarding counter-party mismatches; and

5.21 Further improvements will be made as experience of producing and using WGA grows. These will focus on improving the accuracy of the data collected at the local level and the control and validation framework. Plans are being developed to increase the speed of account production.

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

5.23 I am satisfied that effective remedial action is being taken to address the remaining control issues and that action taken so far is beginning to yield positive results. However, some improvements may take several years to implement fully. In part, this is because lessons are being learned after the accounts of the previous year have been completed. I have procedures in place to monitor the progress being made to tackle these weaknesses.

(c) Assurance in making this judgement

5.24 Whilst there are improvements that can be made, the governance framework ensures that we can accurately process the data that we receive. There are issues arising from the fact that we were unable to identify and eliminate all intra-group transactions and balances, although the steps already taken have results in a significant reduction in uneliminated balances in the production of the 2012-13 accounts. Work is continuing to further reduce the extent of this in future years.

Information and data handling

5.25 In preparing WGA, HM Treasury does not collect any personal data from WGA entities. WGA data collected from WGA entities are held on HM Treasury's Online System for Central Accounting and Reporting (OSCAR) database. Data is published on http://www.data.gov.uk as part of a scheduled release of OSCAR data.

Disclosure of information to auditors

5.26 As Accounting Officer, I confirm that there is no relevant audit information of which the National Audit Office is unaware. I have taken all the necessary steps to make myself aware of any relevant audit information and to establish that the National Audit Office is aware of that information.

Sharon White
Accounting Officer

4 June 2014

6 Remuneration report

6.1 A remuneration report is required to be prepared by individual companies and WGA entities in compliance with the Companies Act 2006 and the 2012-13 Government Financial Reporting Manual. The requirement for a similarly detailed remuneration report does not apply to the Whole of Government Accounts, as the inclusion of all the details of around 3,800 entities would result in an unwieldy and lengthy document that would detract from the overall accounts. This chapter summarises the remuneration arrangements of the main public sector workforces, sets out the government's policy on pay, and provides links to organisations where information on individual arrangements are available.

Civil service pay policy

6.2 Pay policy for civil servants below the Senior Civil Service is delegated to departments, within overall parameters set by HM Treasury. Each year, the Treasury publishes pay guidance which sets out these parameters[9], and it is then for departments to agree their individual settlement with the trade unions, within those parameters. These arrangements also cover many non-departmental public bodies where staff are not technically civil servants.

Pay review bodies

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

6.4 The pay review bodies are:

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

6.5 Pay, for those working in NHS Foundation Trusts and academies, is a matter for those organisations. However, in practice, the majority of these organisations choose to follow the Pay Review Body recommendation. Further information on the pay review body process is available on the website of the Office of Manpower Economics, the secretariat to the review bodies[10].

[9] https://www.gov.uk/government/publications/civil-service-pay-guidance-2013-to-2014
[10] www.ome.uk.com

The devolved administrations

6.6 Where civil servants work for the devolved administrations, pay is a matter for these administrations. Reports on pay related matters affecting the devolved bodies may be sent to the First Ministers of the Scottish Parliament and The National Assembly for Wales, and the Presiding Officer of the Northern Ireland Assembly. Where civil servants work in UK departments, but are based in the devolved countries, and in instances such as the armed forces, pay is a matter for the UK government.

Local government

6.7 Pay for local government workers is a matter for local government to determine. In practice, the pay and conditions for the vast majority of the local government workforce is set by the National Joint Council (NJC) for local government services. The NJC is a negotiating body comprising trade unions and employers. It sets a national pay scale, but it is for individual authorities to decide where to place employees on that scale or indeed whether to opt out completely. Separate NJCs negotiate pay for Fire and Rescue Service staff.

Police authorities

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

Health sector

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

Public sector remuneration

6.10 The Office for National Statistics (ONS) publishes statistical details of pay in the public sector[11]. These statistics are drawn from pay information provided independently by each entity in accordance with ONS requirements. Details of senior civil servants and senior officials in central government departments, agencies and non-departmental public bodies earning over £150,000 a year are available on the Cabinet Office website[12].

6.11 Details of local government pay in England and Wales are available from the Local Government Association, which publishes an annual Local Government Earnings Survey on its website[13]. An overview of English local government pay and workforce figures is published annually by the Department for Communities and Local Government in their report 'Local Government Financial Statistics England'

---

[11] http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2013-provisional-results/stb-ashe-statistical-bulletin-2013.html
[12] https://www.gov.uk/government/publications/senior-officials-high-earners-salaries; http://www.cabinetoffice.gov.uk/resource-library/non-departmental-public-bodies-high-earners-data-release
[13] www.local.gov.uk

available on its website[14]. Details of remuneration by local authority are available in their individual accounts and on www.data.gov.uk.

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

6.13 Median earnings across the public sector for the financial year 2012-13 for all employees are shown below. During 2012-13 most central government civil servants were subject to a pay freeze, however a small number of departments received an average pay award of one per cent.

	Median earnings 2012-13 £	Median earnings 2011-12 £
Central government civil service[15]	24,380	23,900
Local government[16]	19,126	19,086
Public sector[17]	24,147	23,508
Private sector[18]	21,113	20,617

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

FTE salary levels	Number of civil servants 2012-13	Number of civil servants 2011-12
Greater than £100,000	720	755
Greater than £150,000	84	97
Greater than £200,000	3	9

Source: Annual Civil Service Employment Survey

6.15 Within local government, 47,400 staff (5% of the workforce, on a FTE basis) earned over £42,000 per annum[19]. These numbers exclude teachers.

6.16 The 2012-13 WGA includes redundancy payments of £2 billion across the public sector workforce. Further details can be found in note 7.4 to these accounts.

[14] https://www.gov.uk/government/organisations/department-for-communities-and-local-government
[15] ONS Statistical Bulletin, Civil Service Statistics, 2013 (www.ons.gov.uk)
[16] Extract from table 3 of 'Earnings survey: Summary 2012-13' (http://www.lga.gov.uk)
[17] Table 13.7a from Annual Survey of Hours and Earnings 2013 Provisional, ONS (www.ons.gov.uk)
[18] Annual Survey of Hours and Earnings 2013 Provisional, ONS (www.ons.gov.uk)
[19] 'Local Government earnings survey: summary report 2012-13' (http://www.lga.gov.uk)

7 Whole of Government Accounts

Consolidated Statement of Revenue and Expenditure

For the year ended 31 March 2013

	Note	2012-13 £bn	2011-12 £bn
Taxation revenue from direct taxes	*3*	(289.1)	(291.4)
Taxation revenue from indirect taxes	*3*	(179.4)	(177.5)
Taxation revenue from local taxes	*3*	(55.9)	(54.8)
Revenue from sales of goods and services	*4*	(42.7)	(41.8)
Other revenue	*5*	(53.6)	(51.1)
Total revenue		**(620.7)**	**(616.6)**
Social security benefits	*6*	215.0	209.7
Staff costs	*7*	183.3	183.2
Pension past service costs and indexation adjustment	*7*	0.3	1.0
Purchase of goods and services	*8*	163.0	153.8
Cost of grants and subsidies	*9*	56.3	61.6
Depreciation and impairment charges	*10*	51.1	64.4
Provision expense	*25*	29.0	17.4
Other expenditure	*11*	19.3	24.0
Total expenditure		**717.3**	**715.1**
Net expenditure before financing costs		**96.6**	**98.5**
Investment revenue	*12*	(4.8)	(5.2)
Finance costs	*13*	36.3	42.3
Interest on pension scheme liabilities	*27*	59.0	64.8
Expected return on funding pension schemes' assets	*27*	(11.1)	(13.8)
Net financing costs		**79.4**	**88.1**
Revaluation of financial assets and liabilities		(0.6)	(1.6)
Net loss on disposal of assets		3.3	0.3
Net expenditure for the year		**178.7**	**185.3**

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Note	2012-13 £bn	2011-12 £bn
Net expenditure for the year	*SoRE*	**178.7**	**185.3**
Other comprehensive income			
Net gain on revaluation of property, plant and equipment	*SoCTE*	(7.1)	(19.8)
Net loss/(gain) on revaluation of available for sale financial assets	*SoCTE*	(5.6)	2.5
Actuarial gain/(loss) on pension liabilities	*SoCTE*	97.4	(1.4)
Net other comprehensive income		**84.7**	**(18.7)**
Total comprehensive expenditure/(income)		**263.4**	**166.6**

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

Consolidated Statement of Financial Position

As at 31 March 2013

	Note	2012-13 £bn	2011-12 Restated £bn
Non-current assets			
Property, plant and equipment	*14*	747.1	744.5
Investment property	*15*	12.5	12.6
Intangible assets	*16*	34.5	35.2
Trade and other receivables	*17*	15.6	15.9
Equity investment in the public sector banks	*18*	45.2	40.8
Other financial assets	*22*	126.8	125.0
Total non-current assets		**981.7**	**974.0**
Current assets			
Inventories	*20*	12.2	11.4
Trade and other receivables	*17*	121.7	126.0
Cash and cash equivalents	*21*	19.8	21.2
Gold holdings		10.5	10.4
Assets held for sale	*19*	1.6	2.1
Other financial assets	*22*	116.3	125.5
Total current assets		**282.1**	**296.6**
Total assets		**1,263.8**	**1,270.6**
Current liabilities			
Trade and other payables	*23*	(97.1)	(103.7)
Government borrowing and financing	*24*	(214.3)	(224.2)
Provisions for liabilities and charges	*25*	(12.5)	(13.6)
Other financial liabilities	*26*	(408.9)	(341.1)
Total current liabilities		**(732.8)**	**(682.6)**
Net current liabilities		**(450.7)**	**(386.0)**
Total assets less current liabilities		**531.0**	**588.0**

Non-current liabilities			
Trade and other payables	*23*	(54.8)	(55.2)
Government borrowing and financing	*24*	(781.9)	(741.3)
Provisions for liabilities and charges	*25*	(118.2)	(99.4)
Net public service pension liability	*27*	(1,171.6)	(1,005.8)
Other financial liabilities	*26*	(34.1)	(33.2)
Total non-current liabilities		**(2,160.6)**	**(1,934.9)**
Net liabilities		**(1,629.6)**	**(1,346.9)**
Financed by Taxpayers' Equity:			
Liabilities to be funded by future revenues			
General reserve	*SoCTE*	1,882.2	1,588.9
Revaluation reserve	*SoCTE*	(248.9)	(238.8)
Other reserves	*SoCTE*	(3.7)	(3.2)
Total liabilities to be funded by future revenues		**1,629.6**	**1,346.9**

The financial statements and supporting notes on pages 49 to 157 and annexes 1 to 4 were approved by Sharon White as the Accounting Officer for the Whole of Government Accounts on 4 June 2014.

Sharon White
Accounting Officer

4 June 2014

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2013

	Note	General reserve £bn	Revaluation reserve £bn	Other reserves £bn	Total £bn
Changes in taxpayers' equity					
At 1 April 2011		1,422.7	(231.4)	(5.6)	1,185.7
Net expenditure for the year ended 31 March 2012	*SoRE*	185.3	-	-	185.3
Net gain on revaluation of property, plant and equipment		-	(19.8)	-	(19.8)
Net loss on revaluation of available for sale financial assets		-	2.5	-	2.5
Actuarial gain on pension liabilities	*27.6*	(1.4)	-	-	(1.4)
Receipt of donated and government granted assets		0.1	-	-	0.1
Other movements on reserves		(9.6)	3.8	0.4	(5.4)
Transfers between reserves		(0.5)	5.5	(5.0)	-
Balance at 31 March 2012		**1,596.6**	**(239.4)**	**(10.2)**	**1,347.0**
Restatements		(7.7)	0.6	7.0	(0.1)
Balance at 1 April 2012 (restated)		**1,588.9**	**(238.8)**	**(3.2)**	**1,346.9**
Net expenditure for the year ended 31 March 2013	*SoRE*	178.7	-	-	178.7
Net gain on revaluation of property, plant and equipment		-	(7.1)	-	(7.1)
Net gain on revaluation of available for sale financial assets		-	(5.6)	-	(5.6)
Actuarial loss on pension liabilities	*27.6*	97.4	-	-	97.4
Receipt of donated and government granted assets		-	-	-	-
Other movements on reserves		19.2	-	0.1	19.3
Transfers between reserves		(2.0)	2.6	(0.6)	-
Balance at 31 March 2013		**1,882.2**	**(248.9)**	**(3.7)**	**1,629.6**

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

Consolidated Cash Flow Statement

For the year ended 31 March 2013

	Note	2012-13 £bn	2011-12 Restated £bn
Cash flows from operating activities			
Net expenditure before financing costs	*SoRE*	96.7	98.5
Adjusted for non-cash transactions		(74.6)	(81.8)
Adjusted for non-cash pension transactions		(20.7)	0.8
Decrease in trade and other receivables		(10.3)	(8.0)
Increase in inventories		0.8	0.3
Increase/(decrease) in trade and other payables		7.3	(2.3)
Use of provisions	*25*	12.7	12.0
Net cash outflow from operating activities		**11.9**	**19.5**
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		44.0	53.3
Proceeds from disposal of non-financial assets		(1.8)	(2.1)
Payments to acquire financial assets		49.8	74.9
Proceeds from disposal of financial assets		(43.0)	(49.8)
Net loans to students		8.7	7.3
Net cash outflow from capital expenditure and financial investment		**57.7**	**83.6**
Net cash outflow before financing activities		**69.6**	**103.1**
Cash flows from financing activities			
Investment revenue	*12*	(4.8)	(5.2)
Finance costs (excluding finance leases and PFI contracts)	*13*	33.2	39.0
Finance charges in respect of finance leases and PFI contracts	*13*	3.1	3.3
Increase in gilt edged stock	*24*	(30.6)	(57.3)
Decrease in other non-trade receivables		(1.3)	(1.3)
Other financial liabilities - net cash (inflows)/ outflows		(67.8)	(80.3)
Net cash inflow from financing activities		**(68.2)**	**(101.9)**
Net increase/ (decrease) in cash and cash equivalents	*21*	**(1.4)**	**(1.3)**
Cash and cash equivalents at the beginning of the period	*21*	**21.2**	**22.5**
Cash and cash equivalents at the end of the period	*21*	**19.8**	**21.2**

Notes to the Accounts

Note 1. Statement of accounting policies

1.1 Statement of compliance

These financial statements have been prepared by HM Treasury in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2012-13 Government Financial Reporting Manual *(FReM)*. The accounting policies contained in the FReM apply EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Chapter 14 of the 2012-13 FReM describes the specific adaptations and interpretations of the accounting standards for WGA. The main adaptations and interpretations of IFRS provided in the FReM are:

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

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

- certain non-departmental public bodies (NDPBs) and public corporations (PCs), whose accounts are prepared under UK GAAP; and
- entities that were set up as charities, whose accounts are prepared under the Charity Statement of Recommended Practice that follows UK GAAP.

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

1.2 Prior period restatements

Material adjustments applicable to prior periods arising from either changes in accounting policy, changes in the WGA boundary or from restatements in the underlying accounts from correcting, restating or reclassifying are accounted for as prior year adjustments. A restated 2011-12 Statement of Financial Position with details of material restatements is provided in Note 39.

1.3 Reporting entities

The consolidated financial statements, as defined in the GRAA, consolidate a group of entities that appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. This group includes central government departments, non-departmental public bodies, public corporations, local authorities, the National Health Service and the devolved administrations. The WGA boundary is defined by the ONS classification of the public sector rather than IFRS to ensure the accounts are consistent and comparable to other measures of financial performance, such as the National Accounts.

A list of all the entities within the WGA boundary and consolidated in this account, referred to collectively as "WGA entities", is shown in Annex 1. Some entities have not been included in WGA at this time largely for pragmatic and materiality reasons. All the banks classified to the public sector, except for the Bank of England (which has been fully consolidated), have been included as investments in these statements and have not been fully consolidated. A few entities that are not controlled by an executive arm of government are also not consolidated. Entities excluded from consolidation are listed in Annex 2. In addition, minor entities have not been included in WGA if they meet certain criteria. The minor entities that have been excluded and key financial numbers are listed in Annex 3. The critical judgements involved in establishing the WGA boundary are outlined in Note 1.22.1.

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

1.4 Basis of preparation

This account has been prepared under the historical cost convention, modified where appropriate to account for the revaluation of certain assets and liabilities as set out in these accounting policies.

The WGA reporting period for the financial statements is the financial year from 1 April to 31 March. Where necessary, the financial information for entities that have a financial year end other than 31 March has been adjusted for any transactions or events that occurred after their financial year end and are significant for the government's financial statements. Examples include the Bank of England (28 February) and Academies (31 August).

Activities are 'acquired' only if they come from outside the WGA boundary. Activities are 'discontinued' only if they cease entirely or move outside the WGA boundary, for example, if an entity is reclassified from the public sector to the private sector. Otherwise, transfers of functions between government bodies have no effect on the presentation of the financial statements.

1.5 Basis of consolidation

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

1.6 Going concern

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

1.7 Operational and presentational currency

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

1.8 Foreign currency

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

1.9 Use of estimations

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

Where accounting estimates and judgements significantly affect the amounts recognised in these consolidated financial statements, they are described in Note 1.22.

1.10 Disclosures

In line with the 2012-13 FReM requirement on segmental reporting, an additional analysis is set out by sectors (such as central government and local government) and not on the basis of products or services, geographical areas or major customers.

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

1.11 Revenue

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

1.11.1 Taxation revenue

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when a taxable event has occurred, the revenue can be measured reliably, and it is probable that the economic benefits from the taxable event will flow to government. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

Revenues are deemed to accrue evenly over the period for which they are due. Taxes and duties are accounted for on an accruals basis, except for stamp duty and National Insurance Classes 1A, 1B and 3. These are accounted for on a cash basis. All repayments are accounted for on an accruals basis with the exception of repayments of Capital Gains Tax, Inheritance tax, Petroleum Revenue Tax and Stamp Duty.

Taxable events for the material tax streams are as follows:

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

Income Tax, National Insurance contributions and Value Added Tax, other than input value added tax on goods and services, are shown after balances and transactions have been eliminated between consolidated entities and HM Revenue and Customs (HMRC).

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

The 'tax gap', defined as the difference between all the tax theoretically due in HMRC's view and the tax actually collected, is not recognised in these financial statements. The tax liability, therefore, includes all tax that is due under either the letter or the spirit of the law. Under this definition the tax gap revenue loss equates to the shortfall resulting from non-payment, fraud, error, and artificial avoidance schemes.

1.11.2 Operating revenue

Operating revenue is measured at the fair value of the consideration received or receivable. It is recognised in the period in which the goods or services were provided. EU income is recognised by WGA entities for funding they expect to receive from the EU in respect of expenditure incurred on EU supported projects.

1.11.3 Investment revenue

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

1.12 Expenditure

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

1.12.1 Social security benefits

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

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

The state pension is included within social security benefit expenditure.

1.12.2 Staff costs

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

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

1.12.3 Grants and subsidies

Grants and subsidies are recorded as expenditure during the period that the underlying event or activity giving entitlement to the grant occurs. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the

Statement of Revenue and Expenditure on the basis of estimates of claims not received and are included in accruals in the Statement of Financial Position.

1.12.4 Research and development

Expenditure on research and development is charged to the Statement of Revenue and Expenditure in the year in which it is incurred, unless it meets the criteria set out under IAS 38 '*Intangible Assets*', in which case it is capitalised.

1.12.5 Value Added Tax

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

1.12.6 Finance costs

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

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

1.13 Non-current assets

1.13.1 Property, plant and equipment

Property, plant and equipment, unless otherwise stated, are carried at cost on initial recognition and then at current cost or on a depreciated historical cost basis. Council dwellings are valued at the existing use value for social housing.

The threshold for capitalising non-current assets is set by each entity as appropriate to their circumstances and disclosed in the accounting policy note in their accounts. Central government departments typically have a capitalisation threshold of £5,000, other than the Ministry of Defence which has a capitalisation threshold of £25,000.

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

Land and buildings are professionally valued at regular intervals or when material changes are known to have arisen, and are subject to interim internal reviews.

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

1.13.2 Infrastructure assets

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

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

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

Strategic Road Network

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

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

Local authority infrastructure

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

Infrastructure assets include highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical cost basis for those assets, compared to the depreciated replacement cost basis used by all other government entities as set out above. Local authorities are working towards a valuation on a depreciated replacement cost basis for inclusion in the Whole of Government Accounts, following a decision by CIPFA to implement depreciated replaced cost in 2016/17.

Transport for London (TfL) infrastructure

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

Scottish Water infrastructure

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

1.13.3 Assets under construction

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

1.13.4 Military equipment

Military equipment comprises non-current assets used by the military for which there is no civilian use. It includes items such as tanks, fighter aircraft and warships. It is initially recognised as a tangible non-current asset at its direct purchase or production cost, and is then depreciated over its useful economic life. In all other respects it is treated in the same way as other non-current asset categories. Development expenditure on military equipment, which meets the capitalisation criteria set out in accounting policy note 1.13.1, is capitalised as an intangible asset.

1.13.5 Heritage assets

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

Operational heritage assets are heritage assets that are also used for other activities or to provide other services (the most common example being buildings). They are valued and depreciated in the same way as other assets of that general type.

Non-operational heritage assets are those that are held primarily in pursuit of an entity's overall objective to maintain them, such as works of art. Non-operational heritage assets acquired before 1 April 2000 (2001 for NDPBs) are generally not capitalised. All non-operational heritage assets acquired since 1 April 2001 have been capitalised and recognised in the Statement of Financial Position, at the cost or value of the acquisition, where such a cost or value is reasonably obtainable. Such items are not depreciated as they are considered to have no determinable useful life, nor are they revalued as a matter of routine. They are, however, subject to impairment reviews where damage or deterioration is reported.

1.13.6 Community assets

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

1.13.7 Donated assets

The category 'donated assets' covers two types of assets: those that have been donated and those for which the WGA entities have continuing and exclusive use but do not own legal title (and for which they have not given consideration in return). They are capitalised at their current valuation on receipt and are revalued, depreciated and subject to impairment review on the same basis as purchased assets. They are included in 'furniture, fittings and other' in the property, plant and equipment note (Note 14).

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

1.13.8 Capital grants and contributions

Grants and similar financing for capital items, to the extent that they have not been eliminated on consolidation, are recognised immediately in the Statement of Revenue and Expenditure unless it is likely that the grant will need to be repaid.

1.13.9 Investment properties

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

1.13.10 Intangible assets

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

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

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

1.13.11 Assets held for sale

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

1.13.12 Depreciation and amortisation charged

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

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

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

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

Asset group	Depreciation period
Buildings	up to 60 years or estimated useful economic life
Dwellings	in line with local authorities' Major Repairs Allowance value
Military equipment	varies according to estimated useful economic life
Plant and machinery	5-25 years
Transport equipment	3-10 years
IT hardware, software and equipment	3-10 years
Furniture and fittings	5-15 years

1.13.13 Infrastructure assets depreciation

Strategic Road Network

Network infrastructure assets and definable components with determinable finite lives are depreciated at rates calculated to write-off the assets over their expected useful lives on a straight-line basis over 20 to 120 years. Freehold land, the sub-pavement layer of long-life pavements, and earthworks are considered to have an indefinite life and are not depreciated. Road surfaces are subject to an annual condition survey and any movement in the condition is taken to the Statement of Revenue Expenditure as a depreciation charge or improvement credit.

Local Authority infrastructure

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

Transport for London (TfL) infrastructure

Assets are depreciated on a straight-line basis over their estimated useful lives, which are reviewed regularly. The major categories fall in the following ranges:

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

Scottish Water infrastructure

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

1.14 Current assets

1.14.1 Inventories

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

1.14.2 Cash and cash equivalents

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

1.14.3 Gold holdings

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

1.15 Trade and other receivables

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

1.16 Leases

Operating leases

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

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

Where a WGA entity is the lessee under an operating lease, rentals payable, net of benefits received or receivable (e.g. cash incentives for a lessee to sign a lease), are charged to revenue on a straight-line basis over the term of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the benefits received.

Finance leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessee are classified as finance leases in accordance with IAS 17 '*Leases*'. Where the risks and rewards of ownership of a leased asset are substantially borne by a WGA entity, the asset is recognised on the Statement of Financial Position at the discounted present value of the total rentals payable during the primary period of the lease. The corresponding leasing commitments are shown as obligations to the lessor. The capitalised values are amortised over the period in which the WGA entity expects to receive benefits from their use.

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

Leasehold improvements are capitalised and the cost amortised over the unexpired period of the lease of the estimated useful life of the improvements, whichever is shorter.

1.17 Private Finance Initiative (PFI) transactions

Under a Private Finance Initiative (PFI) transaction or service concession, a WGA entity contracts with a private sector entity to develop, finance, operate and maintain fixed assets. Under such arrangements, where the WGA entity controls or regulates those services and controls any significant residual interest in the infrastructure they are included in the Statement of Financial Position.

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

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

1.18 Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of a provision is discounted to the present value of the expenditures expected to be required to settle the obligation. Changes were made to the methodology used for determining the discount rate applied to general provisions at 31 March 2013. The short and medium-term discount rates were applied in 2012-13 but the new methodology will not apply to the long-term rate until the next Spending Review period. The new discount rates apply to expenditure within ten years and are based upon the real yield of UK index-linked gilts; discounting of expenditure beyond ten years remains unchanged.

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

1.19 Pension costs and public service pension liability

The pension liability relates to public service pension liabilities for employees and former employees of the public sector, with a small component for other approved organisations that qualify for membership of these government schemes. The government operates two types of pension schemes, unfunded which tend to be defined benefit pension schemes and funded which tend to be defined contribution schemes. In respect of defined contribution schemes, the government recognises the contributions payable for the year.

State retirement pensions are paid to the general public. As they are not employee benefits for public sector staff, they are not included in the public service pension liability. State pensions are contributory benefits paid in accordance with government policy and are expensed as incurred (Note 6). Future state pension benefits are not recognised as a liability as the obligation for government arises in the year of payment.

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

Liability for payment of future benefits is a charge on the schemes. Scheme liabilities are measured on an actuarial basis using the projected unit method – i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees. Liabilities are discounted to their value at current prices using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes use a real discount rate, while local government schemes use the rates determined by independent actuaries.

The government recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis.

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

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

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

1.20 Financial instruments

1.20.1 Financial assets

Depending on the purpose for which a financial asset is held or acquired it is classified into one of the following four categories:

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

b) Held-to-maturity investments;

c) Loans and receivables; and

d) Available-for-sale assets.

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

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

b) Held-to-maturity investments

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

c) Loans and receivables

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

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

d) Available-for-sale assets

These are non-derivative financial assets classified as 'available-for-sale' or not classified in any of the other three categories of financial assets. After initial recognition, these financial assets are carried at fair value. Gains and losses are recognised in reserves except for impairment losses. Impairment losses are recognised in the Statement of Revenue and Expenditure. On de-recognition, the cumulative gain or loss previously recognised in reserves is recognised in the Statement of Revenue and Expenditure.

Accounting treatment

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

Financial asset type	Accounting treatment
Trade and other receivables	Accounted for as loans and receivables with book value used as a proxy for amortised cost.
Student loans	Accounted for as loans and receivables at amortised cost, reflecting impairments.
Loans and deposits with banks	Accounted for as loans and receivables at amortised cost, or as held to maturity investments at amortised cost. Deposits with banks are held at amortised costs, designated at fair value or held for trading at fair value.
Equity investments	Typically accounted for at fair value through profit and loss.
Equity investments in non-public entities where there is no observable market	Accounted for as available for sale assets. Fair value is estimated as the net asset value per the published accounts of the investee entities.
Equity investments in the public sector banks	Accounted for as available for sale assets at fair value.
Debt securities	Accounted for at fair value through profit and loss as they are held for trading.
Holding of IMF Special Drawing Rights	Accounted for at fair value through profit and loss as they are held for trading.
IMF quota subscription	Accounted for as loans and receivables at amortised cost.

1.20.2 Financial liabilities

Financial liabilities are classified into the following categories:

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

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

Financial liability type	Accounting treatment
Government financing and borrowing, comprising gilts, Treasury bills and National Savings & Investment products	Accounted for at amortised cost.
Trade and other payables	Accounted for at amortised cost.
Deposits by banks, comprising sale and repurchase agreements	Accounted for at amortised cost, designated at fair value and held for trading at fair value.
IMF Special Drawing Rights allocation	Accounted for at fair value.
Financial guarantees	Accounted for at fair value on recognition and subsequently at the higher of amount initially recognised less cumulative amortisation or the best estimate of the probable expenditure required to settle financial obligations at the reporting period end.

1.20.3 Fair value

Accounting standard IFRS 13, as applied by the FReM, defines three classifications of fair value measurement, using a fair value hierarchy. The hierarchy reflects the significance of the inputs used in making fair value measurement of financial instruments:

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

1.20.4 Impairments

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

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Revenue and Expenditure, and the carrying amount of the asset is reduced directly or through an allowance for impairment of receivables. If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the initial impairment, the loss is reversed through the Statement of Revenue and Expenditure to the extent that the impaired carrying amount would not exceed the original amortised cost.

For financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Revenue and Expenditure – is removed from reserves and recognised in the Statement of Revenue and Expenditure. Impairment losses recognised in the Statement of Revenue and Expenditure on equity instruments are not reversed until the asset is derecognised.

1.20.5 Student loans

Student loans are held at amortised cost and accounted for in accordance with IAS 39 '*Financial Instruments: Recognition and Measurement*'. They are recognised when loans are issued to students. For a maintenance loan, no obligations fall due at the Statement of Financial Position date, but for a tuition fee loan, an asset is recognised when there is an obligation to pay the tuition fee on behalf of the student. The asset is amortised and impaired in the same way as if it were an addition to the student loan book, with a charge to expenditure to reflect the cost to the government of issuing the loans.

Student loan repayments are collected by the Student Loans Company (SLC) and HM Revenue and Customs (HMRC). Repayments made via the SLC are recognised when it has received the cash and updated the borrower record. Repayments collected via the tax system are recognised based on HMRC estimates of what will fall due to the department for the financial year.

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

1.20.6 IMF Special Drawing Rights

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

The UK's allocation of SDRs by the IMF in proportion to the UK's quota subscription is recognised as a financial liability to the IMF, and the resulting holding of SDRs is recognised as a financial asset. In accordance with IAS 39, the SDR allocation and holdings are classified as "held for trading" financial assets and liabilities, and are measured at fair value with gains and losses being taken through the Statement of Revenue and Expenditure.

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

1.20.7 Financial guarantees

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

Market participants typically value such contracts based on the reduction in risk to the lender provided by the guarantee, as reflected by improved credit terms, typically the reduction in interest payable by the borrower. Where the contract specifies the fee payable to an entity, and there is reasonable evidence that the fee was calculated on this basis, the guarantee is valued at the net present value of the fee.

The maximum liability under financial guarantees, which also represents the maximum credit risk, is disclosed along with other contingent liabilities for which the risk of crystallisation is remote.

1.20.8 Derivatives

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

1.20.9 Hedging

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

At the time a financial instrument is designated as a hedge, the relationship between the hedging instruments and the hedged items is formally documented, including a description of the risk management objectives, strategy in undertaking the hedge transaction, and methods that will be used to assess the effectiveness of the hedging relationship. Formal assessments are made at the inception of the hedge, and on an ongoing basis, as to whether the hedging derivatives are 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

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

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

1.21 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised as liabilities or assets in the Statement of Financial Position, but are disclosed in the notes to the accounts.

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

Central government departments are required to report to Parliament contingent liabilities (including financial guarantees) for which the risk of crystallisation is remote. These are disclosed in Note 33. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' since the likelihood of a transfer of economic benefit in settlement is too remote. As they do not fall within the scope of IAS 37, they are measured following the requirements of IAS 39 '*Financial Instruments: Recognition and Measurement*' for financial instruments. Financial liabilities are measured initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability. This is different from the measurement requirements of IAS 37 as it does not take account of the best estimate of the expenditure required to settle the obligation as set out in IAS 37. The technique used to determine the best estimate will vary depending on the nature of the contingent liability, and the level of uncertainty surrounding the amount to be recognised. Consequently, the best estimate under IAS 37 might represent a percentage of the fair value of a contingent liability, or some measure other than fair value representing the expenditure required to settle the obligation.

1.22 Critical accounting estimates and judgements

1.22.1 WGA boundary

The Government Resources and Accounts Act (GRAA) requires HM Treasury to prepare WGA for "a group of bodies each of which appears to HM Treasury— (a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money". When complying with the GRAA, HM Treasury makes a judgement as to whether to consolidate an entity, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics (ONS). The ONS independently assesses the classification of entities using ESA 95, which is the European standard of classification, derived from the worldwide definitions held in the System of National Accounts. ESA 95 considers the nature of the activity performed by the entity, its funding and its relationship to government. Aligning the boundary of WGA with the public sector, as defined for the national accounts, is an important principle in driving the usefulness of WGA. The scope of WGA is similar to that included to produce other fiscal measures. This enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances.

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

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

- Northern Rock (Asset Management) plc and Bradford & Bingley plc will be consolidated into WGA from 2013-14, as they will be a permanent part of government until their mortgage books have expired.
- RBS and Lloyds, the remaining banks, will continue to be held as available-for-sale financial assets and liabilities. These entities are not consolidated in WGA because their scale would dwarf other aspects of WGA, distorting the accounts and making it difficult to determine trends. Furthermore, there is no intention for the government to retain the assets and liabilities of these banks in the long term and, in due course, they will return to the private sector. The government acted on this intention in September 2013 when it sold 6% of shares in Lloyds, raising £3.2 billion, in the first of a multi-staged programme of share sales. In November 2013, the government published its review into the case for creating a taxpayer-funded external RBS bad bank against the government's three objectives for its shareholding in RBS, the first of which was accelerating the return of RBS to the private sector. The review recommended creating an internal bad bank and RBS announced comprehensive measures to implement that and meet the government's objectives. Finally, it would also be costly to carry out the consolidation (mostly due to differing year-ends), which is poor value for money for the taxpayer, given the expected temporary nature of their ownership.

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

1.22.2 Consolidation judgements: elimination threshold of £1 million

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

1.22.3 Consolidation judgements: revenue from sale of 3G and 4G licences

In 2000, the government sold five licences by auction for the use of the electromagnetic spectrum for 3G mobile phone services. The auction raised £22.5 billion and all successful bidders paid for their licences up front in return for access to the spectrum for a period of 20 years. In 2012-13 the government sold five further licences for fourth generation mobile phone services (4G), raising an additional £2.4 billion. In accordance with the requirements of IAS 18 '*Revenue*', the revenue for both licence sales was recognised in full at the time of cash receipt. This is because there are no additional ongoing performance obligations on the government under the terms of the contracts. As IAS 18 requires the recognition of revenue so as to match the pattern in which obligations are satisfied, it would be inappropriate to defer the revenue.

1.22.4 Estimating taxation revenue

The estimates of taxation revenue are calculated using statistical models based on a combination of projections derived from the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what is believed to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not indicative of deficiencies in the models. The maximum overall uncertainty is expected to be around £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1% of the £524.4 billion tax revenue reported in the Statement of Revenue and Expenditure.

1.22.5 Key assumptions in determining the pension liability

The pension liability of £1,172 billion (2011-12 (restated): £1,006 billion) is measured on an actuarial basis using the projected unit method – i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates and employee turnover rates, and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes typically use a real discount rate of 2.4% (2011-12: 2.8%), based on yields of high quality corporate bonds, determined by managers of the individual pension fund considering advice from the Government Actuary. Local government schemes use a nominal rate determined by independent actuaries, typically varying between 3.9% and 5.1%. Unlike in central government pension schemes, the assumptions used for the local government, police, and firefighters pension schemes vary for each fund. The discount rate is based on the administering authority's judgement as to the rate required under accounting standards. Other key assumptions that determine pension liability includes salary inflation, pension growth and general inflation. These are set on the advice of each schemes actuary and represent the actuary's best estimates of the specific future conditions each scheme will face.

	Central Government[1]		Local Government[2]	
	2012-13	2011-12	2012-13	2011-12
	%	%	%	%
Rate of increase in salaries[3]	4.0	4.3	1.0 – 5.2	1.0 - 5.1
Rate of increase of pensions in payment[4]	-	-	1.0 – 4.5	2.2 - 5.8
Discount rate – real	2.4	2.8	-	-
Discount rate - nominal	-	-	3.9 – 5.1	4.5 - 5.5
Inflation assumption	1.7	2.0	1.0 – 5.1	2.3 - 3.6

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

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The assumption that has the biggest impact on the liability is the discount rate, net of price inflation. The discount rate is the actuary's best estimate. The inflation assumption reflects the long-term assumption for the Consumer Prices Index (CPI) used in HM Treasury forecasting. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

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

1.22.6 Provision for nuclear decommissioning

The financial statements include a provision for the government's obligations in respect of nuclear liabilities of £69.8 billion (2011-12 (restated): £63.8 billion), to cover the costs associated with the nuclear decommissioning of sites of radioactive plant and facilities. The majority of this provision is recognised by the Nuclear Decommissioning Authority (NDA).

NDA's provision for nuclear decommissioning represents the best estimate of the costs of delivering its objective of decommissioning the plant and equipment on designated nuclear licensed sites and returning them to pre-agreed end states in accordance with the agency's published strategy. This programme of work will take until 2137. The estimates are necessarily based on assumptions of the processes and methods likely to be used to discharge the obligations, reflecting a combination of the latest technical knowledge available, the requirements of the existing regulatory regime, government policy and commercial agreements. Given the very long timescale involved, and the complexity of the plants and material being handled, considerable uncertainty remains in the cost estimate particularly in the later years (although this is in part mitigated by the impact of discounting for the purposes of provision calculation). As part of the preparation of the financial statements, the principal assumptions and sensitivities around the cost estimates were updated and reviewed by the NDA executive and estimates were updated to reflect changed circumstances and more recent knowledge. However, it is recognised that there remains a significant degree of inherent uncertainty in the future cost estimates. This uncertainty has led the Comptroller & Auditor General to include an Emphasis of Matter statement in his audit opinion on the Nuclear Decommissioning Authority's 2012-13 accounts. Further details of the possible range of outcomes around a central best estimate of provision are available in NDA's 2012-13 accounts[20].

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

1.22.7 Impairment losses on loans to financial institutions

The government has made loans and advances of £46.6 billion (2011-12: £51.0 billion) to financial institutions, which may result in impairment losses. The accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.20.1. The allowance for impairment losses on loans and receivables from public sector banks is based on an estimate of losses incurred at the reporting date.

All loans are individually assessed for impairment. HM Treasury considers whether objective evidence indicates that one or more events, occurring after the loan or advance was made, have an effect on estimated future cash flows. This objective evidence includes estimates from administrators on the level and timings of repayments (for example, reports from the administrators of Heritable Bank, Icesave, Kaupthing Singer & Friedlander, London Scottish Bank and Dunfermline) and business plans provided by banks under public ownership (Northern Rock (Asset Management) Plc, Bradford & Bingley Plc).

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 50% to 100%.

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

1.22.8 Impairment losses on equity investments in public sector banks

As at 31 March 2013, equity investments in public sector banks totalled £45.2 billion (2011-12: £40.8 billion). This is net of impairment losses charged to the Statement of Revenue and Expenditure of £46 million (2011-12: £14.4 billion). In determining whether an impairment loss has been incurred in respect of these investments, an assessment is made as to whether there has been a significant or sustained decline in its fair value below its original cost price. The result of performing the assessment on individual tranches of shares is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

1.22.9 Student loans

The government has made loans to students which are valued on the Statement of Financial Position at £36.0 billion (2011-12: £33.1 billion).

Student loans are held at amortised cost. This involves the gross value of the loans issued being discounted to net present value using the effective interest rate. For student loans, this is RPI plus the government's long term cost of borrowing, 2.2%. The value of student loans issued is also reduced by the estimated cost of further policy write offs. This reflects the fact that not all of the loans issued will be recoverable due to death, disability or the age of the student. The government considers that the carrying value is a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm's length transactions.

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

During 2012-13, impairments totalling £2.5 billion were made to the carrying value of student loans. These impairments were based on forecasts of future cash flows and the value of loans expected to be written off for policy reasons. As most loans issued are income contingent, the expected future cash flows are modelled by estimating future earnings and applying the loan terms, which include write off on death, disability or after at least 25 year depending of the type of loan. The estimates of future earnings factor in demographic and behavioural characteristics of borrowers and forecasts of macroeconomic conditions. The key macroeconomic factors are earnings growth, RPI inflation and Bank of England base interest rates.

The assumptions and forecasts are formally reviewed each year and the amounts provided reflect the government's current estimate as at 31 March 2013. The key assumptions and modelling used to calculate the student loan balance are detailed in the 2012-13 accounts of the Department for Business, Innovation and Skills.

1.23 Accounting standards passed but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2012, that came into effect on 1 April 2012 or earlier. A number of new accounting standards, amendments to standards and interpretations are not yet effective for most of the public sector for the year ended 31 March 2013. They have not been applied in preparing these financial statements. The following are the significant standards and amendments that may need to be adopted in future WGAs:

- IFRS 9 '*Financial Instruments'* (effective from 1 January 2015) has not been adopted by the EU but will be applicable if it is adopted at a later date. IFRS 9 is being introduced to replace IAS 39 '*Financial Instruments: Recognition and Measurement*'. The available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9. All equity investments within the scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income. In the event that IFRS 9 is adopted by the EU, it will have an impact on these financial statements in future.
- IFRS 10 '*Consolidated Financial Statements'* and IFRS 12 '*Disclosure of Interests in Other Entities'* (both effective from 1 January 2014) have been adopted by the EU and will be applied with adaptation in the 2014-15 WGA. These standards have been adapted in the 2014-15 FReM in order to maintain a consolidation boundary based on control criteria used by the ONS.
- IFRS 13 '*Fair Value Measurement*' (effective from 1 January 2013) has been adopted by the EU. IFRS 13 defines fair value and provides guidance on fair value measurement techniques and disclosure requirements. The FRAB agreed not to adopt this statement into the FReM until 2015-16 so that the public sector context can be fully considered. Once adopted in the FReM IFRS 13 will affect the valuation and disclosure of property, plant and equipment in the WGA.
- IAS 1 *'Presentation of financial statements'* is effective from 1 July 2012. This amendment requires items of other comprehensive income to be grouped on the basis of whether they might at some stage be reclassified to profit. The will be effective from 2013-14 and will affect the presentation of the Statement of Revenue and Expenditure.
- IAS 19 '*Post employment benefits'* (effective 1 January 2013) has been adopted by the EU and will apply to the 2013-14 WGA. It introduces a number of changes on recognition, presentation and disclosure, and modifies accounting for termination benefits.

Note 2. Segmental reporting

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

Central government

The central government sector comprises:

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

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

Local government

The local government sector comprises:

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

Non-financial public corporations

Entities are included in this sector where:

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

Financial public corporations

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

Consolidation adjustments

In performing the consolidation, transactions and balances between WGA entities have been removed. This means, for example, Income Tax only shows the tax due from households and the private and not-for-profit sectors and does not include National Insurance contributions made by public sector employers. The largest consolidation adjustments relate to grants payable from central government to local government, and to the purchase and sales of goods and services between WGA entities. Removing these transactions result in consolidated adjustments to income and expenditure, and to assets and liabilities.

Segmental reporting analysis 2012-13

	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2012-13 £bn
Taxation revenue	(560.3)	(55.9)	(0.7)	-	92.5	(524.4)
Other revenue	(128.9)	(166.3)	(19.0)	(0.5)	218.4	(96.3)
Total operating revenues	**(689.2)**	**(222.2)**	**(19.7)**	**(0.5)**	**310.9**	**(620.7)**
Social security benefits	190.0	27.9	0.6	-	(3.5)	215.0
Staff costs	125.6	71.7	10.1	0.1	(24.2)	183.3
Pension past service costs	0.2	0.1	0.0	-	-	0.3
Other expenses	560.0	95.5	12.1	0.2	(349.1)	318.7
Net expenditure/(revenue) before financing costs	**186.6**	**(27.0)**	**3.1**	**(0.2)**	**(65.9)**	**96.6**
Net financing cost	66.5	12.7	0.2	0.0	0.0	79.4
Net loss on revaluations and disposals of assets and liabilities	2.4	0.4	(0.2)	0.1	0.0	2.7
Net expenditure/(revenue) for the year	**255.5**	**(13.9)**	**3.1**	**(0.1)**	**(65.9)**	**178.7**
						-
Property, plant and equipment	388.9	297.2	60.8	0.2	(0.0)	747.1
Other non-current assets	460.8	19.2	3.5	1.0	(249.9)	234.6
Current assets	299.5	46.1	11.4	444.4	(519.3)	282.1
Total assets	**1,149.2**	**362.5**	**75.7**	**445.6**	**(769.2)**	**1,263.8**
Current government borrowing and financing	(214.3)	-	-	-	-	(214.3)
Other current liabilities	(309.2)	(33.0)	(7.8)	(799.8)	631.3	(518.5)
Non-current government borrowing and financing	(781.9)	-	-	-	0.0	(781.9)
Net pension liability	(934.6)	(235.4)	(1.8)	0.3	(0.1)	(1,171.6)
Other non-current liabilities	(230.3)	(101.9)	(8.5)	(2.7)	136.3	(207.1)
Total liabilities	**(2,470.3)**	**(370.3)**	**(18.1)**	**(802.2)**	**767.5**	**(2,893.4)**
Net assets/(liabilities)	**(1,321.1)**	**(7.8)**	**57.6**	**(356.6)**	**(1.7)**	**(1,629.6)**

Segmental reporting analysis 2011-12 restated

	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2011-12 £bn
Taxation revenue	(557.7)	(54.9)	(3.3)	-	92.2	(523.7)
Other revenue	(143.4)	(179.1)	(20.0)	(0.2)	249.8	(92.9)
Total operating revenues	**(701.1)**	**(234.0)**	**(23.3)**	**(0.2)**	**342.0**	**(616.6)**
Social security benefits	183.6	29.5	0.6	-	(4.0)	209.7
Staff costs	122.9	74.9	8.8	0.1	(23.5)	183.2
Pension past service costs	0.2	0.8	0.0	-	-	1.0
Other expenses	579.4	109.4	10.7	0.2	(378.5)	321.2
Net expenditure/(revenue) before financing costs	**185.0**	**(19.4)**	**(3.2)**	**0.1**	**(64.0)**	**98.5**
Net financing cost	71.5	13.7	0.6	2.2	0.1	88.1
Other income	(1.7)	7.2	(0.2)	0.1	(6.7)	(1.3)
Net expenditure/(revenue) for the year	**254.8**	**1.5**	**(2.8)**	**2.4**	**(70.6)**	**185.3**
						-
Property, plant and equipment	388.0	300.4	55.9	0.2	-	744.5
Other non-current assets	436.0	18.2	3.3	5.6	(233.6)	229.5
Current assets	342.0	43.0	9.1	354.1	(451.6)	296.6
Total assets	**1,166.0**	**361.6**	**68.3**	**359.9**	**(685.2)**	**1,270.6**
Current government borrowing and financing	(224.2)	-	-	-	-	(224.2)
Other current liabilities	(304.7)	(36.1)	(8.3)	(343.2)	233.9	(458.4)
Non-current government borrowing and financing	(741.5)	-	-	-	0.2	(741.3)
Net pension liability	(799.4)	(202.9)	(3.8)	0.3	-	(1,005.8)
Other non-current liabilities	(211.3)	(98.5)	(8.5)	(290.5)	421.0	(187.8)
Total liabilities	**(2,281.1)**	**(337.5)**	**(20.6)**	**(633.4)**	**655.1**	**(2,617.5)**
Net assets/(liabilities) restated	**(1,115.1)**	**24.1**	**47.7**	**(273.5)**	**(30.1)**	**(1,346.9)**

Note 3. Taxation revenue

	2012-13 £bn	2011-12 £bn
Income Tax	150.9	151.8
Social security and National Health Service contributions	90.7	90.9
Corporation Tax	38.9	40.0
Capital Gains Tax	3.9	4.4
Inheritance Tax	3.1	2.8
Bank Levy	1.6	1.5
Taxation revenue from direct taxes	**289.1**	**291.4**
Value Added Tax	99.1	97.8
Hydrocarbon Oils Duty	26.5	26.9
Excise duties	26.6	26.7
Stamp duties	9.5	8.7
TV licence fee income	3.1	3.2
Lottery income	2.0	1.8
Other indirect taxes	12.6	12.4
Taxation revenue from indirect taxes	**179.4**	**177.5**
Council Tax	30.4	30.4
National Non-Domestic Rates	25.5	24.4
Taxation revenue from local taxes	**55.9**	**54.8**
Total taxation revenue	**524.4**	**523.7**

The above figures are shown net of transactions between WGA entities. The majority of taxes on direct and indirect taxes were collected by HM Revenue and Customs. Further information is available in its 2012-13 accounts which can be found on its website[21]. Other indirect taxes are collected by the Driver and Vehicle Licensing Agency (DVLA), the BBC and lottery bodies. Local taxes were collected by local authorities and details are available in their accounts.

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

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

Other indirect taxes included Petroleum Revenue Tax of £1.8 billion (2011-12: £2.0 billion), as well as betting and gaming duties, Air Passenger Duty, Insurance Premium Tax, Landfill Tax, Climate Change Levy, Aggregates Levy, and regulatory fees.

The majority of tax revenues were estimated by HM Revenue and Customs using a statistical based model as outlined in the accounting policy notes 1.11.1 and 1.22.4. As described in Note 1.22.4, HM Revenue and Customs consider that the overall uncertainty is expected to be some £4 billion in either direction, equivalent to less than one per cent of the total revenue reported in the Statement of Revenue and Expenditure. Further information is set out in the 2012-13 accounts of HM Revenue and Customs.

[21] www.hmrc.gov.uk

Note 4. Revenue from sales of goods and services

	2012-13 £bn	2010-11 £bn
Local government	22.5	22.1
Public corporations	14.8	14.7
Central government	5.4	5.0
Revenue from sales of goods and services	**42.7**	**41.8**

The £22.5 billion (2011-12: £22.1 billion) of revenue received by local authorities arose from fees in respect of services delivered to the public such as social care, planning and development, cultural and leisure provision and environmental services. The most significant single item of revenue was from Transport for London (£3.8 billion (2011-12: £3.5 billion)), mainly relating to fare (£3.5 billion) and advertising income.

Significant revenue streams earned by public corporations from the sale of goods and services included revenue from postal services received by Royal Mail (£9.9 billion (2011-12: £9.4 billion)), revenues earned by the broadcasting public corporations, primarily from advertising and sales of goods and commercial rights (£1.8 billion (2011-12: £1.4 billion)), and £1.1 billion (2011-12: £1.1 billion) received by Scottish Water for the supply of waste and water services.

Significant revenue earned by central government entities from the sale of goods and services included £0.9 billion (2011-12: £1.1 billion) received by the Nuclear Decommissioning Authority in relation to waste management and electricity generation contracts. Central government revenue also includes £1.6 billion (2011-12: £1.4 billion) of revenue earned by entities within the National Health Service.

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

Note 5. Other revenue

	2012-13 £bn	2011-12 £bn
Fees, levies and charges	8.0	9.4
Rental revenue from local government housing	7.9	7.5
EU income	4.7	5.0
Pension scheme employee contribution income	6.5	5.4
Pension scheme employer contribution income	2.0	2.3
Private sector contributions to local services	2.7	2.9
Licence income	2.7	0.2
Charitable income	4.2	3.6
Miscellaneous operating revenue	14.9	14.8
Other revenue	**53.6**	**51.1**

Fees and charges usually reflected the full cost of services being provided. Levies related to licences for operating and using public goods, and are charged by statutory regulators or to support industry specific research foundations. Levies were usually set to recover associated costs, such as costs of supervision by a regulator. Fees and charges have reduced by £0.8 billion as a result of the Credit Guarantee scheme ending during the year.

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

Charitable income largely related to private donations to academies.

Licence income includes 4G auction fee income of £2.4 billion recognised in this period consistent with the accounting policy outlined in section 1.22.3.

Pension scheme employer and employee contribution income was the contribution income recognised in the underlying accounts of pension schemes, predominantly the NHS Pension Scheme, Teachers' Pension Scheme, and the Principal Civil Service Pension Scheme. The majority of employer contribution income was eliminated against the employer contribution expense, as most employer entities in these schemes are entities within WGA. The pre-eliminated balance was £15.0 billion (2011-12: £15.3 billion). The remaining balance related to employers that participate in these schemes, but were outside the WGA boundary. Examples included GPs and charity hospices that contributed to the NHS pension scheme; higher and further education institutions, and independent teaching establishments that contributed to the Teachers' Pension Scheme; and non-WGA entities such as the NAO, Welsh Audit Office, Electoral Commission, Pension Protection Fund, and some minor entities that contributed to the Principal Civil Service Pension Scheme.

Miscellaneous operating income included various types of income across a wide range of public sector entities. The largest components included £1.6 billion (2011-12: £1.3 billion) recognised by the Department for Transport from train operating companies in relation to franchise agreements, and £0.4 billion (2011-12: £0.4 billion) income for issuing coinage and the surplus revenue from the Crown Estate. The remaining income was spread across a number of smaller entities with no other material contributor.

Miscellaneous operating income also included income received by entities within the National Health Service for education, training, research and development. Further details can be found in the 2012-13 Department of Health accounts[22].

Note 6. Social security benefits

	2012-13 £bn	2011-12 £bn
State retirement pension	83.8	78.1
Local government housing and other benefits	28.5	30.0
Tax credits	30.8	30.5
Disability Living Allowance	15.5	14.6
Child Benefit	12.2	12.2
Jobseeker's Allowance	12.1	8.7
State pension credit	7.9	8.4
Income Support	5.7	7.4
Attendance Allowance	5.4	5.3
Incapacity Benefit	3.5	5.2
Carer's Allowance	2.0	1.8
Other benefits	7.6	7.5
Total cost of benefits	**215.0**	**209.7**

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

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

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

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

The majority of social security benefits are paid by the Department for Work and Pensions. In Northern Ireland, these payments, together with the payment of housing benefit, are the responsibility of the Department for Social Development. The 2012-13 accounts of both these departments received qualified regularity opinions from their external auditor in respect of error and fraud in benefit payments. For 2012-13, the Department for Work and Pensions estimated that fraud and error within state pension expenditure resulted in overpayments of £0.1 billion and underpayments of £0.2 billion. For other benefits, the department estimated that fraud and error resulted in overpayments of £3.4 billion and underpayments of £1.3 billion. Similarly, the Department for Social Development estimated that in respect to non-state pension related benefits, fraud and error resulted in total overpayments of £0.1 billion. Further information is available in the 2012-13 accounts of each department, which are available on their respective websites[23].

Tax credits and child benefits are administered by HM Revenue and Customs. Tax credits include adjustments to Income Tax as well as direct benefit payments. The Comptroller & Auditor General qualified his regularity opinion on the 2012-13 HM Revenue and Customs accounts in respect of error and fraud in tax credits, as the Department had no estimate of the total levels of potential fraud in 2012-13 at that time. Subsequently, it estimated that in 2011-12 error and fraud resulted in overpayments to which the claimants were not entitled of between £1.9 billion and £2.3 billion (2010-11: between £2.1 billion and £2.5 billion) and underpayments of between £0.2 billion and £0.4 billion (2010-11: between £0.2 billion and £0.3 billion). Figures for 2012-13 will be published in June 2014. Further information is set out in the 2011-12 and 2012-13 accounts of HM Revenue and Customs, which are available on their website.

Note 7. Staff costs and numbers

Note 7.1 Staff costs

Staff costs comprise:

	Permanently employed staff	Others	2012-13 £bn	2011-12 £bn
Salaries and wages	138.9	8.7	147.6	147.7
Social security costs	10.9	0.1	11.0	10.7
Staff pension costs	13.9	-	13.9	14.0
Pension scheme costs: current service costs	35.1	-	35.1	34.6
Pension scheme costs: losses on settlements and curtailments	(0.2)	-	(0.2)	(0.3)
Total staff costs (pre-eliminations)	**198.6**	**8.8**	**207.4**	**206.7**
Less intra-government balances	(24.0)	(0.1)	(24.1)	(23.5)
Total consolidated staff costs	**174.6**	**8.7**	**183.3**	**183.2**

This note has been prepared to show the full cost of the public sector workforce before items internal to the public sector, which are disclosed as intra-government balances are removed. Intra-government balances included National Insurance contributions which would otherwise form part of tax revenue of £11.0 billion (2011-12: £10.6 billion) (see Note 3) and employers' pension contributions of £13.0 billion (2011-12: £12.9 billion) (see Note 5).

'Others' included the cost of ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers and special advisers was £5.1 million (2011-12: £5.4 million) and £9.3 million (2011-12: £8.2 million) respectively in 2012-13. The ministerial salary only includes the additional element on top of the basic salary of a member of parliament.

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

'Staff pension costs' consisted mainly of employer contributions to pension schemes. 'Pension scheme costs' included public sector pension scheme expenses such as current service cost, enhancements, gains/losses on settlements and curtailments and expenses for the transfer in of new members. These are detailed in Note 27. Past service costs are provided below.

Note 7.2 Pension past service costs and indexation adjustment

	Permanently employed staff	Others	2012-13 £bn	2011-12 £bn
Past service costs including pension indexation adjustment	0.3		0.3	1.0

'Past service costs' reflected increases in the present value of the scheme liabilities related to past employee service resulting from the introduction, change, or improvement to retirement benefits in the current year.

Note 7.3 Average number of persons employed

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

	Permanently employed staff	Others	2012-13 Total	2011-12 Total
Central government (including Health)	2,320,156	138,877	2,459,033[1]	2,421,154[2]
Local government	1,851,031	70,116	1,921,147	2,040,846
Non-financial public corporations	220,035	13,071	233,106	255,186
Financial public corporations	2,173	-	2,173	1,955
Total	**4,393,395**	**222,064**	**4,615,459**	**4,719,141**

1. 2,207,725 excluding staff working in academies.
2. 2,252,659 excluding staff working in academies

Average staff numbers included staff engaged on capital projects.

The central government total included 1,293,478 (2011-12: 1,304,099) FTE staff working in the health sector and 251,308 staff working in academies, some of whom were previously included in local government staff numbers while others were previously in schools not included in local authority accounts.

'Others' included 116 ministers (2011-12: 116) and 127 (2011-12: 110) special advisers working in central government.

Note 7.4 Civil Service and other compensation schemes – exit packages

Exit package cost band 2012-13	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,854	3,963	6,817	0.1
£10,000 - £50,000	13,862	39,373	53,235	1.0
£50,000 - £100,000[1]	1,657	7,125	8,782	0.5
>£100,000	803	2,649	3,452	0.4
Total	**19,176**	**53,110**	**72,286**	**2.0**

Exit package cost band 2011-12	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	3,215	5,226	8,441	0.1
£10,000 - £50,000	22,680	59,162	81,842	1.2
£50,000 - £100,000[1]	2,097	12,364	14,461	0.9
>£100,000	735	2,755	3,490	0.5
Total	**28,727**	**79,507**	**108,234**	**2.7**

1. Local government packages of £40,000-60,000 are included in the band £50,000-100,000 as the local authority specific accounting requirements have different bands.

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

Note 8. Expenditure on purchases of goods and services

	2012-13 £bn	2011-12 £bn
Central government	89.0	84.7
Local government	67.2	63.1
Public corporations	6.8	6.0
Expenditure on purchases of goods and services	**163.0**	**153.8**

Central government included entities in the National Health Service, which spent £49.3 billion (2011-12: £46.0 billion) primarily for the purchase of clinical supplies, general medical services, personal medical services, alternative provider medical services and costs of prescriptions. Other entities across government purchased a wide range of goods and services. These amounts did not include expenditure paid to other WGA entities.

Note 9. Grants and subsidies

	2012-13 £bn	2011-12 £bn
Grants in relation to education including those paid by the Education Funding Agency, Skills Funding Agency and Higher Education Funding Councils	21.8	23.6
UK contribution to the Budget of the European Community	8.9	7.2
EU grants and subsidies to the private sector to spend on EU approved projects, mainly to support agriculture and reduce regional economic disparities	3.5	4.6
Department for International Development grants to developing countries for eliminating poverty	5.4	5.3
Department for Transport grants to the private sector, mainly for capital investment in railways	4.9	4.7
Department for Communities and Local Government arms length bodies funding to the private sector, mainly for capital investment in social housing	0.9	2.2
Other revenue grants and subsidies	7.8	10.8
Other grants for capital expenditure	3.1	3.2
Total cost of grants and subsidies	**56.3**	**61.6**

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

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

Note 10. Depreciation and impairment charges

Depreciation and impairment charges were made up as follows:

	2012-13 £bn	2011-12 £bn
Depreciation of property, plant and equipment	25.5	23.9
Impairments and revaluations of non financial assets	12.0	13.4
Impairments of financial assets	4.3	18.6
Impairments of receivables	5.6	4.8
Amortisation of intangible fixed assets	3.7	3.7
Total depreciation and impairment charges	**51.1**	**64.4**

Impairments and revaluations of non-financial assets were distributed across the public sector. It included impairments recognised by the Ministry of Defence of £1.2 billion (2011-12: £1.6 billion) and London Legacy Development Corporation impaired the Olympic assets downwards by £1.3 billion due to the asset valuation changing from a cost based to an income based approach as they are being prepared for their rental potential. Ministry of Defence assets were impaired for a variety of reasons, for example, loss, damage, unforeseen obsolescence, abandonment of assets under construction and those associated with disposals.

The Comptroller & Auditor General qualified his opinion on the Ministry of Defence's financial statements due to disagreement over the accounting treatment adopted in respect of an impairment to the department's German estate which will be returned to the German state following the drawdown of UK forces from Germany. The Ministry of Defence determined, after consultation with HM Treasury, that the correct treatment was to charge £0.9 billion of a total impairment of £1.5 billion to the revaluation reserve. The Comptroller & Auditor General disagreed and consequently qualified his opinion. HM Treasury considers the approach followed by the Ministry of Defence to be consistent with the Government Financial Reporting Manual on the basis that there was no actual loss of economic substance and accordingly the treatment in WGA is consistent with that adopted by the Ministry of Defence.

Impairments of receivables included £5.1 billion (2011-12: £4.2 billion) in relation to tax revenue losses, of which £2.0 billion (2011-12: £1.9 billion) related to VAT and £1.3 billion (2011-12: £1.5 billion) related to Income Tax. These losses are made up of remissions and write-offs and make up 1% of HMRC's accrued revenue of £475.6 billion for 2012-13. Remissions are debts capable of recovery but HMRC decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability, for example because of insolvencies which limited the ability to recover the tax due.

Impairments of financial assets included £2.5 billion (2011-12: £1.2 billion) relating to the Department for Business, Innovation and Skills' student loan book. These impairments include the expected subsidy on new loans issued in year and adjustments to the value of existing loans following impairment review. The major risk to student loan repayments arises when there is an economic downturn and a reduction in growth. Where earnings growth declines, the risk is that graduate repayments will be lower, resulting in longer repayment periods and higher write-off at the end of the loan terms. The value of loans is also affected by changing assumptions of inflation and interest rates where the interest charged is less than the long term cost of issuing the loans. The face value of loans was reduced by £1.5 billion (2011-12: £2.3 billion) to take account of the impact of inflation and interest rates. A lower Bank of England base rate and a rate of inflation that is comparatively high, results in the base rate cap on loans issued under the pre-2012 system coming in to operation. The interest rate subsidy occurs because students are charged interest equivalent to the lower of the rate of inflation and the Bank of England base rate plus 1%. As such, when the base rate cap is in operation, interest on loans is charged at a lower rate than inflation linked long term cost of issuing the loans.

Note 11. Other expenditure

Other expenditure totalled £19.3 billion (2011-12 (restated): £24.0 billion) and was spread across government with no individually significant items. The most significant elements are disclosed below:

	2012-13 £bn	2011-12 £bn
Research and development expenditure	3.2	2.7
Rentals under operating leases	2.1	2.2
Auditors' remuneration and expenses	0.1	0.1

Other expenditure comprised £14.7 billion (2011-12 (restated): £16.5 billion) paid by central government, £1.5 billion (2011-12: £5 billion) paid by local government, and £3.1 billion (2011-12: £2.5 billion) paid by public corporations.

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

Note 12. Investment revenue

	2012-13 £bn	2011-12 £bn
Interest revenue from student loans	1.0	1.9
Interest revenue from other sources	3.6	3.2
Dividend revenue	0.2	0.1
Total investment revenue	**4.8**	**5.2**

Interest revenue from student loans has decreased due to a change in the effective interest rate employed. This is now RPI plus 2.2% which is the government's long term cost of borrowing.

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

Note 13. Finance costs

	2012-13 £bn	2011-12 £bn
Interest costs in respect of government borrowing and financing	31.0	36.8
Finance charges in respect of finance leases & PFI contracts	3.1	3.3
Other finance costs	2.2	2.2
Total finance costs	**36.3**	**42.3**

Interest costs on government borrowing and financing comprised interest on gilts, National Savings and Investment products, bank deposits and Treasury Bills.

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

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

Note 14. Property, plant and equipment

Note 14.1 Net book value of property, plant and equipment at 31 March 2013 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2012-13 Total £bn
Cost or valuation:								
At 1 April 2012 (restated)	321.6	247.5	94.0	51.3	43.8	73.0	99.2	930.4
Additions	4.0	8.9	3.0	0.4	18.1	0.9	4.4	39.7
Revaluations and impairments	3.3	(6.2)	(1.9)	(1.2)	0.1	0.9	0.4	(4.6)
Reclassifications	-	3.7	(0.4)	(0.2)	(22.4)	3.9	2.8	(12.6)
Disposals	(0.4)	(1.2)	(0.6)	(0.8)	(0.3)	(4.4)	(4.1)	(11.8)
At 31 March 2013	**328.5**	**252.7**	**94.1**	**49.5**	**39.3**	**74.3**	**102.7**	**941.1**
Depreciation:								
At 1 April 2012 (restated)	(52.5)	(38.5)	(6.5)	-	-	(38.4)	(50.0)	(185.9)
Charged in year	(3.9)	(8.5)	(2.6)	-	-	(3.7)	(6.8)	(25.5)
Revaluations and impairments	-	2.2	1.2	-	-	(0.6)	(0.2)	2.6
Reclassifications	1.1	2.2	1.0	-	-	1.1	1.1	6.5
Disposals	0.3	1.1	0.1	-	-	3.0	3.8	8.3
Depreciation at 31 March 2013	**(55.0)**	**(41.5)**	**(6.8)**	**-**	**-**	**(38.6)**	**(52.1)**	**(194.0)**
Net Book Value at 31 March 2013	**273.5**	**211.2**	**87.3**	**49.5**	**39.3**	**35.7**	**50.6**	**747.1**

'Infrastructure assets' include highways infrastructure assets held by the Highways Agency of £108.9 billion (2011-12: £107.4 billion), and by local authorities of £56.3 billion (2011-12: £54.9 billion). Local authorities prepare their accounts on a historical cost basis for these assets, compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation on a depreciated replacement cost basis for inclusion in the WGA. The best proxy measure available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2012 National Accounts estimated the value of the road network at £275.3 billion (2011-12:£266 billion) as at 31 December 2012[24]. On this basis, infrastructure assets are likely to be understated because of this treatment by at least £218 billion.

[24] UK National Accounts, The Blue Book, 2013, Table 10.9 'Other Structures'

Infrastructure assets also include £3.3 billion of revaluations and impairments. These mainly comprise revaluations to the National Trunk Road Network for the Department for Transport (£2.0 billion), Scottish Government (£0.4 billion) and Welsh Assembly Government (£0.2 billion). Each financial year the Department for Transport applies an indexation factor to the valuation of the network infrastructure assets to reflect the impact of current prices. In addition, infrastructure assets include assets held by Scottish Water stated at net book value as reported in their individual accounts. Accordingly, the gross book values in these accounts include the net book value of these assets and depreciation is not separately disclosed.

'Dwellings' include impairments of £0.5 billion (2011-12: £1.2 billion) of local authorities' social housing impairments, and revaluation decreases of £0.2 billion (2011-12: £0.5 billion increase), resulting in a net movement of £0.7 billion.

'Buildings' includes revaluations and impairments of £6.2 billion. This figure is driven by a number of entities undertaking a quinquennial review of assets as required by the FReM. Of the £6.2 billion total, £1.1 billion relates to revaluations of school assets on conversion to academies, £0.7 billion relates to impairments within hospitals, £0.6 billion relates to the Department for Work and Pensions land and buildings portfolio and £0.4 billion relates to asset impairments within the Ministry of Defence following the announcement that the UK forces would withdraw from Germany by 2019.

Buildings also include additions of £8.9 billion during 2012-13. Of this amount, £1.9 billion is the net amount attributable to schools transferring to the Department for Education from outside the WGA boundary. A further £0.8 billion of additions is attributable to the Department of Health.

'Military equipment' includes net disposals of £1.4 billion (2011-12: £3.4 billion), which reflects asset write-offs within the Ministry of Defence.

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

'Reclassifications' include assets reclassified between assets under construction to other types of assets, transfers to and from intangible assets and transfers to and from operating expenditure or reserves. Of the £22.4 billion shown within the note, £8.0 billion relates to the Ministry of Defence. £5.0bn of this amount was transferred into Military Equipment, and £1.3 billion transferred to buildings. Other large reclassifications and transfers under assets under construction' include £3.2 billion relating to the Olympic Park site at Stratford (£1.2 billion of this was transferred to the London Legacy Development Corporation) and £1.3 billion relating to the completion of buildings within the Department of Health.

'Other' property, plant and equipment consists of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	2012-13 Total £bn
Cost or valuation:					
At 1 April 2012 (restated)	46.7	22.7	12.1	17.7	99.2
Additions	2.4	0.4	0.9	0.7	4.4
Revaluations and impairments	0.2	0.1	0.3	(0.1)	0.5
Reclassifications	0.8	0.9	0.3	0.7	2.7
Disposals	(2.6)	(0.5)	(0.6)	(0.4)	(4.1)
At 31 March 2013	**47.5**	**23.6**	**13.0**	**18.6**	**102.7**
Depreciation:					
At 1 April 2012 (restated)	(28.9)	(11.2)	(7.0)	(2.9)	(50.0)
Charged in year	(3.8)	(1.2)	(1.4)	(0.4)	(6.8)
Revaluations and impairments	-	(0.1)	(0.1)	-	(0.2)
Reclassifications	0.9	-	-	0.2	1.1
Disposals	2.1	0.9	0.6	0.2	3.8
Depreciation at 31 March 2013	**(29.7)**	**(11.6)**	**(7.9)**	**(2.9)**	**(52.1)**
Net Book Value at 31 March 2013	**17.8**	**12.0**	**5.1**	**15.7**	**50.6**

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

'Furniture and fittings and other' assets include heritage assets, community assets, cultivated assets, biological assets, and donated assets.

Note 14.2 Net book value of property, plant and equipment at 31 March 2012 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2011-12 Total £bn
Cost or valuation:								
At 1 April 2011 (restated)	300.9	240.3	91.4	45.0	41.6	72.1	95.1	886.4
Additions	4.4	15.1	2.9	2.8	19.6	0.6	4.7	50.1
Revaluations and impairments	12.7	(4.3)	(0.7)	0.8	0.1	1.0	0.7	10.3
Reclassifications	4.1	2.6	(0.5)	(0.4)	(17.1)	2.9	3.2	(5.2)
Disposals	(0.3)	(0.7)	(0.3)	(0.8)	(0.3)	(3.4)	(4.3)	(10.1)
At 31 March 2012	321.8	253.0	92.8	47.4	43.9	73.2	99.4	931.5
Restatements	(0.2)	(5.5)	1.2	3.9	(0.1)	(0.2)	(0.2)	(1.1)
At 31 March 2012 (Restated)	**321.6**	**247.5**	**94.0**	**51.3**	**43.8**	**73.0**	**99.2**	**930.4**
Depreciation:								
At 1 April 2011 (restated)	(46.8)	(35.8)	(5.8)	-	-	(36.4)	(47.6)	(172.4)
Charged in year	(3.6)	(7.7)	(1.9)	-	-	(4.0)	(6.7)	(23.9)
Revaluations and impairments	(2.3)	2.4	0.9	-	-	(0.6)	(0.3)	0.1
Reclassifications	(0.1)	0.2	1.0	-	-	0.3	0.6	2.0
Disposals	0.2	1.5	-	-	-	2.4	3.7	7.8
At 31 March 2012	**(52.6)**	**(39.4)**	**(5.8)**			**(38.3)**	**(50.3)**	**(186.4)**
Restatements	0.1	0.9	(0.7)			(0.1)	0.3	0.5
At 31 March 2012 (Restated)	**(52.5)**	**(38.5)**	**(6.5)**	**-**	**-**	**(38.4)**	**(50.0)**	**(185.9)**
At 31 March 2012 (Restated)	**269.1**	**209.0**	**87.5**	**51.3**	**43.8**	**34.6**	**49.2**	**744.5**

'Other' property, plant and equipment consist of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	2011-12 Total £bn
Cost or valuation:					
At 1 April 2011 (restated)	44.8	22.4	11.8	16.1	95.1
Additions	2.7	0.4	0.9	0.7	4.7
Revaluations and impairments	0.1	0.2	-	0.4	0.7
Reclassifications	0.8	0.8	0.6	1.0	3.2
Disposals	(1.6)	(1.2)	(1.0)	(0.5)	(4.3)
At 31 March 2012	46.8	22.6	12.3	17.7	99.4
Restatements	(0.1)	0.1	(0.2)		(0.2)
At 31 March 2012 (Restated)	**46.7**	**22.7**	**12.1**	**17.7**	**99.2**
Depreciation:					
At 1 April 2011 (restated)	(27.2)	(11.0)	(6.6)	(2.8)	(47.6)
Charged in year	(3.7)	(1.2)	(1.5)	(0.3)	(6.7)
Revaluations and impairments	(0.1)	(0.1)	(0.1)	-	(0.3)
Reclassifications	0.4	-	0.1	0.1	0.6
Disposals	1.3	1.2	1.0	0.2	3.7
At 31 March 2012	(29.3)	(11.1)	(7.1)	(2.8)	(50.3)
Restatements	0.4	(0.1)	0.1	(0.1)	0.3
At 31 March 2012 (Restated)	**(28.9)**	**(11.2)**	**(7.0)**	**(2.9)**	**(50.0)**
Net Book Value at 31 March 2012 (Restated)	**17.8**	**11.5**	**5.1**	**14.8**	**49.2**

Note 14.3 Asset financing 2012-13

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2012-13 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	266.9	183.0	82.5	46.2	39.1	35.7	46.1	699.5
Finance leased	-	3.4	3.5	2.0	-	-	1.4	10.3
On balance sheet PFI	6.6	24.6	1.3	1.3	0.1	-	3.1	37.0
PFI reversionary interest	-	0.2	-	-	0.1	-	-	0.3
Net book value	**273.5**	**211.2**	**87.3**	**49.5**	**39.3**	**35.7**	**50.6**	**747.1**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2012-13 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.7	11.2	3.5	15.7	46.1
Finance leased	1.0	0.3	0.1	-	1.4
On balance sheet PFI	1.1	0.5	1.5	-	3.1
Net book value	**17.8**	**12.0**	**5.1**	**15.7**	**50.6**

Note 14.4 Asset financing 2011-12

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2011-12 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	262.4	185.0	81.9	43.6	43.6	34.9	44.4	695.8
Finance leased	-	3.3	3.5	1.9	-	-	1.6	10.3
On balance sheet PFI	6.7	25.3	1.6	1.9	0.1	-	3.1	38.7
PFI reversionary interest	0.1	-	-	-	0.2	-	-	0.3
Net book value	**269.2**	**213.6**	**87.0**	**47.4**	**43.9**	**34.9**	**49.1**	**745.1**
Net book value restated	**269.1**	**209.0**	**87.5**	**51.3**	**43.8**	**34.6**	**49.2**	**744.5**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2011-12 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.5	10.7	3.3	14.9	44.4
Finance leased	1.1	0.3	0.2	-	1.6
On balance sheet PFI	0.9	0.5	1.7	-	3.1
Net book value	**17.5**	**11.5**	**5.2**	**14.9**	**49.1**
Net book value restated	**17.8**	**11.5**	**5.1**	**14.8**	**49.2**

Note 14.5 Impairments 2012-13

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2012-13 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(0.2)	(4.4)	(0.6)	(0.6)	(0.1)	(0.1)	(0.5)	(6.5)
Net impairment costs transferred to Revaluation Reserve	-	(0.9)	-	(0.1)	-	-	-	(1.0)
Total	**(0.2)**	**(5.3)**	**(0.6)**	**(0.7)**	**(0.1)**	**(0.1)**	**(0.5)**	**(7.5)**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2012-13 Total
	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(0.1)	(0.1)	-	(0.3)	(0.5)
Net impairment costs transferred to Revaluation Reserve	-	-	-	-	-
Total	**(0.1)**	**(0.1)**	**-**	**(0.3)**	**(0.5)**

Note 15. Investment properties

	2012-13 £bn	2011-12 £bn
As at 1 April	**12.6**	**12.4**
Additions	1.6	0.4
Revaluations and impairments	(0.6)	0.1
Disposals	(1.1)	(0.3)
As at 31 March	**12.5**	**12.6**

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

The Olympic park was transferred from property, plant and equipment to investment properties during the year, accounting for the majority of the £1.6 billion increase. The London Legacy Development Corporation subsequently changed the valuation methodology from a cost based to an income based approach as the assets are being prepared for the rental market, resulting in a downwards revaluation of £1.3 billion.

Note 16. Intangible assets

Note 16.1 Intangible assets 2012-13

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	2012-13 Total £bn
Cost or valuation:							
At 1 April 2012	30.1	10.4	8.1	5.1	0.9	0.8	55.4
Additions	1.0	0.5	0.9	0.1	0.1	-	2.6
Revaluations and impairments	0.3	-	0.1	-	-	-	0.4
Reclassifications	0.6	(0.4)	0.5	0.2	-	-	0.9
Disposals	(1.3)	(0.3)	0.1	(0.1)	(0.2)	(0.1)	(1.9)
At 31 March 2013	**30.7**	**10.2**	**9.7**	**5.3**	**0.8**	**0.7**	**57.4**
Amortisation:							
At 1 April 2012	(7.8)	(4.2)	(4.5)	(2.8)	(0.5)	(0.4)	(20.2)
Charged in year	(1.4)	(0.5)	(1.2)	(0.5)	(0.1)	-	(3.7)
Revaluations and impairments	(0.1)	(0.1)	(0.2)	-	-	-	(0.4)
Reclassifications	(0.8)	0.8	-	-	-	-	-
Disposals	1.0	0.3	(0.1)	0.1	0.1	-	1.4
At 31 March 2013	**(9.1)**	**(3.7)**	**(6.0)**	**(3.2)**	**(0.5)**	**(0.4)**	**(22.9)**
Net book value at 31 March 2013	**21.6**	**6.5**	**3.7**	**2.1**	**0.3**	**0.3**	**34.5**

Military equipment primarily covers the development of new equipment and the improvement of the effectiveness and capability of existing military equipment by the Ministry of Defence. It included the Typhoon Airframe (net book value: £6.9 billion (2011-12: £6.8 billion)) and the Type 45 Destroyer (£1.9 billion (2011-12: £1.9 billion)).

Development expenditure is capitalised as an intangible asset in accordance with the accounting policy on research and development as described in Note 1.12.4. The Ministry of Defence made up a large majority of development expenditure (net book value: £5.6 billion (2011-12: £5.6 billion)). This consisted of development expenditure on equipment which is not restricted to military use, such as expenditure on the Merlin helicopter (£2.1 billion (2011-12: £1.7 billion)).

Note 16.2 Intangible assets 2011-12

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	2011-12 restated Total £bn
Cost or valuation:							
At 1 April 2011	29.1	9.7	8.2	4.2	1.0	0.9	53.1
Additions	0.9	0.9	0.9	0.1	0.3	0.1	3.2
Revaluations and impairments	0.5	-	0.3	-	-	(0.1)	0.7
Reclassifications	0.1	(0.1)	(0.3)	0.4	(0.2)	(0.2)	(0.3)
Disposals	(0.5)	(0.1)	(0.9)	(0.1)	(0.1)	-	(1.7)
At 31 March 2012	30.1	10.4	8.2	4.6	1.0	0.7	55.0
Restatements	-	-	(0.1)	0.5	(0.1)	0.1	0.4
At 31 March 2012 (restated)	**30.1**	**10.4**	**8.1**	**5.1**	**0.9**	**0.8**	**55.4**
					-		
Amortisation:							
At 1 April 2011	(6.9)	(3.8)	(4.4)	(2.2)	(0.5)	(0.5)	(18.3)
Charged in year	(1.3)	(0.5)	(1.2)	(0.5)	(0.2)	-	(3.7)
Revaluations and impairments	(0.2)	(0.1)	0.1	-	-	-	(0.2)
Reclassifications	-	(0.1)	0.1	0.2	-	0.1	0.3
Disposals	0.5	0.3	0.9	0.1	0.1	-	1.9
At 31 March 2012	**(7.9)**	**(4.2)**	**(4.5)**	**(2.4)**	**(0.6)**	**(0.4)**	**(20.0)**
Restatement	0.1	-	-	(0.4)	0.1	-	(0.2)
At 31 March 2012 (restated)	**(7.8)**	**(4.2)**	**(4.5)**	**(2.8)**	**(0.5)**	**(0.4)**	**(20.2)**
Net book value at 31 March 2012	**22.3**	**6.2**	**3.6**	**2.3**	**0.4**	**0.4**	**35.2**

Note 17. Trade and other receivables

	2012-13 £bn	2011-12 £bn
Amounts falling due within one year:		
Accrued tax revenue	82.4	85.2
Taxation and duties due	22.6	21.6
Trade receivables	8.5	8.6
Other receivables	12.4	13.5
Prepayments and other accrued revenue	9.9	10.6
PFI prepayments	0.1	0.1
Sub-total	**135.9**	**139.6**
Provision for irrecoverable debts	(14.2)	(13.6)
Total current trade and other receivables	**121.7**	**126.0**
Amounts falling due after more than one year:		
Taxation and duties due	3.6	4.4
Trade receivables	0.8	0.7
Other receivables	14.1	13.0
Prepayments and accrued revenue	0.7	1.1
PFI prepayments	0.3	0.2
Sub-total	**19.5**	**19.4**
Provision for irrecoverable debts	(3.9)	(3.5)
Total non-current trade and other receivables	**15.6**	**15.9**
Total trade and other receivables at 31 March	**137.3**	**141.9**

Provision for irrecoverable debts

	Current £bn	Non-current £bn	Total £bn
Balance at 1 April 2011	**(13.6)**	**(4.6)**	**(18.2)**
Net decrease in provision	-	1.1	1.1
Balance at 31 March 2012	**(13.6)**	**(3.5)**	**(17.1)**
Restatements	-	-	-
Balance at 1 April 2012	**(13.6)**	**(3.5)**	**(17.1)**
Net increase in provision	(0.6)	(0.4)	(1.0)
Balance at 31 March 2013	**(14.2)**	**(3.9)**	**(18.1)**

Accrued tax revenue comprised accrued Income Tax (£26.8 billion (2011-12: £28.0 billion)), VAT (£25.9 billion (2011-12: £27 billon)), Corporation Tax (£11.3 billion (2011-12: £12.0 billion)), National Insurance contributions (£11.4 billion (2011-12: £11.5 billion)) and other taxes, duties and levies (£7.0 billion (2011-12: £6.7 billion)). These have been estimated by HMRC using statistical modelling, as described in Note 1.11.1. Due to the cycle of tax calculations, these amounts were not due to be notified to the taxpayer until 2013-14 or later. Taxation and duties due comprise amounts due from taxpayers where the liability has been established but payment has not yet been received.

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

The largest components within provisions for irrecoverable debt were estimates of £9.5 billion (2011-12: £8.8 billion) made to reflect the risk of non-payment of tax and £1.7 billion (2011-12: £1.7 billion) in relation to welfare benefit balances, with most of the remaining provisions reflected in local government accounts.

Note 18. Equity investments in the public sector banks

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

Note 18.1 Equity investments in the public sector banks 2012-13

	2011-12 £bn	Additions/ disposals £bn	Fair value adjustments £bn	Impairments £bn	2012-13 £bn
Royal Bank of Scotland Group plc	26.9	-	(0.4)	-	26.5
Lloyds Banking Group plc	9.3	-	4.2	-	13.5
UK Asset Resolution Ltd	4.6	-	0.6	-	5.2
Total investment	**40.8**	**-**	**4.4**	**-**	**45.2**

Shares in Royal Bank of Scotland Group plc and Lloyds Banking Group plc have been revalued based on the closing share price at 31 March 2013. Fair value and impairment calculations were completed separately for each tranche of shares purchased to reflect the different acquisition costs over time. UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) plc and Bradford & Bingley plc. Since 2011-12 shares in UKAR have been recognised at net asset value. Fair value adjustments in year reflected the change in value of net assets held by the company.

As a consequence of these equity holdings and, where relevant, the related financial interventions, there were a number of related transactions with public sector banks. These included: loans to banks, guarantees and contingent liabilities (see Notes 22, 32 and 33). The overall relationship with each bank, key events in 2012-13, and their financial results in summary can be found in Note 37.

Note 18.2 Equity investments in the public sector banks 2011-12

	2010-11 restated £bn	Additions/ disposals £bn	Fair value adjustments £bn	Impairments £bn	2011-12 £bn
Royal Bank of Scotland Group plc	39.3	-	(1.0)	(11.4)	26.9
Lloyds Banking Group plc	16.0	-	(3.7)	(3.0)	9.3
UK Asset Resolution Ltd[1]	3.0	-	1.6	-	4.6
Northern Rock plc	1.2	(1.2)	-	-	-
Total investment	**59.5**	**(1.2)**	**(3.1)**	**(14.4)**	**40.8**

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

Note 19. Assets held for sale

	Property, plant & equipment £bn	Other non-financial assets £bn	2012-13 Total £bn	2011-12 Total £bn
Value as at 1 April	2.1	-	2.1	1.9
Reclassifications	1.1		1.1	1.8
Disposals	(1.2)	-	(1.2)	(1.3)
Impairments	(0.2)		(0.2)	(0.2)
Revaluations	(0.2)		(0.2)	(0.1)
Balance at 31 March	**1.6**	**-**	**1.6**	**2.1**

The majority of assets held for sale comprised land and buildings. Of the £1.6 billion (2011-12: £2.1 billion) total balance, local authorities held £1 billion (2011-12: £1.4 billion) of assets and health bodies held about £0.2 billion (2011-12: £0.2 billion).

Note 20. Inventories

Note 20.1 Inventories 2012-13

	Raw materials and consumables £bn	Land, buildings and other work in progress £bn	Goods for resale and finished goods £bn	Land and buildings for resale and finished land and buildings £bn	2012-13 Total £bn
As at 1 April 2012	8.4	0.4	1.3	1.3	11.4
Additions	4.3	1.8	5.7	0.1	11.9
Disposals	(4.0)	(0.8)	(6.8)	(0.2)	(11.8)
Write-offs	(0.2)	-	-	-	(0.2)
Revaluation	0.2	-	-	-	0.2
Reclassification	-	(0.5)	1.2	-	0.7
As at 31 March 2013	**8.7**	**0.9**	**1.4**	**1.2**	**12.2**

Note 20.2 Inventories 2011-12

	Raw materials and consumables £bn	Land, buildings and other work in progress £bn	Goods for resale and finished goods £bn	Land and buildings for resale and finished land and buildings £bn	2011-12 Total £bn
As at 1 April 2011	9.0	0.4	1.4	1.2	12.0
Additions	4.3	1.7	3.9	0.1	10.0
Disposals	(4.0)	(0.5)	(5.0)	(0.2)	(9.7)
Write-offs	(1.1)	-	-	(0.1)	(1.2)
Revaluation	0.2	-	-	0.1	0.3
Reclassification	-	(1.2)	1.0	0.2	-
As at 31 March 2012	**8.4**	**0.4**	**1.3**	**1.3**	**11.4**

Raw materials and consumables

Included in the raw materials and consumables balance was an amount of £7.6 billion (2011-12: £7.2 billion) held for defence purposes. This covered a wide range of material and equipment such as munitions with a limited life. The remaining balances were held by central government entities

(£0.8 billion (2011-12: £0.7 billion)), entities within local government (£0.3 billion (2011-12: £0.3 billion)), and public corporations (£0.1billion (2011-12: £0.1 billion)).

The Comptroller & Auditor General limited the scope of his opinion in relation to £3.3 billion (2011-12: £3.0 billion) of non-explosive inventories held for defence purposes, as the Ministry of Defence was unable to provide sufficient evidence to support the value of certain balances reported within its financial statements. Further details are available in its 2012-13 accounts.

Land, buildings and other work in progress

The balance of £0.9 billion (2011-12: £0.4 billion) was held across a number of central government entities, local government and public corporations. The £0.7 billion total reclassification relates to a transfer in of physical assets held by DCMS in respect of the Olympic Village where the East Village development was reclassified as inventory as it was held primarily for sale. This reclassification represents the amount expected from sales proceeds.

Goods for resale and finished goods

This included medical supplies and vaccines held by health bodies and the Department of Health of £0.5 billion (2011-12: £0.4 billion). Goods for resale and finished goods also included £0.7 billion (2011-12: £0.4 billion) held by the BBC and Channel Four, primarily for completed programmes and rights to broadcast acquired programmes and films. The remaining balances were held by a number of entities in central government, and public corporations and local government £0.2 billion (2011-12: £0.5 billion).

Land and buildings for resale and finished land and buildings

This included £0.7 billion (2011-12: £1.1 billion) of land and buildings held by the Department for Communities and Local Government (DCLG). As a result of the Localism Act 2011, £0.3 billion of assets relating to the Homes and Communities Agency and London Thames Gateway Development Corporation were transferred from DCLG to the Greater London Authority.

Note 21. Cash and cash equivalents

	2012-13 £bn	2011-12 Restated £bn
Balance as at 1 April	**21.2**	**22.5**
Net change in cash and cash equivalent balances	(1.4)	(1.3)
Balance as at 31 March	**19.8**	**21.2**
The following balances at 31 March were held at:		
Cash at bank	7.7	6.3
Short term deposits	12.1	15.2
Balance as at 31 March	**19.8**	**21.5**
Restatements		(0.3)
Balance as at 31 March (restated)	**19.8**	**21.2**

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

Note 22. Other financial assets

Note 22.1 Other financial assets 2012-13

Other financial assets include the following:

	Loans and deposits with banks	Debt securities	Student loans	IMF Special Drawing Rights	Equity investments	Other	2012-13 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Current							
As at 1 April 2012	63.7	38.2	1.8	9.3	0.6	11.9	125.5
Movements in year	(7.4)	2.1	0.2	0.2	0.4	(16.1)	(20.6)
Reclassification	-	-	-	-	-	11.4	11.4
As at 31 March 2013	**56.3**	**40.3**	**2.0**	**9.5**	**1.0**	**7.2**	**116.3**
Non Current							
As at 1 April 2012	58.0	-	31.3	10.4	16.9	8.4	125.0
Movements in year	(2.7)	-	2.7	0.2	4.9	8.9	14.0
Reclassification	(0.5)	-	-	-	(0.2)	(11.5)	(12.2)
As at 31 March 2013	**54.8**	**-**	**34.0**	**10.6**	**21.6**	**5.8**	**126.8**
Total	**111.1**	**40.3**	**36.0**	**20.1**	**22.6**	**13.0**	**243.1**

Other financial assets comprise the following types of financial instruments as at 31 March 2013:

	Loans and receivables at amortised cost	Held to maturity investments at amortised cost	Available for sale at fair value	Designated as FV through SoRE	Held for trading at fair value	Total 2012-13
	£bn	£bn	£bn	£bn	£bn	£bn
Current						
Loans and deposits	55.0	1.3	-	-	-	56.3
Debt securities	-	-	-	-	40.3	40.3
Student loans	2.0	-	-	-	-	2.0
IMF Special Drawing Rights	-	-	-	-	9.5	9.5
Equity investments	-	-	0.4	0.2	0.4	1.0
Other	-	-	0.8	0.3	6.1	7.2
Total Current	**57.0**	**1.3**	**1.2**	**0.5**	**56.3**	**116.3**
Non-Current					-	
Loans and deposits	54.7	0.1	-	-	-	54.8
Student Loans	34.0	-	-	-	-	34.0
IMF Quota subscription	10.6	-	-	-	-	10.6
Equity investments	-	-	18.4	3.0	0.2	21.6
Other	0.3	-	4.8	0.7	-	5.8
Total Non-Current	**99.6**	**0.1**	**23.2**	**3.7**	**0.2**	**126.8**
Total	**156.6**	**1.4**	**24.4**	**4.2**	**56.5**	**243.1**

Loans and deposits with banks

Loans and deposits with banks included £46.6 billion (2011-12: £51.0 billion) of loans and advances to banks and other financial services entities by HM Treasury, including £17.2 billion (2011-12: £17.9 billion) representing payments made by the Financial Services Compensation Scheme to pay depositors in failed financial institutions. These payments are recoverable from the failed financial institutions and the Financial Services Compensation Schemes levy payers. The £46.6 billion also included loans and advances made to Northern Rock (Asset Management) plc (£17.9 billion (2011-12: £19.8 billion)), Bradford & Bingley plc (£9.0 billion (2011-12: £10.3 billion)). In addition, there was a bilateral loan to Ireland of £2.4 billion (2011-12: £1.2 billion). Further details are available in the 2012-13 accounts of HM Treasury.

£29.7 billion (2011-12: £39.7 billion) of funds were advanced to banks (or bank subsidiaries) and central clearing counterparties under reverse repurchase agreements where securities were held as collateral and returned when the funds are repaid. Reverse sale and repurchase agreements were valued daily, and, depending on whether the value of the collateral rose or fell, collateral were returned to the provider of collateral, or additional securities requested from the provider of collateral. Further details are available in the 2012-13 accounts of the Exchange Equalisation Account and Debt Management Account.

Loans and deposits with banks also included deposits made by local government to commercial institutions of £15.6 billion (2011-12: £13.6 billion).

Debt securities

£37.0 billion (2011-12: £32.6 billion) of debt securities issued by public bodies, primarily foreign governments, were held by the Exchange Equalisation Account (EEA). EEA investments needed to be highly liquid in order to be available for use quickly, whilst minimising the costs of holding the reserves. Inevitably, these investments carried some element of credit risk. In order to reduce this risk and to ensure the necessary liquidity, the EEA predominantly holds securities issued or guaranteed by the national governments of the United States, Euro area countries and Japan. Further details are available in the 2012-13 accounts of the EEA.

Student loans

Student loans were valued at the gross value of the loans issued discounted to net present value and reduced by an estimate of the future cost of policy write offs. Further detail on the valuation of student loans is available in the 2012-13 accounts of BIS[25] and the devolved administrations.

IMF Special Drawing Rights

Non-current International Monetary Fund (IMF) Special Drawing Rights (SDRs) comprised the UK's quota subscription to the IMF. On becoming a member of IMF in 1944, the UK was required to pay a subscription to the IMF in a mix of SDRs, the IMF's unit of account, and other widely accepted currencies. The UK's quota subscription to the IMF is treated as both a loan and a receivable and is measured at amortised cost.

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

Equity investments

Equity investments included investments in the European Investment Bank (£7.5 billion (2011-12: £5.7 billion)), and investments in international financial institutions held by the Department for International Development (£3.3 billion (2011-12: £3.3 billion)). The equity investment in the public sector banks is shown separately in Note 18.

Other securities

Other investments included the Bank of England's holdings of foreign government securities, foreign currency securities and equity investments of £3.6 billion (2011-12: £4.7 billion). Further details regarding these securities are available in the 2012-13 accounts of the Bank[26].

[25] https://www.gov.uk/government/organisations/department-for-business-innovation-skills

Other investments included securities held for trading by the Debt Management Office of £1.1 billion (2011-12: £5.9 billion) as part of its lending and borrowing cash management operations. Further details are available in the 2012-13 accounts of the Debt Management Office[27].

Note 22.2 Other financial assets 2011-12

	Loans and deposits with banks	Debt securities	Student loans	IMF Special Drawing Rights	Equity investments	Other	2011-12 restated Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Current							
As at 1 April 2011	50.4	29.2	1.8	9.2	0.7	11.4	102.7
Movements in year	11.1	9.0	-	0.1	-	2.1	22.3
Reclassification	1.3	-	-	-	-	(2.3)	(1.0)
As at 31 March 2012	**62.8**	**38.2**	**1.8**	**9.3**	**0.7**	**11.2**	**124.0**
Restatements	0.9	-	-	-	(0.1)	0.7	1.5
As at 31 March 2012 (restated)	**63.7**	**38.2**	**1.8**	**9.3**	**0.6**	**11.9**	**125.5**
Non Current							-
As at 1 April 2011	59.6	-	27.8	10.6	15.9	6.5	120.4
Movements in year	(1.5)	-	3.6	(0.2)	0.6	0.2	2.7
Reclassification	(0.2)	-	(0.1)	-	-	-	(0.3)
As at 31 March 2012	57.9	-	31.3	10.4	16.5	6.7	122.8
Restatements	0.1	-	-	-	0.4	1.7	2.2
As at 31 March 2012 (restated)	**58.0**	**-**	**31.3**	**10.4**	**16.9**	**8.4**	**125.0**
Total (restated)	**121.7**	**38.2**	**33.1**	**19.7**	**17.5**	**20.3**	**250.5**

[26] http://www.bankofengland.co.uk/Pages/home.aspx
[27] http://www.dmo.gov.uk/

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

	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through SoRE £bn	Held for trading at fair value £bn	2011-12 £bn	2011-12 restated £bn
Current							
Loans and deposits	62.3	0.5	-	-	-	62.8	63.7
Debt securities	-	-	-	-	38.2	38.2	38.2
Student loans	1.8	-	-	-	-	1.8	1.8
IMF Special Drawing Rights	-	-	-	-	9.3	9.3	9.3
Equity investments	-	-	0.2	0.4	0.1	0.7	0.6
Other	1.0	0.1	0.5	2.3	7.3	11.2	11.9
Total Current	**65.1**	**0.6**	**0.7**	**2.7**	**54.9**	**124.0**	**125.5**
Non-Current							
Loans and deposits	57.9	-	-	-	-	57.9	58.0
Student loans	31.3	-	-	-	-	31.3	31.3
IMF quota subscription	10.4	-	-	-	-	10.4	10.4
Equity investments	-	-	13.9	2.4	0.2	16.5	16.9
Other	0.3	-	1.3	5.0	0.1	6.7	8.4
Total Non-Current	**99.9**	**-**	**15.2**	**7.4**	**0.3**	**122.8**	**125.0**
Total	**165.0**	**0.6**	**15.9**	**10.1**	**55.2**	**246.8**	**250.5**

Note 23. Trade and other payables

	2012-13 £bn	2011-12 restated £bn
Amounts falling due within 1 year:		
Accruals and deferred income	34.9	37.1
Refunds of taxation and duties payable	23.2	22.9
Trade payables	16.2	17.1
Other payables	21.1	22.5
Imputed finance lease element of on-balance sheet PFI contracts	1.3	1.3
Obligations under finance leases and hire purchase contracts	0.4	0.4
Current trade and other payables		**101.3**
Restatements		2.4
Current trade and other payables (restated)	**97.1**	**103.7**
Amounts falling due after more than 1 year:		
Imputed finance lease element of on-balance sheet PFI contracts	35.3	34.8
Trade payables	0.6	0.4
Other payables	10.0	10.1
Obligations under finance leases and hire purchase contracts	5.1	4.9
Accruals and deferred income	3.8	3.3
Non-current trade and other payables		**53.5**
Restatements		1.7
Non-current trade and other payables (restated)	**54.8**	**55.2**
Total trade and other payables at 31 March (restated)	**151.9**	**158.9**

Trade and other payables were held across a wide range of public sector entities and primarily relate to day-to-day business delivery costs. The two most significant payables were £7.2 billion (2011-12: £6.8 billion) being the UK's liability to the IMF and £4.1 billion (2011-12: £4.1 billion) financing of the construction of High Speed 1 (formerly the Channel Tunnel Rail Link). Further details are available in the 2012-13 accounts of the National Loans Fund and the Department for Transport respectively[28].

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

Note 24. Government financing and borrowing

	2012-13	2011-12
	£bn	£bn
Amounts falling due within 1 year:		
Gilt-edged securities	51.8	47.2
National Savings and Investment products	102.0	102.7
Treasury bills	60.5	74.3
	214.3	**224.2**
Amounts falling due after more than 1 year:		
Gilt-edged securities	781.8	741.1
National Savings and Investment products	0.1	0.2
	781.9	**741.3**
Total at 31 March 2013	**996.2**	**965.5**

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

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Prices Index. As the government's debt manager, the Debt Management Office (DMO) sells gilts to the market to ensure sufficient funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, with the exception of gilts held by funded public sector pension schemes. Further details regarding gilts are available in the 2012-13 Debt and Reserves Management Report and the 2012-13 accounts of the National Loans Fund.

NS&I products are a range of secure savings and investments (primarily bonds) offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. Further details of these products, and NS&I's 2012-13 accounts, can be found on the NS&I website[29].

Treasury Bills are issued by the DMO and, along with other money market operations, are used to meet the government's daily cash requirements. Further details on these operations can be found in the 2012-13 Debt and Reserves Management Report.

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

Note 25. Provisions for liabilities and charges

	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total restated £bn
At 1 April 2011	**60.9**	**17.5**	**28.6**	**107.0**
Provisions arising during the year	4.8	5.0	11.4	21.2
Provisions utilised during the year	(2.2)	(1.6)	(7.9)	(11.7)
Borrowing costs	1.3	-	0.6	1.9
Provisions not required written back	(0.5)	(1.5)	(2.8)	(4.8)
Transfers in-year	-	-	(0.3)	(0.3)
At 31 March 2012	**64.3**	**19.4**	**29.6**	**113.3**
Restatements	**(0.5)**	**-**	**0.2**	(0.3)
At 1 April 2012 (restated)	**63.8**	**19.4**	**29.8**	**113.0**
Provisions arising during the year	8.0	7.1	17.9	33.0
Provisions utilised during the year	(2.4)	(1.5)	(8.8)	(12.7)
Borrowing costs	1.4	1.4	0.8	3.6
Provisions not required written back	(1.0)	(2.7)	(2.1)	(5.8)
Transfers in-year	-	0.3	(0.7)	(0.4)
At 31 March 2013	**69.8**	**24.0**	**36.9**	**130.7**

Expected timing of discounted cash flows:	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
Within 1 year	3.0	1.8	7.7	12.5
Between 1 and 5 years	13.0	7.9	18.4	39.3
Thereafter	53.8	14.3	10.8	78.9
Total future payments	**69.8**	**24.0**	**36.9**	**130.7**
Current provisions	**3.0**	**1.8**	**7.7**	**12.5**
Non-current provisions	**66.8**	**22.2**	**29.2**	**118.2**

The most significant impact on the value of provisions during 2012-13 relates to the introduction of new discount rates by HM Treasury for use in all government accounts from 2012-13 onwards. Until 2011-12, provisions were calculated by discounting the current estimate of future expenditure by a uniform rate of 2.2%. The new discount rates, as instructed by HM Treasury, apply to the expenditure within ten years and are based upon the real yield of UK index-linked gilts; expenditure beyond ten years remains discounted at the uniform 2.2%.

The change in methodology is to ensure that the discount rates meet the accounting standard's requirement to provide entities with rates that reflect current market assessments of the risk-free time value of money. The effect of this is to change the rates for short-term and medium-term expenditure to -1.8% and -1.0% respectively (previously 2.2%). The negative rates reflect the interest payable on UK gilts being less than the rate of inflation, consequently the value of discounted expenditure within ten years is greater than the actual undiscounted expenditure.

Provision for nuclear decommissioning

The majority of this provision was recognised by the Nuclear Decommissioning Authority. Its provision represented the best estimate of delivering its objectives of decommissioning the plant and equipment on each designated nuclear licensed site and returning the sites to pre-agreed end states in accordance with its published strategy. This programme of work will take until 2137 to complete. The estimates were necessarily based on assumptions of the processes and methods needed to discharge its obligations, and reflected the latest technical knowledge available. The government's obligations are reviewed on a continual basis and provisions are updated accordingly. The provision and recoverable balances were expressed at current price levels and discounted to take account of the time value of money for the very long timescales over which work will be carried out. Certain expenditure required to discharge nuclear provisions was recoverable from third parties under commercial agreements. Provision charges in the Statement of Revenue and Expenditure are shown net of changes in the amount recoverable from third parties. The amount recoverable at 31 March 2013 was £5.7 billion (2011-12: £4.8 billion).

The most significant element giving rise to an increase in the value of this provision was the introduction of the new discount rates by HM Treasury in 2012-13, increasing the provision by £3.8bn.

The provision for nuclear decommissioning was subject to an emphasis of matter on uncertainties (inherent in the provisions relating to the costs of dealing with nuclear decommissioning and coal liabilities) in the Audit Opinion of the Comptroller & Auditor General. Further details are available in the 2012-13 accounts of the Nuclear Decommissioning Authority.

Provision for clinical negligence

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

Known reported claims were individually valued on the basis of likely costs to resolve the claim and probability factors to take account of the potential for a successful defence. Incurred but not reported claims were valued using actuarial models to predict likely values. The clinical negligence provision included in this account therefore reflected an actuarially determined assessment of incidents that have occurred, including those yet to be reported, where the amount of the claim could reliably be estimated. The amount provided was calculated on a percentage expected probability basis. The probability of a claim having to be settled was assessed between 10% and 94% and applied to the gross value to give the probable cost of each claim, discounted to take into account the likely time of settlement. Expenditure was likely to be incurred over a period of more than 20 years.

In 2012-13, the Department for Health reported that the value of known provisions increased by £4.1 billion since 2011-12 mainly as a result of an increase in the volume of claims of approximately 11%. This is believed to be the result of more incidents converting to claims as well as claims being reported to the NHS Litigation Authority more quickly.

Other provisions

Other provisions included £3.9 billion (2011-12: £3.9 billion) relating to the Financial Assistance Scheme (FAS). FAS was announced in 2004 to provide assistance to members of defined benefit occupational pension schemes that wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005, before the introduction of the Pension Protection Fund. Since 2004, the scope of the scheme and the levels of assistance have been expanded through additional legislation. Details are available in the 2012-13 accounts of the Department for Work and Pensions.

Other provisions also included a new £3.8 billion provision in respect of the tax costs of oil and gas field decommissioning against Her Majesty's Revenue and Customs. These costs have been planned over a 6 year period so that industry estimates of costs are assumed to be the best available. The impact on tax receipts is estimated to be a cost to the Exchequer of £3.8 billion (split between Petroleum Revenue Tax at £1.2 billion and Corporation Tax at £2.6 billion) and since this estimate is seen as relatively reliable, a provision for this amount has been included. In 2011-12 the tax relating to the decommissioning costs was included in contingent liabilities at an estimated cost of £20 billion. However, following more detailed research and negotiation, the opinion changed regarding the reliability of the estimate for years

2012-2017 as sufficiently certain to create the provision. There is sufficient uncertainty in the amount and timing of the costs beyond 2017 to preclude any further provision or contingent liability. This will continue to be monitored and adjusted each year.

An additional provision of £1.0 billion was recognised in 2012-13, relating to fee paid judicial office holders who have claimed retrospective pension rights. On 6 February 2013 the UK Supreme Court ruled that a fee paid judicial office holder is entitled to a pension on terms equivalent to those applicable to a salaried circuit judge.

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

Note 26. Other financial liabilities

Note 26.1 Other financial liabilities 2012-13

Other financial liabilities include the following:

	Deposits by banks £bn	Banknotes issued in circulation £bn	Bank and other borrowings £bn	IMF SDR allocation £bn	Financial guarantees £bn	Other £bn	2012-13 Total £bn
Current							
At 1 April 2012	267.2	54.9	8.2	9.8	0.1	0.9	341.1
Movements in year	67.0	3.1	(2.6)	0.2	(0.1)	0.2	67.8
At 31 March 2013	**334.2**	**58.0**	**5.6**	**10.0**	**-**	**1.1**	**408.9**
						-	
Non-current						-	
At 1 April 2012	-	-	24.7	-	4.1	4.4	33.2
Movements in year	-	-	1.6	-	0.6	(1.3)	0.9
At 31 March 2013	**-**	**-**	**26.3**	**-**	**4.7**	**3.1**	**34.1**
Total	**334.2**	**58.0**	**31.9**	**10.0**	**4.7**	**4.2**	**443.0**

Other financial liabilities comprise the following types of financial instruments as at 31 March 2013:

	Carried at amortised cost £bn	Designated at fair value £bn	Held for trading at fair value £bn	2012-13 Total £bn
Current				
Deposits by banks	315.2	12.4	6.6	334.2
Banknotes issued in circulation	58.0	-	-	58.0
IMF SDR allocation	-	-	10.0	10.0
Bank and other borrowings	5.6	-	-	5.6
Financial guarantees	-	-	-	-
Other	-	0.3	0.8	1.1
Total Current	**378.8**	**12.7**	**17.4**	**408.9**
Non-Current				
Bank and other borrowings	26.3	-	-	26.3
Financial guarantees	4.5		0.2	4.7
Other	0.3	2.8	-	3.1
Total Non-Current	**31.1**	**2.8**	**0.2**	**34.1**
Total	**409.9**	**15.5**	**17.6**	**443.0**

Deposits by banks

Deposits by banks and other financial institutions included £297.1 billion (2011-12: £217.6 billion) held by the Bank of England and other deposits repayable on demand of £25.3 billion (2011-12: £22.6 billion). The increase reflected the fact that since March 2009 the Bank of England Asset Purchase Facility Fund purchased gilts from financial institutions totalling £375 billion as at March 2013 as part of the Bank of England's policy of quantitative easing.

Deposits by banks included sales and repurchase agreements, where an entity sells securities and receives a deposit, with the understanding that it will buy the securities back at a specified time and price. The largest balance was made up of deposits by banks under sales and repurchase agreements of £13.3 billion (2011-12: £20.0 billion) entered into by the Debt Management Office (DMO) as part of its cash management operations, reflecting the government's daily cash flows. During 2012-13, the DMO continued to hold large asset and liability balances, as it sought to manage historically large aggregate Exchequer borrowing requirements.

Deposits by banks also included sale and repurchase agreements of £4.2 billion (2011-12: £3.9 billion) entered into by the Exchange Equalisation Account (EEA) to preserve the liquidity and security of the foreign currency reserves and to ensure that the government maintains its capability to intervene in the foreign exchange market if required, while also minimising the overall cost of holding the foreign currency reserves and ensuring exposure to financial risk is limited. Further details are available in the 2012-13 accounts of the DMO and the EEA.

Banknotes issued in circulation

Banknotes are issued by the Bank of England Issue Department. The bank is responsible for maintaining confidence in the currency, by meeting demand with good-quality banknotes that the public can readily exchange. The average value of notes in circulation over the year ended 28 February 2013 was £58.0 billion (2011-12: £54.9 billion). Further details are in the 2012-13 accounts of the Bank of England.

Bank and other borrowings

Bank and other borrowings included balances held by entities across central and local government. It included £1.5 billion (2011-12: £1.4 billion) of bank overdrafts held by local authorities. Local authorities have wide powers to borrow which are enshrined in statute. Their ability to borrow is controlled under a regulatory framework and through the application of the Prudential Code for Capital Finance in Local Authorities and the Code of Practice for Treasury Management in the Public Services. Both have been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

IMF special drawing rights allocation

International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation comprised a liability to the IMF (£10.0 billion (2011-12: £9.8 billion)) for those SDRs that have been allocated to the UK when the country became a participant in the Special Drawing Rights Agreement and that have been allocated subsequently. The UK's SDR allocation was recognised as a liability and the resultant holding of SDRs by the UK was recognised as an asset. Further details are available in the 2012-13 accounts of the EEA.

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

Financial guarantees

The government's financial guarantees included those provided by the Department for Transport to Network Rail (£3.7 billion (2011-12: £3.3 billion)). Financial guarantees were also issued to certain depositors in Bradford & Bingley plc (£0.4 billion (2011-12: £0.4 billion)) and Northern Rock (Asset

Management) plc (£0.1billion (2011-12: £0.1 billion)). The Credit Guarantee Scheme has now ceased, so guarantees issued for 2012-13 were nil (2011-12: £0.1 billion). However £0.2 billion of new guarantees were issued as part of the newly implemented National Loans Guarantee Scheme. Further details are available in the 2012-13 accounts of HM Treasury. These valuations are held in accordance with IAS 39 and IAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'* with the remaining value of the guarantees held as contingent liabilities and disclosed in Notes 32 and 33. As well as guarantees, the government provided indemnities as described in Notes 32 and 33.

Other

Other financial liabilities included £4.0 billion (2011-12: £5.1 billion) of foreign currency bonds issued by the Bank of England.

Note 26.2 Other financial liabilities 2011-12

Other financial liabilities include the following:

	Deposits by banks £bn	Banknotes issued in circulation £bn	Bank and other borrowings £bn	IMF SDR allocation £bn	Financial guarantees £bn	Other £bn	2011-12 Restated Total £bn
Current							
At 1 April 2011	189.3	52.2	5.2	10.0	-	2.7	259.4
Movements in year	76.6	2.7	2.1	(0.2)	0.1	(0.5)	80.8
At 31 March 2012	**265.9**	**54.9**	**7.3**	**9.8**	**0.1**	**2.2**	**340.2**
Restatements	1.3	-	0.9	-	-	(1.3)	0.9
At 31 March 2012	**267.2**	**54.9**	**8.2**	**9.8**	**0.1**	**0.9**	**341.1**
Non-current							
At 1 April 2011	-	-	26.8	-	5.2	4.0	36.0
Movements in year	-	-	(2.1)	-	(1.1)	0.2	(3.0)
At 31 March 2012	**-**	**-**	**24.7**	**-**	**4.1**	**4.2**	**33.0**
Restatements	-	-	-	-	-	0.2	0.2
At 31 March 2012	-	-	24.7	-	4.1	4.4	33.2
Total (restated)	**267.2**	**54.9**	**32.9**	**9.8**	**4.2**	**5.3**	**374.3**

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

	Carried at amortised cost £bn	Designated at fair value £bn	Held for trading at fair value £bn	2011-12 Total £bn	2011-12 Restated Total £bn
Current					
Deposits by banks	247.1	13.7	5.1	265.9	267.2
Banknotes in circulation	54.9	-	-	54.9	54.9
IMF SDR allocation	-	-	9.8	9.8	9.8
Bank and other borrowings	7.3	-	-	7.3	8.2
Financial Guarantees	-	0.1	-	0.1	0.1
Other	-	1.7	0.5	2.2	0.9
Total current	**309.3**	**15.5**	**15.4**	**340.2**	**341.1**
Non-current					
Bank and other borrowings	24.7	-	-	24.7	24.7
Financial guarantees	4.1	-	-	4.1	4.1
Other	0.1	3.9	0.2	4.2	4.4
Total non-current	**28.9**	**3.9**	**0.2**	**33.0**	**33.2**
Total	**338.2**	**19.4**	**15.6**	**373.2**	**374.3**

Note 27. Net public service pension liability

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

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

27.1 Pension scheme liability

Total net pension scheme liability at 31 March 2013

	Unfunded schemes £bn	Funded schemes £bn	Total £bn	2011-12 restated Total £bn
Gross liability	1,072.3	317.7	1,390.0	1,222.2
Gross assets	-	(218.4)	(218.4)	(216.4)
Net liability	**1,072.3**	**99.3**	**1,171.6**	1,005.8

Analysis of movement in the total net pension scheme liability

	Note	Unfunded (gross) £bn	Funded (net) £bn	2012-13 Total £bn	Unfunded (gross) £bn	Funded (net) £bn	2011-12 restated Total £bn
Liability at 1 April		917.7	88.1	1,005.8	894.2	66.8	961.0
Current service costs	*27.5*	28.2	6.9	35.1	28.2	6.4	34.6
Past service costs, including indexation adjustment	*27.5*	0.2	0.1	0.3	0.8	0.2	1.0
Settlements/curtailments	*27.5*	-	(0.2)	(0.2)	-	(0.3)	(0.3)
Interest on scheme liabilities	*27.5*	45.7	13.3	59.0	49.9	14.9	64.8
Expected return on scheme assets	*27.5*	-	(11.1)	(11.1)		(13.8)	(13.8)
Contribution by scheme participants		0.6	(7.8)	(7.2)	-	(8.6)	(8.6)
Actuarial loss/(gain)	*27.6*	84.1	13.3	97.4	(22.8)	21.4	(1.4)
Benefits paid		(34.5)	-	(34.5)	(31.0)		(31.0)
Transfers in/out		30.3	(3.3)	27.0		1.5	1.5
Liability at 31 March					**919.3**	**88.5**	**1,007.8**
Restatement					(1.6)	(0.4)	(2.0)
Liability at 31 March (restated)		**1,072.3**	**99.3**	**1,171.6**	**917.7**	**88.1**	**1,005.8**

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

'Current service costs' were the increase in the present value of the scheme liabilities arising from current members' service in the current period. They were determined by the individual scheme actuaries and were calculated using the discount rate at the start of the year, i.e. as at 31 March 2012.

The rate decreased from 2.9% as at 31 March 2011 to 2.8% as at 31 March 2012, which led to an increase in costs compared to the previous year.

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

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

'Actuarial gains and losses' reflected changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities. An actuarial loss of £97.4 billion (2011-12: gain of £1.4 billion) was recognised. The increase in liabilities is due in the main to the change in actuarial assumptions used to calculate the pension liability and members' commutation terms, such as mortality rates and projected salary increases. Further detail is set out in Note 27.6 below.

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

The unfunded pension liability included the Principal Civil Service Pension Scheme (PCSPS). The 2012-13 Cabinet Office Civil Superannuation accounts reported the financial results of the PCSPS and a number of other small public sector pension schemes. In 2011-12, these accounts were qualified by the Comptroller & Auditor General in respect of the regularity of benefits payments and a limitation in the scope of opinion relating to the truth and fairness of the pension liability. However, clear opinions on these were given in 2012-13.

With effect from 1 April 2012 and under the provisions of the Postal Services Act 2011, which received Royal Assent on 13 June 2011, the government assumed responsibility for both the Royal Mail Pension Plan (RMPP) deficit and the majority of the plan's liabilities. Following this transfer of responsibility to the government, the Royal Mail Statutory Pension Scheme (RMSPS) was established to provide for pensions or other benefits to be payable to or in respect of persons who are or have been qualifying members of the RMPP. The total liability that transferred to RMSPS on 1 April 2012 was £30.6 billion and relates to benefits accrued for qualifying members of the RMPP up to 31 March 2012.

The Royal Mail pension scheme assets of £29 billion transferred to the Department for Business, Innovation and Skills who are in the process of winding down the assets. These contain a mix of financial assets such as government gilts, equity investments, corporate bonds as well as investment properties and cash. Gilts with a market value of £11 billion were offset against the current gilt liability held by the National Loans Fund (NLF). The book value of the Royal Mail gilts held by the NLF was £8 billion, the difference arising due to different accounting treatments. The NLF account for the gilt liability at amortised cost, whereas the asset held by the Pension scheme is held at fair value, resulting in an accounting loss of £3 billion as shown on the face of the Statement of Revenue and Expenditure.

27.2 Unfunded schemes

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

Public service pension schemes carry out full actuarial valuations periodically. Between full valuations, annual updates are made to the liabilities to reflect current conditions. Contribution rates were set to meet the cost of the benefits accruing during 2012-13 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

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

The administration of the Police Pensions Scheme and the Firefighters Pension Scheme was the responsibility of the separate police and fire authorities and regional local authorities that provided a police or fire service. Each individual employer authority that contributed to these schemes recognised their proportion of the liabilities in their statement of accounts. The scheme liability in WGA was the aggregate of amounts reported in the statement of accounts of the individual authority employers, and the amounts reported by the Northern Ireland Police Pension Scheme and Northern Ireland Fire and Rescue Service.

27.3 Funded schemes

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

The Local Government Pensions Scheme (LGPS) was the largest funded scheme. The LGPS (England and Wales) consisted of around 81 separately administered funds, with the LGPS (Scotland) having a further 11 funds. Under the LGPS regulations each fund is subject to an independent actuarial valuation every three years. The individual local authority employers that contributed to these funds recognised their proportion of the scheme liabilities in their statement of accounts. The 'local government funded schemes' balance disclosed in Note 27.4 below included the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

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

Analysis of movement in the funded pension schemes' gross obligations

	Note	**2012-13** **£bn**
Gross liability at 1 April		308.9
Current service costs	*27.1*	6.9
Past service costs	*27.1*	0.1
Interest on scheme liabilities	*27.1*	13.3
Contribution by scheme participants		1.8
Actuarial (gains)/losses		28.3
Benefits paid		(9.1)
Settlements/curtailments		(1.2)
Transfers in/out		(31.3)
Gross liability at 31 March		317.7

Analysis of movement in the funded pension schemes' gross assets

	Note	**2012-13** **£bn**
Gross assets at 1 April		(220.8)
Expected rate of return on scheme assets	*27.5*	(11.1)
Actuarial gains and losses	*27.6*	(15.0)
Contributions by employers and scheme participants		(9.6)
Benefits paid		9.1
Assets distributed on settlements	*27.5*	1.0
Transfers in/out		28.0
Gross assets at 31 March		(218.4)

Of the 624 (2011-12: 625) bodies that participated in funded schemes, 7 (2011-12: 11) have reported a net pension asset, which collectively amounted to £1.9 billion (2011-12: £1.2 billion). The funded pension schemes held a range of assets including gilts as part of their investment portfolio. Gilts held by these pension schemes have not been eliminated during the consolidation process outlined in Note 1.5.

The 'contributions by employer (funded pension schemes)' balance reflected the increase in scheme assets due to payments made into the scheme by the employer as a consequence of scheme requirements to fund any deficit of scheme assets compared to the total scheme liability. These contributions therefore exceeded the current service costs for those schemes. In 2012-13, current service costs amounted to £6.9 billion, whereas the 'contributions by employer (funded pension schemes)' amounted to £7.7 billion; exceeding the current service costs by £0.8 billion.

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

Analysis of funded pension scheme assets

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

	2012-13 Value £bn	2011-12 Value £bn	2012-13 Expected rate of return %	2011-12 Expected rate of return %
Equities	117.9	103.5	4.5 - 8.4	5.3 - 8.4
Bonds	29.0	25.5	2.1 - 7.9	2.4 - 7.9
Other	25.4	22.3	0.5 – 9.0	0.5 - 9.4
Total market value	**172.3**	**151.3**		

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

	2012-13 Value £bn	2011-12 Value £bn	2012-13 Expected rate of return %	2011-12 Expected rate of return %
Equities	16.3	16.4	4.2 - 8.0	4.5 - 8.1
Bonds	13.3	35.7	2.3 - 6.7	2.5 – 7.1
Other	8.8	7.4	0.5 - 8.9	0.5 – 9.5
Not categorised	7.7	5.2		
Total market value	**46.1**	**64.7**		

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

The 'not categorised' balance included pension scheme assets held by certain departments that were unable to calculate a meaningful expected rate of return due to the volatility of market conditions in the view of their actuaries. The largest balances were held by the Department for Transport (£4.5 billion), Department for Business, Innovation and Skills (£1.1 billion) and the Department for Culture, Media and Sport (£0.6 billion). Further details can be found in the individual accounts of these bodies[30].

[30] https://www.gov.uk/government/organisations/department-for-transport, https://www.gov.uk/government/organisations/department-for-business-innovation-skills, https://www.gov.uk/government/organisations/department-for-culture-media-sport

27.4 Analysis of the pension liability by type of scheme

	2012-13 £bn	2011-12 Restated £bn	2012-13 Percentage of liability %	2011-12 Percentage of liability %
Unfunded schemes (gross)				
Teachers (UK)	258.5	233.3	22	23
NHS (UK)	325.1	282.6	28	28
Civil Service	176.5	155.1	15	15
Armed Forces	118.1	105.6	10	11
Police	118.0	101.6	10	10
Fire	22.9	21.1	2	2
Other unfunded	53.2	20.0	4	2
	1,072.3	**919.3**	91	**91**
Funded schemes (net)				
Local government	90.5	78.4	8	8
Other funded	8.8	10.1	1	1
	99.3	**88.5**	**9**	**9**
Restatements		(2.0)		
Total	**1,171.6**	**1,005.8**	**100%**	**100%**

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

Local authorities accounted for £10.4 billion (2011-12: £7.9 billion) of the 'other unfunded' balance, which predominantly related to the Police and Fire Pension Schemes.

The 'other unfunded' balance also included amounts accounted for by the Royal Mail Statutory Pension Scheme (£33.4 billion), the Department for Business, Innovation & Skills: UKAEA Pension Scheme (£5.8 billion (2011-12: £5.2 billion)), and the Research Councils Pension Scheme (£3.5 billion (2011-12: £3.2 billion)).

The 'other funded' balance included net pension liabilities for the Department for Education (£2.1 billion (2011-12: £0.1billion)), Department for Transport £1.9 billion (2011-12: £1.6 billion)), BBC (£1.7 billion (2011-12: £1.3 billion)), the Ministry of Justice (£1.3 billion (2011-12: £1.2 billion)), and the Department for Environment, Food and Rural Affairs (£1.0 billion (2011-12: £0.8 billion)).

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

27.5 Amounts recognised in the Statement of Revenue and Expenditure

	2012-13 £bn	2011-12 £bn
Current service cost	35.1	34.6
Past service cost including pension indexation adjustment	0.3	1.0
Losses on settlements and curtailments	(0.2)	(0.3)
Interest on pension scheme liabilities	59.0	64.8
Expected return on funding pension schemes' assets	(11.1)	(13.8)

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

	2012-13 £bn	2011-12 £bn
Actual return less expected return on scheme assets	(15.0)	5.2
Experience gains and losses arising on liabilities	54.9	(16.7)
Changes in assumptions underlying the value of liabilities	57.5	10.1
Actuarial loss/(gain) on pension liabilities	**97.4**	**(1.4)**

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

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

'Changes in underlying assumptions' are driven by a range of factors such as mortality rates and salary increases, and the discount rate for central government schemes which decreased from 2.8% in 2011-12 to 2.4% in 2012-13. As set out in the FReM, and required by IAS 19, the discount rate for central government schemes is determined by those responsible for the management of the individual pension fund based on yields of high quality corporate bonds (in practice a AA corporate bond rate). HM Treasury advises funded schemes in central government of the discount rate to be used in valuing public sector pension liabilities. The Treasury's methodology is reviewed by the Government Actuary's Department for relevance and reasonableness.

Note 28. Capital commitments

Capital commitments comprise future commitments to capital expenditure that are contracted for but not provided for in the financial statements. Capital commitments for the acquisition of property, plant and equipment and intangible assets for which no provision has been made in these financial statements amounted to £37.7 billion (2011-12: 37.7 billion).

Capital commitments were made by a range of public sector entities as they became a party to contracts for capital expenditure for property, plant and equipment or intangible fixed assets. Details of significant capital commitments are provided below; the remainder are individually not material to WGA. Details of commitments are available in the individual accounts of WGA entities.

Entity	Description of contracted capital commitment	2012-13 Commitment £bn	2011-12 Commitment £bn
Ministry of Defence	Commitments in relation to property, plant and equipment were £14.4 billion (2011-12: £14.4 billion) and for intangible fixed assets £2.3 billion (2011-12: £2.2 billion).	16.7	16.6
Transport for London	Contracts placed for transport and infrastructure projects.	3.7	4.2
Entities within the National Health Service and the Department of Health Group	Core department commitments of £0.5 billion relate to modernising IT systems within the National Health Service (NHS). In addition capital commitments totalling £1.4 billion relate to Primary Care Trusts, NHS Trusts and NHS Foundation Trusts.	2.6	2.2
Scottish Government	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	1.5	1.1

Entity	Description of contracted capital commitment	2012-13 Commitment £bn	2011-12 Commitment £bn
Birmingham City Council	Various contracts for the construction or enhancements of property, plant, furniture and equipment.	1.0	1.2
Department for Education	Commitments in relation to Academy Trust projects.	0.7	0
Department for Business, Innovation and Skills	Commitments in relation to property, plant and equipment for various research councils.	0.4	0.5
Department for Transport	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	0.4	0.2

Note 29. Commitments under leases

29.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below analysed according to the period in which the lease expires.

	Land £bn	Buildings £bn	Other leases £bn	2012-13 Total £bn
Obligations under operating leases comprised:				
Total payments within 1 year	0.1	2.1	1.0	3.2
Total payments between 1 and 5 years	0.2	5.4	1.5	7.1
Total payments thereafter	0.7	9.5	0.5	10.7
Total future minimum lease payments under operating leases	**1.0**	**17.0**	**3.0**	**21.0**

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

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

29.2 Finance leases

Total future minimum lease payments under finance leases are given in the table below, analysed according to the period in which the lease expires.

In respect of finance leases as at 31 March 2013:

	Land £bn	Buildings £bn	Other leases £bn	2012-13 Total £bn
Obligations under finance leases comprised:				
Total payments within 1 year	0.1	0.3	0.4	0.8
Total payments between 1 and 5 years	0.2	1.1	1.0	2.3
Total payments thereafter	8.9	12.6	0.5	22.0
Total	**9.2**	**14.0**	**1.9**	**25.1**
Less interest element	(8.3)	(11.0)	(0.5)	(19.8)
Total future minimum lease payments under finance leases	**0.9**	**3.0**	**1.4**	**5.3**

In respect of finance leases as at 31 March 2012:

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

Current year finance charges in respect of finance lease are disclosed in Note 13 alongside PFI interest. Finance leases are predominately in defence and broadcasting.

Note 30. Commitments under PFI contracts

PFI assets were recognised on the Statement of Financial Position where the government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract. Where WGA entities had entered PFI contracts but did not meet the control criteria, the assets provided as part of the contract are not recognised in these accounts and the costs are recognised when they are incurred. Further detail of PFI projects with central government support is available on the Treasury website[31]. The website currently includes data provided by central government departments as at March 2013.

Note 30.1 PFI contracts recognised on the Statement of Financial Position

The net book value of PFI assets included in the Statement of Financial Position was £37.0 billion (2011-12: £38.7 billion) as at 31 March 2013. The assets were accounted for in a manner consistent with other assets of that type. The PFI liability for the present value of capital amounts payable included in the Statement of Financial Position was £36.6 billion (2011-12: £36.1 billion).

[31] https://www.gov.uk/government/publications/pfi-projects-data-march-2013

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

Obligations for future periods arise in the following periods:	**2012-13**	**2011-12**
	£bn	**£bn**
No later than one year	4.2	4.0
Later than one year and not later than five years	15.7	15.8
Later than five years	61.6	60.5
Gross present value of future obligations	**81.5**	**80.3**
Less interest charges allocated to future periods	(42.2)	(42.3)
Net present value of future obligations	**39.3**	**38.0**
Plus: service charges due in future periods	117.3	111.4
Total future obligations	**156.6**	**149.4**

Future obligations arising "later than five years" may arise for another 30 to 40 years, depending on the individual contract. The net present value of future obligation of £39.3 billion (2011-12: £38.0 billion), excluding service charges, was different from the liability recognised on the Statement of Financial Position of £36.6 billion (2011-12: £36.1 billion) for a number of reasons. Some WGA entities included costs such as contingent rents and lifecycle replacement costs in future obligations but not in the liability figure. Some WGA entities also reported future obligations but had not recognised a liability in their accounts as the related PFI asset had not yet been commissioned.

The gross present value obligations by segment were:

	2012-13 Value £bn	**2011-12 Value £bn**
Central government departments and entities within the NHS	44.7	44.2
Local authorities	35.3	34.7
Public corporations	1.5	1.4
Gross present value of future finance lease obligations	**81.5**	**80.3**

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

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

Entity	Description of PFI contract	Contract start date	Contract end date
Greater Manchester Waste Authority	PFI contract for the construction maintenance and operation of 43 new waste disposal facilities in the Greater Manchester area.	Apr-2009	Mar-2034
Department for Transport	Maintain and operate the M25 Orbital route, and widen most of the remaining 3 lane sections to 4 lanes.	Dec-2008	Nov-2038
Department for Work and Pensions	Maintenance and management of the departmental estate.	Apr-1998	Mar-2018
Department of Health	Redevelopment, maintenance and operation of the cardiac and cancer facilities at Barts and the London NHS Trust	Mar-2010	Apr-2048
Department of Health	Provision of acute hospital facilities and maintenance and operation of University Hospitals Birmingham NHS Foundation Trust.	Jun-2006	Aug-2046
Department of Health	Construction, maintenance and operation of the new Saint Mary's Hospital in Greater Manchester.	May-2009	Apr-2047
Ministry of Defence	PFI to provide and maintain air-to-air refuelling and passenger air transport capabilities.	Mar-2008	Mar-2035
Ministry of Defence	Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-2003	Aug-2022
Ministry of Defence	Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-2006	Apr-2041
Ministry of Defence	Redevelopment and maintenance of Colchester Garrison to provide accommodation and associated services.	Feb-2004	Feb 2039
Nottingham City Council	PFI for the construction, maintenance and running of 2 new tram lines.	Dec-2011	March-2034

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

During the 2012-13 financial year, a number of WGA entities had PFI contracts which were not recognised on the Statement of Financial Position because the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these contracts in their accounts in different ways, as the FReM allows flexibility as to how to present the information. Therefore, it is not possible to provide a summary of all these PFI contracts.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in 2012-13 WGA that are not already consolidated.

The most significant PFI contract not recognised in this account, in line with the policy above, was an arrangement to design, build and operate a secure national digital radio network for the use of the UK's emergency and public safety services, to run for 19 years from 2000. The total service charges payable by the Home Office over the entire life of the initiative are estimated to be £1.4 billion (2011-12: £1.7 billion). Responsibility for Airwave transferred to the Home Office on 1st October 2012 in advance of the closure of the NPIA in 2013. It is not recognised on the Statement of Financial Position under IFRIC 12 *Service Concession Arrangements*, as the department does not control access to the Service or use all but an insignificant amount of the output. Further details are available in the 2012-13 accounts of the Home Office, which can be found on their website[32].

Note 31. Other financial commitments

Some WGA entities entered into other non-cancellable contracts that were not leases or PFI contracts. These financial commitments were made by a range of public sector entities. Future payments in relation to these commitments totalled £49.3 billion (restated 2011-12: £61.8 billion) and consisted of £37.7 billion (restated 2011-12: £47.2 billion) for central government, £6.4 billion (2011-12: £6.9billion) for local government and £5.3 billion (2011-12: £5.4 billion) for public corporations.

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

Entity	Description of commitment	2012-13 Commitment £bn	2011-12 Restated Commitment £bn
HM Treasury	Undrawn working capital facility provided to Bradford & Bingley plc and Northern Rock (Asset Management) plc	7.2	6.0
	Bilateral loan to Ireland	0.8	2.0
Higher Education Funding Council for England	Grant commitments for the period April to July 2013 and subsequent academic years	6.3	7.5
Department for Transport	Amounts payable to Network Rail in accordance with a Deed of Grant and to train operating companies under rail franchise agreements	4.7	8.8
Department of Health Group	Service contracts entered into by NHS Informatics for the delivery of a NHS National Programme for Information Technology, as well as commitments relating to the purchase of childhood and adult vaccines, independent sector treatment centres, and research and development.	4.6	5.1
British Broadcasting Corporation	Fixed payments for long term outsourcing arrangements and programme acquisitions and rights	3.5	3.6
Department for Environment, Food and Rural Affairs	Facilities management costs associated with the occupation of buildings, contracts related to IT services and agreements with local authorities for Waste Infrastructure Grant projects	2.3	2.4
Engineering and Physical Sciences Research Council	Research and training grants	2.1	1.8
Scottish Government	Amounts payable to Network Rail and First Scotrail in accordance with a Deed Of Grant and rail franchise agreement	1.3	1.6

[32] www.official-documents.gov.uk/document/hc1314/hc00/0021/0021.pdf

Entity	Description of commitment	2012-13 Commitment £bn	2011-12 Restated Commitment £bn
Ministry of Justice	Commitments in respect to a number of non-cancellable contracts for contracted out services including the management of prisons	1.2	1.5
Home Office	Service contracts entered into by the UK Border Agency and the Identity and Passport Service	1.1	1.0
CDC Group (formerly Commonwealth Development Corporation)	Subscriptions to debentures, loans and shares	1.0	1.3
Medical Research Council	Forward commitments on research awards to higher education research institutes	0.9	0.7
Department for Work and Pensions	Commitments in respect of contracts for the provision of goods and services	0.9	1.5

Note 32. Contingent assets and liabilities disclosed under IAS 37

32.1 Quantifiable contingent assets

A number of WGA entities had quantifiable contingent assets discloseable under IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*', which totalled £0.3 billion (2011-12: £0.4 billion). The contingent assets were individually not material to WGA. Details of those contingent assets are available in the individual accounts of WGA entities.

32.2 Quantifiable contingent liabilities

The government has a number of quantifiable contingent liabilities discloseable under IAS 37.

Total quantifiable contingent liabilities reported by category are as follows:

	2012-13 £bn	2011-12 £bn
Financial stability interventions	9.9	9.9
Export guarantees and insurance policies	12.7	9.9
Clinical negligence	10.5	8.4
Taxes subject to challenge	14.5	14.5
Supporting international organisations	32.1	32.6
[1] Loss of tax revenue from oil and gas field decommissioning	-	20.0
Other	8.2	5.5
Total quantifiable contingent liabilities	**87.9**	**100.8**

[1] The loss of tax revenue from oil and gas field decommissioning now features as a £3.8 billion provision in the 2012-13 accounts of HM Revenue and Customs and is therefore no longer reported as a contingent liability.

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

	Quantifiable contingent liabilities	2012-13 Potential liabilities £bn	2011-12 Potential liabilities £bn
Financial stability intervention: 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 annum. This commitment is in place for 5 years, until 22 December 2014, but can be ended early by the bank with the consent of the regulatory authorities. The contingent capital would, if drawn down, be injected in tranches in the form of B-shares, should the core tier one capital ratio of RBS fall below 5%.	8.0	8.0
Financial stability intervention: Northern Rock (Asset Management) plc	HM Treasury has confirmed to the regulatory authorities its intention to take appropriate steps (should they prove necessary) to ensure that Northern Rock (Asset Management) plc will continue to operate above the minimum regulatory capital requirements. In addition, HM Treasury has provided certain warranties and a tax indemnity under the terms of the sale of Northern Rock plc.	1.6 0.3	1.6 0.3
Export guarantees and insurance policies	The Export Credits Guarantee Department supported exports and investments through issuing and renewing guarantees and insurance policies. It issues guarantees and insurance against loss for, or on behalf of, exporters of goods and services and overseas investors from the UK, and supports the provision of fixed-rate export finance.	12.7	9.9
Clinical negligence	The Department of Health is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the Department's accounts. In other cases, there is a large degree of uncertainty as to the department's liability and amounts involved.	10.5	8.4
HM Revenue and Customs (HMRC) legal and other disputes	HMRC is engaged in a number of legal and other disputes which can result in claims by taxpayers against HMRC. This covers a range of cases, including Corporation Tax, Income Tax and VAT Contingent liabilities are cases where it is probable that HMRC will be required to settle an obligation but it is not able to estimate the amount reliably, or where it is possible (but not probable) that HMRC will be required to settle an obligation.	14.5	14.5
Loss of tax revenue from oil field decommissioning	HMRC have reviewed their treatment of tax revenue loss due to oil field decommissioning. Whilst the long term costs could not continue to be quantified with any accuracy to form the basis of a contingent liability, the short term costs (up to 2017) have now been sufficiently estimated to classify as provision. Therefore, in 2012-13 HMRC are showing a provision of £3.8 billion in their accounts to represent the potential loss of tax revenues as a result of oil field decommissioning up to 2017.	-	20.0

	Quantifiable contingent liabilities	2012-13 Potential liabilities £bn	2011-12 Potential liabilities £bn
Crossrail funding and delivery	To support the delivery of the Crossrail project, the Department for Transport has provided indemnities to parties carrying risks that they would otherwise be unable to bear.	3.4	2.3
Supporting International organisations	The Department for International Development has reported contingent liabilities in respect of contributions it expects to pay to international organisations that have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.	1.9	2.8
European Investment Bank (EIB) – callable capital subscription	The EIB financial statements at 31 December 2012 show the UK is liable for £30.2 billion of callable capital to the EIB. Under Article 5 of the EIB Statute, the Board of Directors may call upon each member state to pay its share of the balance of the subscribed capital should the bank have to meet its obligations.	30.2	29.7

32.3 Non-quantifiable contingent liabilities

The government had entered into a number of contingent liabilities where the size of the liability could either not be determined with reasonable certainty or to quantify it would jeopardise the outcome of the case. The details of the most significant non-quantifiable contingent liabilities are outlined below. The remaining non-quantifiable contingent liabilities are made up of liabilities that individually are not significant to WGA. Details of these liabilities are available in the accounts of individual WGA entities.

Legal claims

Non-quantifiable contingent liabilities have arisen as a result of a number of legal claims, compensation claims and tribunal cases made against a range of WGA entities, for which no reliable estimate of liability could be made.

Commitments in relation to pension scheme deficits

Non-quantifiable contingent liabilities have arisen as a result of commitments made by several WGA entities to provide funding for pension liabilities of individual pension schemes, should those schemes require deficits to be funded.

Indemnities in relation to financial stability interventions

HM Treasury has confirmed to the regulatory authorities its intention to take appropriate steps, should it prove necessary, to ensure that Bradford & Bingley plc will stay above the minimum regulatory capital requirements.

Compensation schemes

Under the Northern Rock plc compensation scheme established in 2008, an independent valuer assessed if any compensation was payable by HM Treasury to former shareholders of Northern Rock plc and others as a result of the company being taken into public ownership. In 2010 the valuer concluded that no compensation was payable. Any affected party could write to request that the valuer reconsider his assessments, and could refer any revised assessments to the Upper Tribunal (formerly the Financial Services and Markets Tribunal). The valuer issued revised assessment notices upholding his view that the amount payable to former shareholders was nil. On referral to the Upper Tribunal the valuer's decision was upheld. A number of former Northern Rock shareholders disputed the Northern Rock assessment in court. In May 2013 the Court of Appeal upheld the independent valuer's interpretation of statutory valuation assumptions. Therefore, the independent valuer's determination and that no compensation is payable to Northern Rock shareholders stands subject to any further appeal to the Supreme Court. Maximum potential liabilities under this intervention are considered unquantifiable.

A compensation scheme was established in 2009 in relation to the Dunfermline Building Society. The Treasury was required to set up an appointment panel responsible for appointing the independent valuer. HM Treasury has indemnified members of the appointment panel against any and all claims, losses, damages and liabilities incurred in connection with or arising from their membership. Maximum potential liabilities under these interventions are considered unquantifiable.

Contingent liabilities for reinsurance arising from acts of terrorism

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

Civil nuclear liabilities

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

Financial Assistance Scheme

The Financial Assistance Scheme (FAS) was set up to take over payments of some fully funded private sector pensions and other associated benefits in qualifying schemes and, in return, to take the assets and associated liabilities of those pension schemes into government It is estimated that the total value of assets transferred to government will reach £1.7 billion. It will not be possible to estimate the FAS pension liability impact until all the assets transfer.

Contingent liabilities arising from rail franchising agreements

Guarantees were given by the Strategic Rail Authority (and previously by the Director of Passenger Rail Franchising), and novated to the Department for Transport, in relation to new, replacement and extended passenger rail franchise agreements. It is not possible to quantify the potential liability that might arise as a result of these undertakings.

Contingent liability in relation to the Channel Tunnel

The Department for Transport has a statutory liability under the Channel Tunnel Act 1987 that if, after termination of the Channel Tunnel concession, it appears to the Secretary of State that the operation of the tunnel will not be resumed in the near future, necessary steps shall be taken to ensure that the land is left in a suitable condition in accordance with the scheme.

Service Life Insurance

The government provides access to life insurance for Ministry of Defence service personnel through Service Life Insurance. Details of the scheme and key features can be found at: www.servicelifeinsurance.co.uk.

Note 33. Remote contingent liabilities reported to Parliament

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

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

33.1 Remote quantifiable contingent liabilities reported to Parliament

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

	1 April 2012 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2013 £bn
Guarantees[1]	66.0	6.3	(1.1)	(31.1)	**40.1**
Indemnities	92.4	11.8	-	(63.2)	**41.0**
Letters of comfort	4.0		-	-	**4.0**
Total	**162.4**	**18.1**	**(1.1)**	**(94.3)**	**85.1**

	1 April 2011 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year[3] £bn	31 March 2012 £bn	Restated[2] 31 March 2012 £bn
Guarantees[1]	185.0	8.9	-	(127.9)	**66.0**	**66.0**
Indemnities	141.5	11.0	-	(62.2)	**90.3**	**92.4**
Letters of comfort	4.0	-	-	-	**4.0**	**4.0**
TOTAL	**330.5**	**19.9**	**-**	**(190.1)**	**160.3**	**162.4**

[1] The government's guarantee in relation to notes in circulation is included as a financial liability on the Statement of Financial Position and disclosed in Note 26, other financial liabilities – banknotes issued in circulation.

[2] The restatement of the 2011-12 closing balance for indemnities by £2.1 billion is required to include academy trusts, which are present in the Department for Education group accounts for the first time in 2012-13.

[3] The figure in the table above for 2011-12 for 'obligation expired in year' includes £31.6 billion for the European Investment Bank, which was reported in 2010-11 as a remote contingent liability here in Note 33, which then transferred in 2011-12 to being reported as a £29.7 billion contingent liability disclosed under IAS37 in Note 32;

Details of the most significant quantifiable guarantees, indemnities and letters of comfort for which the risk of crystallisation is remote, and which have been reported to Parliament, are outlined below. Other remote quantifiable contingent liabilities are not individually material to WGA. Details of those liabilities are available in the individual accounts of WGA entities.

	Remote quantifiable contingent liabilities: Guarantees	2012-13 Potential liabilities £bn	2011-12 Potential liabilities £bn
Credit Guarantee Scheme	The Credit Guarantee Scheme was put in place as part of the financial support to the banking sector announced on 8 October 2008. The scheme closed at the end of October 2012 following the last guaranteed debt issuance reaching maturity. This contingent liability has been extinguished without any payouts.	-	24.2
Financial guarantees issued to certain depositors with public sector banks	In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley plc. Maximum potential liabilities under this intervention were estimated to be £2.8 billion as at 31 March 2013 (2012: £3.2 billion). On 1 January 2010 HM Treasury put in place arrangements to guarantee certain retail deposits and wholesale liabilities transferred to Northern Rock plc pursuant to the restructuring of the bank. HM Treasury continues to guarantee them until their maturity. Maximum potential liabilities under this intervention are estimated to be £0.2 billion (2012: £0.5 billion). With effect from 1 January 2010 HM Treasury put in place arrangements to safeguard certain borrowings and wholesale deposits held in accounts with Northern Rock (Asset Management) plc. Maximum potential liabilities under this intervention are estimated to be £8.9 billion as at 31 March 2013(2012: £10.6 billion).	11.9	14.3
International financial institutions	Contingent liabilities in respect of callable capital on investments in international financial institutions.	11.0	12.1
Coins that are returned from circulation	Contingent liabilities representing government's potential obligations in respect of coins returned from circulation.	4.2	4.0
Loans to EU Member States and third countries	This represents the UK's maximum liability from current outstanding loans to EU Member States and third countries. Guaranteed loans to EU Member States include outstanding support under the Balance of Payments Facility, which offers medium-term financial assistance for EU countries outside the Euro area. Guarantees to third countries include support to Bosnia-Herzegovina, Georgia and Serbia and Montenegro for macro financial assistance purposes and other specific projects. The loans are guaranteed by the EU budget and the liability will only crystallise if the loans are defaulted on.	9.6	6.3

	Remote quantifiable contingent liabilities: Indemnities and letters of comfort	2012-13 Potential liabilities £bn	2011-12 Potential liabilities £bn
Asset Protection Scheme	On 22 December 2009, the Royal Bank of Scotland (RBS) acceded to the Asset Protection Scheme, insuring an asset pool of £282 billion. The value of assets covered by the pool as at 1 April 2012 was £120.8 billion. Maximum exposure to HM Treasury was estimated at £54.7 billion. In October 2012 RBS was allowed to exit from the scheme, extinguishing the contingent liability without any payouts.	-	54.7
Network Rail	Indemnity: The Department for Transport has provided a financial indemnity in support of Network Rail's Debt Issuance Programme, to decrease Network Rail's costs of borrowing and increase the amount invested in the rail infrastructure.	30.4	27.3
	Letter of comfort: The Department for Transport has issued a standby credit facility for Network Rail, with a term of 50 years, to act as a long-term contingency buffer. This has not been used to date.	4.0	4.0
	The measures of financial support of Network Rail's borrowing are recognised as financial guarantees within the financial liabilities elements of Note 35 (financial instruments), with a market value of £3.7 billion, payable by Network Rail over the life of the debt issuance programme.		
Government Indemnity Scheme	The Government Indemnity Scheme indemnifies lenders to museums, galleries and other institutions when mounting exhibitions or taking long-term loans for study or display.	7.0	6.6

33.2 Remote non-quantifiable contingent liabilities reported to Parliament

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

Nationalised industries

There is a possibility that liabilities pertaining to nationalised, and former nationalised, industries may crystallise and fall to the Department for Business, Innovation and Skills.

Regional development banks and funds

The Department for International Development is responsible for the maintenance of the value of subscriptions paid to the capital stock of regional development banks and funds.

National Health Service

The Department of Health reported that it has 26 indemnities which represent remote unquantifiable contingent liabilities, with various health bodies and private companies. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Nuclear matter

Indemnities have been given to UK Atomic Energy Authority (UKAEA) by the Department for Business, Innovation and Skills to cover indemnities given to carriers against certain claims for damage caused by nuclear matter in the course of carriage.

Guarantee to protect BT's pension liabilities

The Department for Culture, Media and Sport has guaranteed pension liabilities to those who belonged to the BT pension scheme at the time of privatisation in 1984. The guarantee would only apply if BT were ever to be wound up, and is set out in the Telecommunications Act 1984. Subsequently, the Trustee of the BT Pension Scheme has undertaken legal proceedings to clarify the terms and scope of this guarantee. The High Court proceedings are now concluded with the main findings in favour of the Trustees and BT. The government has lodged notice of appeal and the appeal is due to be heard at the end of April 2014.

Note 34. Third party assets

	2012-13 £bn	2011-12 £bn
Monetary assets	3.3	3.6
Investments	0.5	0.4
Total third party assets	**3.8**	**4.0**

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

The Office of the Accountant General (Previously the Court Funds Office), part of the Ministry of Justice, manages money held in court on behalf of clients who may be involved in a civil legal action; individuals who, under the Court of Protection, are not able to manage their property and affairs; and children under the age of 18. The market values of these assets as at 28 February 2013 (the financial reporting period end date for the Court Funds Office) were: £2.7 billion (2011-12: £3.1 billion) of cash; and £0.2 billion (2011-12: £0.2 billion) of securities.

Further information regarding funds in court is available in the 2012-13 Office of the Accountant General accounts[33].

Other significant third party assets are held by the Northern Ireland Court of Justice and the Department of Health and its consolidated health bodies.

Note 35. Financial instruments

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Details of the accounting policies adopted are set out in Note 1.20 to the financial statements.

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

[33] http://www.official-documents.gov.uk/document/hc1314/hc03/0386/0386.pdf

35.1 Carrying value of financial instruments

Financial assets, as at 31 March 2013, are categorised at their carrying values as follows:

	Note	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through SoRE £bn	Held for trading at fair value £bn	2012-13 Total £bn
Cash and cash equivalents	*21*	19.8	-	-	-	-	-	19.8
Trade and other receivables	*17*	-	137.3	-	-	-	-	137.3
Loans and deposits with banks	*22*	-	109.7	1.4	-	-	-	111.1
Equity investments in banks	*18*	-	-	-	45.2	-	-	45.2
Other equity investments	*22*	-	-	-	18.8	3.2	0.6	22.6
Debt securities	*22*	-	-	-	-	-	40.3	40.3
Student loans	*22*		36.0	-	-	-	-	36.0
IMF quota subscription	*22*	-	10.6	-	-	-	-	10.6
IMF Special Drawing Rights	*22*	-	-	-	-	-	9.5	9.5
Other	*22*	-	0.3	-	5.6	1.0	6.1	13.0
Total financial assets		**19.8**	**293.9**	**1.4**	**69.6**	**4.2**	**56.5**	**445.4**

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

	Note	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through SoRE	Held for trading at fair value £bn	2011-12 Total £bn	2011-12 restated Total £bn
Cash and cash equivalents	*21*	21.5	-	-	-	-	-	21.5	21.2
Trade and other receivables	*17*	-	141.9	-	-	-	-	141.9	137.7
Loans and deposi with banks	*22*	-	120.2	0.5	-	-	-	120.7	121.7
Equity investments in banks	*18*	-	-	-	40.8	-	-	40.8	40.8
Other equity investments	*22*	-	-	-	14.1	2.8	0.3	17.2	17.5
Debt securities	*22*	-	-	-	-	-	38.2	38.2	38.2
Student loans	*22*	-	33.1	-	-	-	-	33.1	33.1
IMF quota subscription	*22*	-	10.4	-	-	-	-	10.4	10.4
IMF Special Drawing Rights	*22*	-	-	-	-	-	9.3	9.3	9.3
Other	*22*	-	1.3	0.1	1.8	7.3	7.4	17.9	20.3
		21.5	**306.9**	**0.6**	**56.7**	**10.1**	**55.2**	**451.0**	**450.2**

Financial liabilities, as at 31 March 2013, are categorised at their carrying values as follows:

	Note	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2012-13 Total £bn
Government financing and borrowing	*24*	996.2	-	-	996.2
Trade and other payables	*23*	151.9	-	-	151.9
Deposits by banks	*26*	315.2	12.4	6.6	334.2
Bank and other borrowings	*26*	31.9	-	-	31.9
Banknotes in circulation	*26*	58.0	-	-	58.0
IMF SDR allocation	*26*	-	-	10.0	10.0
Financial guarantees	*26*	4.5	-	0.2	4.7
Other	*26*	0.3	3.1	0.8	4.2
Total financial liabilities		**1,558.0**	**15.5**	**17.6**	**1,591.1**

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

	Note	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2011-12 Total £bn	2011-12 restated Total £bn
Government financing and borrowing	*24*	965.5	-	-	965.5	965.5
Trade and other payables	*23*	154.8	-	-	154.8	155.6
Deposits by banks	*26*	247.1	13.7	5.1	265.9	267.2
Bank and other borrowings	*26*	32.0	-	-	32.0	32.9
Banknotes in circulation	*26*	54.9	-	-	54.9	54.9
IMF SDR allocation	*26*	-	-	9.8	9.8	9.8
Financial guarantees	*26*	4.1	0.1	-	4.2	4.2
Other	*26*	0.1	5.6	0.7	6.4	5.3
Total financial liabilities		**1,458.5**	**19.4**	**15.6**	**1,493.5**	**1,495.4**

35.2 Fair value of financial instruments

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

	Note	Carrying value 2012-13 £bn	Carrying value 2011-12 £bn	Fair value 2012-13 £bn	Fair value 2011-12 £bn
Cash and cash equivalents	*21*	19.8	21.5	19.8	21.5
Loans and receivables at amortised cost	*22*	293.9	306.9	293.9	306.9
Held to maturity investments at amortised cost		1.4	0.6	1.4	0.6
Available for sale financial assets		69.6	56.7	69.6	56.7
Designated as fair value through SoRE		4.2	10.1	4.2	10.1
Financial assets held for trading	*23*	56.5	55.2	56.5	55.2
Total			451.0		451.0
Total financial assets (restated)		**445.4**	**450.2**	**445.4**	**450.2**

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

	Carrying value 2012-13 £bn	Carrying value 2011-12 £bn	Fair value 2012-13 £bn	Fair value 2011-12 £bn
Financial liabilities at amortised cost	1,558.0	1,458.5	1,740.2	1,578.2
Financial liabilities at fair value	15.5	19.4	15.5	19.4
Financial liabilities held for trading	17.6	15.6	17.6	15.6
Total		1,493.5		1,613.2
Total financial liabilities (restated)	**1,591.1**	**1,495.4**	**1,773.3**	**1,650.2**

Financial instruments measured at fair value use the valuation techniques described in Note 1.20. The remaining financial instruments were carried at cost or amortised cost which approximated to fair value, with one exception. Gilt-edged securities were carried at amortised cost at £833.6 billion (2011-12: 788.3 billion) and had a fair value of £980 billion (2011-12: 903.2 billion).

The valuation hierarchy of financial instruments that were carried at fair value for 2012-13 was:

	Level 1[1] £bn	Level 2 £bn	Level 3 £bn	Total £bn
Financial assets at fair value				
Equity investments	38.9	27.3	1.6	67.8
Debt securities	40.3	-	-	40.3
IMF special drawing rights	9.5	-	-	9.5
Other	7.6	4.6	0.5	12.7
Financial liabilities at fair value				
Deposits by banks	(6.6)	(12.4)	-	(19.0)
IMF SDR allocation	(10.0)	-	-	(10.0)
Financial guarantees	(0.2)		-	(0.2)
Other	(0.8)	(3.1)	-	(3.9)

[1]Fuller details on levels provided in page 68, 1.20.3

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

	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn	Total Restated £bn
Financial assets at fair value					
Equity investments	32.5	22.0	3.5	58.0	58.3
Debt securities	32.6	5.6	-	38.2	38.2
IMF special drawing rights	9.3	-	-	9.3	9.3
Other	9.6	6.4	0.5	16.5	18.9
Financial liabilities at fair value					
Deposits by banks[1]	(5.1)	(13.7)	-	(18.8)	(18.8)
IMF SDR allocation	(9.8)	-	-	(9.8)	(9.8)
Financial guarantees	(0.1)	-	-	(0.1)	(0.1)
Other	(3.2)	(3.1)	-	(6.3)	(5.2)

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

The movement in level 1 equity investments between 2011-12 and 2012-13 was driven by the upward revaluation of shares in Lloyds Banking Group.

35.3 Financial guarantees

Details of the government's significant financial guarantees are disclosed in Note 26. The accounting treatment of financial guarantees is provided in Note 1.20.7.

35.4 Hedging

The UK had official reserves of gold and currencies (including IMF Special Drawing Rights) of £68.1 billion (2011-12: £60.5 billion), of which £36.8 billion (2011-12: £32.0 billion) was hedged for currency and interest rate risk. The hedged reserves comprised portfolios of eligible dollar, euro and yen-denominated assets and holdings of Special Drawing Rights. Assets in the hedged reserves are hedged for currency risk either by being denominated in the same currency as the liabilities that finance them or by using currency swaps. The hedged reserves were also hedged against interest rate risk, through the use of swaps. The increase in official reserves was primarily caused by the investment of additional financing provided by the government plus appreciation of the euro and dollar against the pound.

Where foreign currency reserves are financed by foreign currency borrowing, the debt is issued by, and is an obligation of, the government. Financing of the hedged reserves in 2012-13 included sterling swapped into foreign currencies of £23.2 billion (2011-12: £19.4 billion) and the SDR allocation of £10.0 billion (2011-12: £9.8 billion). The EEA did not have or issue any foreign currency securities during the year. The Bank of England held £3.6 billion of listed foreign government and other foreign currency securities (2011-12: £4.7 billion), funded by the Bank's issuance of medium-term securities.

The EEA provided foreign currency services to government departments and agencies. Foreign currency was sold to departments with foreign currency obligations and foreign currency was purchased from departments with foreign currency receipts, in aggregate totalling £12.4 billion (2011-12: £11.2 billion). These purchases and sales, both spot and forward, were hedged through offsetting trades with the market.

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

35.5 Financial risk management

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

35.5.1 Risk management policies and financial risk factors

Traditional risk management in the private sector aims to maximise investor return while maintaining risk at an acceptable level. Government risks are normally related to financing arrangements to provide funds for public services and infrastructure. Each year, the government will assess the costs and risks associated with different possible patterns of debt issuance taking into account the most up-to-date evidence and information about market conditions and demand for debt instruments.

The government has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. In return for taking on the financial risk, fees are charged to the institutions participating in the interventions. Through its risk management, the government seeks to minimise overall fiscal risk to the public sector while maximising taxpayer value.

The government's risk appetite in relation to its financial assets and liabilities are categorised into four types (credit risk, liquidity risk, interest rate risk, and foreign exchange risk). Within the government's risk boundary, public bodies have some discretion to take the actions judged to best achieve the cost minimisation objective.

Much of the government's risks arising from financial risk are managed through HM Treasury and the central funds, including the National Loans Fund (NLF), Debt Management Office (DMO), Exchange Equalisation Account (EEA), and National Savings and Investments (NS&I). The NLF is central government's principal borrowing and lending account. The DMO meets the financing needs of the NLF through its debt and cash management operations. The NS&I finances a part of the government's borrowing by selling investment products to retail savers and investors. The EEA and the NLF hold the UK's official reserves of gold and currencies, which are managed on a day to day basis by the Bank of England. The structural relationship between HM Treasury, DMO, NLF, EEA and NS&I is designed to manage transactions between government departments and minimise the government's financial risk.

Cash requirements of central government departments are met through the estimates process, with Parliament annually approving the supply financing requirements of central government departments. Therefore financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The government's cash management objective is to ensure that sufficient funds are always available to meet any net daily cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. HM Treasury and the DMO work together to achieve this, with HM Treasury's role being to make arrangements for a forecast of the daily net flows into or out of the NLF; its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time. The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; and its objective in so doing is to minimise the costs of cash management while operating within the risk appetite approved by ministers.

Local authorities adopt independent liquidity and interest rate risk management, and this is done within a statutory framework. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures sufficient funds are raised to cover annual expenditure. Medium term plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day to day cash flow need and can access longer term funds from the Public Works Loan Board (PWLB) which acts as a lender of last resort to ensure their financing needs are met.

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

35.5.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the government by failing to discharge the obligation. The government was exposed to credit risk through a number of its financial assets.

The government's material credit risk was centred in the central funds (particularly the DMO and EEA), HM Treasury, the Bank of England, the Department for Business, Innovation and Skills (BIS) and the Department for Transport (DfT). The main credit risks arose from the loans and guarantees provided by the Treasury to the financial institutions, the purchases of assets from the financial institutions, including reverse sale and repurchase agreements ('reverse repos') entered into by DMO and the Bank of England, and student loans provided by BIS.

Granting financial guarantees results in a credit risk exposure, which is the maximum amount an entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The tables below do not include contingent liabilities that give rise to credit risk, including support to the banking sector through the Credit Guarantee Scheme and Asset Protection Scheme (extinguished for 2012-13, but included in 2011-12), guarantees to the European Investment Bank of £30.2 billion (2011-12: £29.7 billion) and guarantees to support Network Rail's Debt Issuance Programme of £30.4 billion (2011-12: 27.3 billion). Further information is available in Note 32 and Note 33.

The government's material exposures to credit risk are analysed below:

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2012-13 Total £bn
Cash and cash equivalents	2.0	0.3	0.4	-	1.4	**4.1**
Loans and receivables	-	0.5	69.5	2.5	53.8	**126.3**
Available for sale financial assets	-	-	-	-	2.1	**2.1**
Financial assets held for trading	32.5	9.5	6.5	0.5	9.7	**58.7**
Total material exposure	**34.5**	**10.3**	**76.4**	**3.0**	**67.0**	**191.2**

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2011-12 Total £bn
Cash and cash equivalents	2.1	-	-	-	0.5	**2.6**
Loans and receivables	2.6	4.6	80.1	2.8	48.0	**138.1**
Available for sale financial assets	-	-	-	-	1.9	**1.9**
Financial assets held for trading	34.4	4.5	6.3	0.2	9.3	**54.7**
Total material exposure	**39.1**	**9.1**	**86.4**	**3.0**	**59.7**	**197.3**

The tables above do not include a credit analysis of financial assets held by the Bank of England of £16.6 billion (2011-12: £22.9 billion). As explained in Note 2 to the Bank's accounts, where the Bank considers certain disclosures inappropriate to its central banking functions, it discloses less detail of certain disclosures (such as information on credit risk) than would be required under adopted IFRS or the Companies Act.

The reduction in loans and receivables classed as A reflects the continuing repayment of loans which HM Treasury provided to financial institutions during and following the 2008 financial crisis.

Financial assets that are 'not rated' included student loans of £36.0 billion (2011-12: 33.1 billion) and the government's holdings and quota subscription of IMF Special Drawing Rights (£20.1 billion (2011-12: £19.7 billion)). The increase in the 'not rated' category was driven mainly by an increase in student loans and greater holdings of unrated assets in the DMO.

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

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2012-13 Total £bn
Cash and cash equivalents	3.4	-	0.1	0.5	0.1	**4.1**
Loans and receivables	109.7	3.5	-	0.1	13.0	**126.3**
Available for sale financial assets	2.1	-	-	-	-	**2.1**
Financial assets held for trading	4.6	21.6	19.8	3.2	9.5	**58.7**
Total material exposure	**119.8**	**25.1**	**19.9**	**3.8**	**22.6**	**191.2**

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2011-12 Total £bn
Cash and cash equivalents	2.3	-	0.2	0.1	-	**2.6**
Loans and receivables	111.5	10.5	2.4	1.3	12.4	**138.1**
Available for sale financial assets	1.9	-	-	-	-	**1.9**
Financial assets held for trading	3.6	24.1	14.8	2.9	9.3	**54.7**
Total material exposure	**119.3**	**34.6**	**17.4**	**4.3**	**21.7**	**197.3**

Management of credit risk

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

The creditworthiness of potential counterparties and security issuers is analysed, in part, using information provided by credit rating agencies, such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings. This is monitored on an ongoing basis. The government generally transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement, both of which are considered on a transaction-by-transaction basis. The government regularly monitors its exposure to credit risk. Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value. In measuring credit exposure, different risk weightings are applied to different transaction types. Limits are applied to total unsecured lending and on holdings of debt securities issued by financial institutions and corporate entities, and on the maximum maturity of loans made and securities held.

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

Student loans

The Department for Business, Innovation and Skills (BIS) has a statutory obligation to issue student loans and seek repayments. It is not permitted to withhold loans on the basis of poor credit rating of the student nor is it able to seek collateral. BIS is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by HM Revenue & Customs (HMRC) through the PAYE tax collection process.

BIS estimates the value of future write-offs when loans are issued using the Student Loan Repayment Model. The department's estimate as at 31 March 2013 was that £6.9 billion (2011-12 Restated: £4.4 billion) (around 9%) of the total face value of the loans issued would not be recovered and this amount was deducted from the face value of the loans to arrive at the carrying amount. However, not all of this was "credit risk" in the normal sense, as the estimates included write off of debts due to death, disability, and age of the student or loan.

BIS works together with the Student Loans Company (SLC) and HMRC, to manage the collection of student loan repayments and the associated credit risks. There is a memorandum of understanding in place between the department and the devolved administrations (who jointly own the loan book), the SLC (who administers the loan book) and HMRC. This sets out the responsibilities of the all parties and contains performance targets and indicators, which are revised annually. The accounting officers of HMRC and the SLC report quarterly to the department's accounting officer on progress towards the agreed targets and performance indicators.

35.5.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated with financial liabilities as they fall due.

Key financial liabilities where the government was exposed to liquidity risk include gilt-edged securities, Treasury Bills and National Savings and Investment products, totalling £996.2 billion (2011-12: £965.5 billion), and other financial liabilities such as deposits by banks and other financial institutions, held by the Bank of England of £297.1 billion (2011-12: £217.6 billion).

Central government departments' net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament. Accordingly, future financing of liabilities held by departments are met by future grants of supply, voted annually by Parliament and funded primarily by tax receipts or borrowing by the NLF and the DMO. Departments are not, therefore, exposed to significant liquidity risks in the same way that a private sector organisation is. Therefore there is minimal liquidity risk associated with the government's trade and other payables.

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

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2012-13 Total £bn
Non-derivative liabilities	604.4	64.2	209.6	201.5	449.3	12.7	1,541.7
Derivative liabilities	4.3	0.2	0.2	-	-	-	4.7
Total in 2012-13	**608.7**	**64.4**	**209.8**	**201.5**	**449.3**	**12.7**	**1,546.4**

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

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the government can be required to pay. The majority of non-derivative financial liabilities with a maturity of less than 12 months are gilts, Treasury Bills, National Savings and Investment products, and deposits from banks and other financial institutions held at the Bank of England. The majority of non-derivative financial liabilities with a maturity of more than 10 years are gilts. The increase in risk since 2011-12 was as a result of issuing more gilts to non-government bodies during 2012-13.

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

Management of liquidity risk

The government manages its exposure to liquidity risk in various ways, primarily by:

- monitoring cash flows to ensure that daily cash requirements are met;
- holding a sufficient stock of UK government securities in the DMO for which there is an active market and which can readily be sold or used as collateral against cash borrowings; and
- arranging the issue of Treasury Bills, National Saving and Investment products, and gilts to raise funds.

The Debt Management Office (DMO) manages liquidity risk on behalf of central government. DMO maintains a minimum prudent level of highly liquid quality securities at all times to ensure that commitments, as forecast by HM Treasury, are met. The risk is minimised through the diversification of its portfolio. At individual entity level, liquidity risk is managed by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and reassessing the net cash requirement on a regular basis.

35.5.4 Market risk

Market risk is the risk that fair values and future cash flows will fluctuate due to changes in market prices. Market risk generally comprises: interest rate risk, foreign exchange risk, and price risk.

35.5.5 Interest rate risk

There are two types of interest rate risk: cash flow and fair value. They both arise from risk that the future cash flows from a financial instrument or its value will fluctuate because of changes in market interest rates. Cash flow interest rate risk arises on variable rate loans. Fair value interest rate risk arises on fixed interest rate loans.

The government's interest rate risk is concentrated mainly in the National Loans Fund (NLF), the Debt Management Office (DMO), Exchange Equalisation Account (EEA), National Savings and Investments (NS&I), the Bank of England, HM Treasury and the Department for Business, Innovation and Skills (BIS).

Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk. The assets and liabilities which are exposed to significant cash flow interest rate risk are those assets and liabilities applying a variable interest rate. The main examples are index-linked gilts, and student loans which are linked to RPI, bank and other borrowings and deposits by banks that are affected by changes in LIBOR and the Bank of England base rate. The assets and liabilities that are exposed to significant fair value interest rate risk are those assets and liabilities applying a fixed interest rate, such as debt securities. Cash and cash equivalent balances earn negligible interest and so are not exposed to significant interest rate risk.

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

	Non-interest bearing £bn	Fixed rate £bn	Floating rate £bn	2012-13 Total £bn
Financial assets - in sterling	6.6	33.4	79.0	119.0
Financial assets - in other currencies	13.6	43.7	10.7	68.0
Financial liabilities - in sterling	(66.3)	(699.8)	(314.4)	(1,080.5)
Financial liabilities - in other currencies	(0.3)	(4.9)	(10.9)	(16.1)
Net financial assets/(liabilities)	**(46.4)**	**(627.6)**	**(235.6)**	**(909.6)**

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

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

Management of interest rate risk

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

In relation to index-linked gilts and NS&I products, the NLF has calculated that an increase in RPI by 100 basis points would result in an increase in expenditure of £3.1 billion (2011-12: £2.7 billion) on its total balance, including those held by other WGA entities. The DMO enters into cash and securities contracts at fixed interest or discount rates and uses the present value of a basis point to measure the sensitivity to a 0.01% shift in interest rates when all other risk factors are held constant. The EEA hedges interest rate risk through interest rate swaps. Typically, it pays fixed rate interest on currency it acquires and generates fixed interest income in the same currency through purchasing an asset such as a bond. By swapping the fixed interest receipts for floating interest receipts through an interest rate swap, the EEA acquires an income stream that matches its interest payment liability and thus minimises its interest rate risk exposure.

In relation to student loans, BIS relies on long term assumptions after 2018 to determine the impact of interest rate changes both on borrower's ability to pay, and the department's forecasts of future payment streams. The impact of the risk on student loans is quantified in the impairment provision which models the impact of interest rate rises on expected future cash flows. For students entering higher education before the 2012-13 academic year income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1% above the Bank of England base rate nor can it be less than 0%. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. If the UK continues to experience interest rates that are lower than RPI and, therefore, the interest rate cap reoccurs with frequency, the student loan book may be over-valued, as the modelling assumes, in the long term that interest is added in line with RPI.

For students entering higher education from the 2012-13 academic year onwards a new loan scheme, known as post HE reform loans is in operation. Under this scheme loan repayments are 9% of income above the repayment threshold (£21,000 from April 2016). Interest is charged based on the borrower's income level, with RPI charged for income below £21,000, rising to RPI plus 3% for income over £41,000.

35.5.6 Foreign-exchange rate risk

The government undertakes transactions denominated in foreign currencies and it holds international monetary reserves including foreign currency assets and IMF Special Drawing Rights. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising derivatives, such as forward foreign exchange contracts.

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

Presented below is the sterling equivalent of the government's foreign currency assets and liabilities, analysed by their underlying foreign currencies, which give rise to a material level of foreign-exchange rate risk.

The government's material exposures to foreign-exchange risk are analysed below:

Foreign currency denominated financial assets/liabilities	Euro £bn	USD £bn	YEN £bn	Other £bn	2012-13 Total £bn
Financial assets					
Cash and cash equivalents	0.7	0.5	0.1	0.1	1.4
Loans and receivables	1.0	0.2	-	13.0	14.2
Available for sale financial assets	8.6	2.2	-	0.6	11.4
Financial assets held for trading	6.2	8.2	3.1	0.1	17.6
Total	**16.5**	**11.1**	**3.2**	**13.8**	**44.6**
Financial liabilities					
Financial liabilities at amortised cost	1.2	0.8	-	7.4	9.4
Financial liabilities at fair value	0.5	0.1	-	-	0.6
Financial liabilities held for trading	-		-	0.5	0.5
Total	**1.7**	**0.9**	**-**	**7.9**	**10.5**

Foreign currency denominated financial assets/liabilities	Euro £bn	USD £bn	YEN £bn	Other £bn	2011-12 Total £bn
Financial assets					
Cash and cash equivalents	0.3	0.6	0.1	0.1	1.1
Loans and receivables	0.7	0.2	-	12.4	13.3
Available for sale financial assets	6.7	2.1	-	0.6	9.4
Financial assets held for trading	5.3	6.9	2.6	0.1	14.9
Total	**13.0**	**9.8**	**2.7**	**13.2**	**38.7**
Financial liabilities					
Financial liabilities at amortised cost	0.5	0.6	-	7.0	8.1
Financial liabilities at fair value	0.5	0.1	-	-	0.6
Financial liabilities held for trading	-	-	-	0.6	0.6
Total	**1.0**	**0.7**	**-**	**7.6**	**9.3**

Where the government is exposed to material foreign-exchange rate risk, its sensitivity to movements in GBP exchange rates is as follows:

Change in GBP exchange rates	2012-13 Impact on revenue and expenditure £bn	2011-12 Impact on revenue and expenditure £bn	2012-13 Impact on net liabilities £bn	2011-12 Impact on net liabilities £bn
Strengthen by 10%	(1.3)	1.1	(2.9)	(1.9)
Weaken by 10%	1.0	(1.5)	3.1	2.4

The UK's official reserves of foreign currency and gold are held by the EEA and NLF and can be split into reserves that are hedged for currency and interest rate risk and the remaining reserves that are unhedged.

The hedged reserves comprise portfolios of eligible dollar, euro and yen denominated assets and holdings of SDRs. The reserves that are exposed to foreign-exchange rate risk comprise dollar and euro denominated bonds, IMF lending and yen exposure normally obtained through forward yen purchases. The unhedged reserves are in the main financed out of sterling through accumulated retained earnings and sterling financing provided by the NLF.

Assets in the hedged reserves are managed on a day-to-day basis by the Bank of England, and are hedged for currency risk to reduce exposure either by being denominated in the same currency as the liabilities which finance them or by using currency swaps. The hedged reserves are also hedged against interest rate risk, through the use of swaps. Financing of the hedged reserves in 2012-13 included sterling swapped into foreign currencies of £23.2 billion (2011-12: £19.4 billion) and the SDR allocation of £10.0 billion (2011-12: £9.8 billion).

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

The UK's capital investment in the European Investment Bank (EIB) of £7.5 billion (2011-12: £5.7 billion) was reported on the basis of a certain share of the EIB's net assets in euros. Therefore there was an exposure to foreign exchange rate risk affecting the fair value of the equity investment. In June 2012 the European Council endorsed a proposal to increase the paid in capital of the European Investment Bank by €10 billion over the next 3 years. The UK's contribution to the capital increase of €1.6 billion (£1.4 billion) was in line with its 16% shareholding.

Management of foreign-exchange rate risk

As described above, foreign-exchange rate risks are concentrated mainly in the Exchange Equalisation Account (EEA). For the hedged part of the reserves, the EEA uses currency swaps to mitigate foreign-exchange rate risk, through an initial exchange of sterling principal for foreign currency at the spot rate, receiving back the same amount of sterling principal at maturity, and regular exchanges of interest payments on the principal amounts.

35.5.7 Price risk

The government is exposed to equity securities price risk through investments held by HM Treasury and classified on the consolidated Statement of Financial Position as available-for-sale. Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and The Royal Bank of Scotland are listed on the London Stock Exchange. In addition, RBS's B-shares are considered to be equivalent in market value to RBS's ordinary shares. No market exists for the remaining investments, which are primarily other government entities, some of which are never intended for sale. Such investments are primarily accounted for at historical cost and thus not exposed to price risk.

The analysis below shows the Statement of Revenue and Expenditure impact of a 10% and 25% increase/(decrease) in the market price of investments in Lloyds Banking Group and The Royal Bank of Scotland. These variances were considered reasonably possible at the balance date.

Variance in market price	Impact on revenue and expenditure	
	2012-13	2011-12
	£bn	£bn
Increase of 10%	-	1.8
Increase of 25%	-	4.5
(Decrease) of 10%	(1.4)	(1.8)
(Decrease) of 25%	(5.8)	(8.7)

Note 36. Related party transactions

WGA consolidates entities that are judged by HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. No one entity appears to have the ability to control all the entities that are consolidated, and as a consequence, for the purposes of WGA, there is no parent company disclosed in this account. Instead, related parties, as defined in the FReM for WGA purposes, are those public sector entities in Annex 2 that have not been consolidated into the 2012-13

WGA. Entities within the WGA boundary have varying levels of activities with these related parties; material transactions are described below.

The most significant WGA related parties are the public sector banks: Royal Bank of Scotland Group plc, Lloyds Banking Group plc, Bradford and Bingley plc, and Northern Rock (Asset Management) plc. In the course of normal business, WGA entities entered into arms-length banking transactions with these institutions. They included loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions made comprehensive disclosure impractical.

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

Local government entities had transactions with municipal ports, airports and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and record their share of the schemes assets and liabilities in their accounts. Further details are available in the 2012-13 accounts of the individual entities.

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

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

As at 31 March 2013, the government had investments in the Royal Bank of Scotland Group Plc (RBS), Lloyds Banking Group Plc (LBG) and UK Asset Resolution Ltd which is the holding company for Bradford and Bingley plc (B&B) and Northern Rock (Asset Management) plc (NRAM).

As reported in their published accounts	31 December 2012			31 December 2011 (restated)[1]		
	Total assets £bn	Total liabilities £bn	Net asset/ (liability) £bn	Total assets £bn	Total liabilities £bn	Net asset (liability) £bn
NRAM and B&B[1]	87.1	(81.8)	5.3	95.4	(90.8)	4.6
RBS and LBG[2]	2,237.8	(2,121.7)	116.1	2,477.4	(2,354.7)	122.7
Total	2,324.9	(2,203.5)	121.4	2,572.8	(2,445.5)	127.3
WGA total	**1,265.1**	**(2,893.4)**	**(1,628.3)**	**1,270.6**	**(2,617.5)**	**(1,346.9)**

[1] Source: accounts of NRAM and B&B for the year ended 31 December 2012
[2] Source: accounts of RBS and LBG for year ended 31 December 2012

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

The remaining banks will continue to be held as equity investments. These entities are not consolidated in WGA in 2012-13, because their scale dwarfs other aspects of WGA, distorting the accounts, and making it difficult to determine trends. Furthermore, there is no intention for the government to retain the assets and liabilities of the remaining banks in the long term and, in due course, they will return to the private sector. This intention was reinforced in September 2013 when the government sold a 6% stake in Lloyds Banking Group, and a further stake in March 2014, reducing its shareholding to 24.9% and resulting in the Office for National Statistics reclassifying the Lloyds Banking Group to the private sector from March 2014. Finally, it would also be costly to carry out the consolidation (mostly because of differing year ends), which would not represent good value for the taxpayer, given the expected temporary nature of their ownership.

In the sections below, the relationship with each bank is described, along with extracts from their accounts showing their gross assets and liabilities, and profit or loss for the year. Further information is also available from the HM Treasury accounts[34].

37.1 UKAR

UK Asset Resolution Limited (UKAR) is the holding company established on 1 October 2010 to bring together the government-owned businesses of Northern Rock (Asset Management) plc (NRAM) and Bradford & Bingley plc (B&B). Since the year ending 31 December 2011 UKAR has produced consolidated accounts for NRAM and B&B. Additionally NRAM and B&B have published their own financial statements for 2012, extracts of which are included in Notes 37.4 and 37.5 below. More details on UKAR and its activities are available on its website[35].

37.2 Northern Rock (Asset Management) plc and Northern Rock plc

On 22 February 2008, by an order made under the Banking (Special Provisions) Act 2008, the shares of Northern Rock plc were transferred into temporary public ownership. On 1 January 2010, the former Northern Rock business was restructured to create two new companies: Northern Rock plc and Northern Rock (Asset Management) plc (NRAM). All customer deposits and a proportion (around 10%) of the mortgage book were transferred to the new bank, Northern Rock. The remaining mortgages and most wholesale funding remained in NRAM. NRAM does not offer new mortgage products or hold any customer deposits and is committed to a wind down of its business.

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

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

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

- financing to help with the restructure of £17.9 billion as at 31 March 2013 (2011-12: £19.8 billion). The interest receivable on this loan for 2012-13 was £0.3 billion (2011-12: £0.2 billion);
- a commitment to the regulatory authorities that up to £1.6 billion in additional capital support will be provided to NRAM should that be necessary to allow it to continue to meet its regulatory capital requirements; and
- a working capital facility (WCF) loan to NRAM with a current commitment of up to £2.5 billion to help the company with its wind down. This has not been drawn on to date.

NRAM results for the year ending 31 December 2012 showed a profit before tax of £0.5 billion (2011: £0.9 billion). An extract showing the key figures is provided below. For further details, refer to the accounts of Northern Rock (Asset Management) plc, which are available on its website[36].

[34] https://www.gov.uk/government/organisations/hm-treasury
[35] www.ukar.co.uk
[36] www.northernrockassetmanagement.co.uk

Extracts from Northern Rock (Asset Management) plc's accounts for the year ended 31 December 2012

	2012 £bn	2011 £bn
Total income	1.2	1.3
Profit/(loss) before taxation	0.5	0.9
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.1)	(0.1)
Profit/(loss) for the year after tax	**0.4**	**0.8**
Total assets	48.6	55.3
Total liabilities	(45.9)	(53.1)
Total equity	**2.7**	**2.2**
Total non-shareholders' funds	(0.1)	(0.1)
Total share capital and reserves	**2.6**	**2.1**

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

37.3 Bradford & Bingley plc

On 29 September 2008, in exercise of a power under the Banking (Special Provisions) Act 2008, HM Treasury transferred the shares of Bradford & Bingley plc (B&B) into public ownership. Immediately after this transfer, the retail deposits, branch network and the Isle of Man operations were transferred to Abbey National plc (Abbey), along with cash payments equal to the value of deposit liabilities totalling £18.5 billion. Of this, HM Treasury is liable for deposit balances in excess of £35,000, (the FSCS compensation limit at the time) which have been determined to be £2.8 billion. The FSCS is liable for the remaining £15.7 billion. In September 2008, the Bank of England also provided a Working Capital Facility (WCF) loan to B&B which was refinanced by HM Treasury on 29 December 2008 and stood at £6.8 billion as at 31 March 2013 (£8.0 billion as at 31 March 2012).

As at 31 March 2013, the FSCS loan was £15.7 billion (2011-12: £15.7 billion), the value of HM Treasury statutory debt was £2.8 billion (2011-12: £2.8 billion) and the net present value of the HM Treasury statutory debt, after impairments and amortisation, was £2.3 billion (2011-12: £2.3 billion). The FSCS pays interest on the loan from HM Treasury relating to B&B deposits. Interest accrued during 2012-13 totalled £0.4 billion (2011-12: £0.3 billion), payable on 1 October 2013. B&B pay interest on the working capital facility. Interest receivable for 2012-13 totalled £0.4 billion (2011-12: £0.4 billion).

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

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

The B&B accounts for the year ending 31 December 2012 showed a profit before tax of £0.2 billion. An extract showing the key figures is provided below. For further details, refer to the accounts of Bradford & Bingley plc, which are available on its website[37].

[37] www.bbg.co.uk

Extracts from Bradford & Bingley plc's accounts for the year ended 31 December 2012

	2012 £bn	2011 £bn
Total income	0.3	0.5
Profit/(loss) before taxation	0.2	0.4
Tax credit/(charge) on profit/(loss) of ordinary activities	-	(0.1)
Profit/(loss) for the year after tax	**0.2**	**0.3**
Total assets	38.5	40.1
Total liabilities	(35.9)	(37.7)
Total net assets	**2.6**	**2.4**

37.4 Royal Bank of Scotland Group plc

In December 2008, HM Treasury acquired approximately £15 billion of ordinary shares in the Royal Bank of Scotland Group plc (RBS), plus £5 billion of preference shares which were later converted into ordinary shares. On 22 December 2009 the government injected a further £25.5 billion of capital in the form of B shares. In addition, the government has agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5%. In December 2009, RBS acceded to the Asset Protection Scheme (APS), insuring an initial asset pool of £282 billion. On 18 October, RBS reached the minimum fee of £2.5 billion and with no payout under the scheme deemed likely, the government agreed with RBS to allow its exit. During 2012-13, RBS paid £0.2 billion in fees for inclusion in the APS (2011-12: £0.3 billion) and £0.3 billion in contingent capital fees (2011-12: £0.3 billion).

The government's shareholdings give it 80.87% economic ownership of RBS as at March 31st 2013.

RBS published its 2012 results showing a loss on continuing operations of £5.2 billion before tax (2011-12 restated: £1.1 billion). An extract showing the key figures is provided below. For further details, refer to the accounts of Royal Bank of Scotland Group plc, which are available on its website[38].

Extracts from Royal Bank of Scotland Group plc's accounts for the year ended 31 December 2012

	2012 £bn	2011 Restated £bn
Total income	17.9	24.7
Loss before taxation	(5.2)	(1.2)
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.5)	(1.1)
Loss from discontinued operations	(0.1)	0.3
Loss for the year after tax	**(5.8)**	**(2.0)**
Total assets	1,312.3	1,506.9
Total liabilities	(1,241.8)	(1,430.8)
Net assets and shareholder funds	**70.5**	**76.1**

37.5 Lloyds Banking Group plc

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

[38] www.rbs.com

Treasury holding 43.4% of the share capital and £4 billion of preference shares in LBG, later converted to ordinary shares.

The government's shareholdings give it 39.2% economic ownership of Lloyds Banking Group as at 31 March 2013.

LBG published its 2012 showing a loss before tax of £0.6 billion (2011-12: £3.5 billion). An extract showing the key figures is provided below. For further details, refer to the accounts of Lloyds Banking Group plc, which are available on its website[39].

Extracts from Lloyds Banking Group plc's accounts for the year ended 31 December 2012

	2012 £bn	2011 £bn
Total income	38.9	26.8
Profit/(loss) before taxation	(0.6)	(3.5)
Tax credit/(charge) on profit of ordinary activities	(0.8)	0.8
Profit/(loss) for the year after tax	**(1.4)**	**(2.7)**
Total assets	924.6	970.5
Total liabilities	(879.9)	(923.9)
Net assets and shareholder funds	**44.7**	**46.6**

37.6 Network Rail

In December 2013, the ONS announced that, following a review, Network Rail will be reclassified to central government from September 2014. Therefore, Network Rail will be included in WGA from 2014-15.

Network Rail Infrastructure Limited (Network Rail) is a private company limited by guarantee and parent company of the Network Rail Group of companies. It owns and operates the main rail network in Great Britain. Its primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on a commercial basis, Network Rail is a not-for-dividend company and all profits made are reinvested in the industry. Its members include the train operating companies and other stakeholders.

The Department for Transport has the lead responsibility for the government's relationship with Network Rail, and the Secretary of State for Transport is a special member but has no rights to any dividend or other distribution.

The Department for Transport's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc by Network Rail, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the department and Network Rail. The department considers that the likelihood of Network Rail having to rely upon these letters for financial support is remote. The department has also provided a financial indemnity in support of Network Rail's Debt Issuance Programme which amounted to £30.4 billion (2011-12: £27.3 billion) at 31 March 2013. The indemnity is available until 2052. It also covers guarantees provided by Network Rail in respect of certain financial obligations.

The summary results of Network Rail for 2012-13 are shown below. Further information on Network Rail is available in its accounts which can be viewed at www.networkrail.co.uk.

[39] www.lloydsbankinggroup.com

Extracts from Network Rail Infrastructure Limited's accounts for the year ended 31 March 2013

	2012-13 £bn	2011-12 £bn
Total income	6.2	6.0
Profit before taxation	0.8	0.5
Tax on profit of ordinary activities	(0.1)	0.3
Profit for the year	**0.7**	**0.8**
Total assets	52.6	47.4
Total liabilities	(44.6)	(39.5)
Net assets and shareholder funds	**8.0**	**7.9**

In 2012-13, £46 billion (88%) of the total assets for Network Rail relate to property, plant and equipment compared to £43.1 billion (90%) in 2011-12.

Bonds issued under the Debt Issuance Programme amounting to £32.8 billion formed 73% of the total liabilities in 2012-13. The Debt Issuance Programme is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052.

Note 38. Events after the reporting period

In accordance with IAS 10 '*Events after the reporting period*', reporting entities are required to disclose any event between the date at the end of the reporting period and the date when the financial statements are authorised for issue that may affect the financial statements. The standard classifies these events as either 'adjusting' or 'non-adjusting'. Adjusting events refer to conditions that existed during the reporting period, and if the conditions change the statements should be adjusted accordingly. Non-adjusting events are significant conditions that arise after the reporting period, but do not require the statements to be adjusted. The FReM modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the consolidated entity's reporting date and the WGA reporting date do not apply, and therefore all such events are non-adjusting.

The following events that have occurred after the reporting period have been identified as significant to WGA.

Business Bank

On 10 April 2013 the Secretary of State for Business, Innovation and Skills launched the first phase of the new Business Bank. £300 million will be invested alongside private investors to address long-standing gaps in the SME finance markets. The bank aims to support the development of diverse debt and equity finance markets for business, promoting competition and increased supply through new finance providers, as well as increasing the available provision of finance to viable but underserved businesses. The Business Bank brings together the management of the government's existing business finance schemes, creating a single portfolio and simplifying access for businesses. It also aims to consolidate the provision of and increase the awareness of available support to high growth businesses and those requiring specialist support. The money is the first deployment from the £1 billion of new capital allocated to the Business Bank in the 2012 Autumn Statement. There is a further £2.9 billion of existing commitments allocated to this scheme.

Network Rail

In December 2013, the Office of National Statistics (ONS) announced its intention to reclassify Network Rail to the public sector from 1 September 2014. This reclassification results from new guidance provided in the 2010 European System of Accounts (ESA10) which will be implemented in September 2014. Given the government's risk exposure in guaranteeing Network Rail's debt, ONS have concluded that Network Rail is a government controlled body and, as such, is within the public sector. Therefore, in 2014-15 Network Rail will be consolidated into the Whole of Government Accounts, with additional disclosures provided for 2013-14 in preparation for their full inclusion the following year.

The sale of Royal Mail

To help protect the future of the universal postal service for all users, the Royal Mail was given access to private sector capital and associated commercial disciplines through a sale of shares. Royal Mail is the only postal operator in the UK that is able to provide the universal postal service. A healthy sustainable Royal Mail will ensure the continuation of the universally priced, 6 days a week postal service as required by law. On 10 July 2013, the government announced its decision to float shares on the London Stock Exchange (LSE) via an Initial Public Offering (IPO). On 12 September 2013, the government further announced its intention to float Royal Mail on the premium segment of the official list and the main market of the LSE. On 27 September 2013, the IPO was launched, giving financial institutions and members of the public the opportunity to buy shares. The offer closed on 8 October with conditional trading on the LSE taking place on 11 October and unconditional taking place on 15 October when Royal Mail was formally listed. The government sold 60% of the shares in Royal Mail for 330p each, generating gross proceeds of £1.98 billion. The sale price for Royal Mail shares was set after a thorough process of engagement with more than 500 institutions, taking into account the company’s industrial relations, market conditions at the time and professional assessment of Royal Mail’s market value. As part of the IPO, around 150,000 eligible Royal Mail employees were given a 10% stake in the company for free. This was the largest employee share scheme of any major privatisation for nearly 30 years. The final 30% has been retained in public ownership. Royal Mail entered the FTSE 100 group of companies in December 2013. Privatisation has reduced the risk to taxpayers to support the universal postal service. Royal Mail is now a profitable business with much improved cash flow, following government action and reforms.

Student loans

In March 2014, the Department for Business, Innovation and Skills revised the modelling approach for valuing student loans issued to borrowers who study or studied higher education in England. The changes to the modelling approach reduce the value of English loans already issued under the pre-2012 system and held on the government's balance sheet by in the region of 4%. The financial impact will be reflected in the value of loans held as at 31 March 2014.

Sale of Shares in Lloyds Bank

In June 2013, the Chancellor announced that the Treasury would actively consider options for the sale of Lloyds' shares. This intention was subsequently realised on 19 September 2013 with HM Treasury selling 6% of its share holding in Lloyds at 75p per share, raising £3.2 billion. A profit was made on the sale, which was used to pay down the national debt. On 26th March 2014, the government sold further shares equal to 7.8% of Lloyds Banking Group; this brought the government shareholding to 24.9%. The proceeds of the second sale yielded an additional £4.2 billion for the government. By the end of 2013-14 HM Treasury had disposed of one third of the shares it had held throughout 2012-13, marking an important step in the government’s plan for the recovery of Britain’s banking system. Following this development, the Office of National Statistics undertook a review of the classification of Lloyds Banking Group and concluded that it was no longer subject to government control and therefore reclassified to the private sector from March 2014.

Clinical Commissioning Groups

Clinical Commissioning Groups (CCGs) were established as part of The Health and Social Care Act 2012. From April 2013, CCGs replaced primary care trusts that previously commissioned healthcare services. CCGs are independent statutory bodies, led by their members: the GP practices in their area. All 8,000-plus GP practises in England are members of a CCG. This move puts the majority of the NHS budget in the control of frontline clinicians for the first time. From 1 April 2013, a total of 211 CCGs will be responsible for £65 billion of the £95 billion NHS commissioning budget. As a consequence of these changes, the Health and Social Care Act 2012 abolished Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs) on 1st April 2013. The total closing net liabilities (PCTs £275 million, SHAs £119 million) transferred to these organisations through transfer schemes on 1 April 2013, and where functions are not continuing, the assets and liabilities passed to the Department of Health. The transfers to the receiving organisations will be accounted for in the 2013-14 accounts. From 1 April 2013 NHS Property Services Ltd (NHSPS) and Community Health Partnerships Ltd (CHP) will be reclassified to central government, and will move inside the Department of Health accounting boundary. This change in status is a result of the impact of asset transfers from PCTs and SHAs prior to abolition. Approximately £2 billion of LIFT assets (shareholdings and leases) has transferred from PCTs to CHP, and approximately £4 billion to NHSPS. This does not have a material impact on the accounts.

Probation Trusts

All Probation Trusts ceased operations on 1 June 2014. The operations of the trusts have been divided between the National Probation Service (NPS) and 21 Community Rehabilitation Companies (CRC), both public sector entities. The Ministry of Justice and National Offender Management Service (NOMS) has committed to ensuring all services will continue under the new structure, using the same assets and resources, for the foreseeable future.

On 1 June 2014 a property transfer scheme, under the Offender Management Act 2007 Schedule 2, effected the transfer of existing assets, liabilities and staff of the trusts to the NPS and CRC public sector bodies in a practical way that reflects the services that each provides. Some assets and liabilities remained in the trusts to be settled as soon as practically possible. A tender process is currently under way with bidders due to take ownership of the CRCs in winter 2014–15.

Management has concluded that these changes do not raise any uncertainty around the going concern status of the Ministry of Justice and National Offender Management Service (NOMS) accounts.

Coal pensions receivables

Coal pensions receivables represent the amounts due to the government relating to its relationship with the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS). After privatisation of the British Coal Corporation in 1994 the government gave financial guarantees in relation to certain benefits payable to members and beneficiaries of the two schemes. As part of those agreements the government is entitled to a portion of any periodic valuation surpluses, and, over time, to certain sums retained due to pre-privatisation valuation surpluses. Recommended cash flows to government are generally determined by the Government Actuary following his triennial valuations. Exceptionally, the MPS Trustees and the guarantor agreed that it was appropriate for the Government Actuary to undertake an interim valuation of that scheme as at 31 March 2013. Additional payments to the government were subsequently agreed of £700m in 2013-14 and a total of £325m over the following 10 years.

Final Investment Decision enabling for Renewables (FIDeR) Contracts

The government's Final Investment Decision Enabling programme is designed to enable developers of low carbon electricity projects to take final investment decisions ahead of the Contract for Difference regime being put in place as part of Electricity Market Reform. On 23 April 2014 DECC announced that eight renewable electricity projects have been offered investment contracts, allocating the first Contract for Differences that are being introduced through the Electricity Market Reform programme. The projects include offshore wind farms, coal to biomass conversions and a dedicated biomass plant with combined heat and power. This may give rise to financial derivative liabilities on the balance sheet of the Department of Energy and Climate Change of £13.6 billion, when the transaction is recognised.

Note 39. Prior period adjustments

Prior period adjustments in WGA arose from WGA bodies restating, reclassifying or correcting figures in their 2012-13 accounts. These restatements have no material impact on the Statement of Revenue and Expenditure. The impact of the restatements on the Statement of Financial Position is shown below.

Following their introduction in 2011-12, the Clear Line of Sight reforms have now been fully implemented across government and in place for the full 2012-13 reporting period. As such, these reforms have not impacted the Whole of Government Accounts within the 2012-13 financial statements as the entities that were newly incorporated within 2011-12 have continued to be included within the 2012-13 accounts.

In 2012-13 the Office for National Statistics (ONS) designated NHS charities as central government bodies, and so brought them within the Department for Health group resource account. The accounts therefore include the transactions and opening and closing balances from NHS charities for the current year and have restated the balances for 2011-12 accordingly. A total of £1.9 billion net assets have been included in the restatements for 2011-12. £1.7 billion of the total value has been included as a charitable investment within non current financial assets, with the remainder being distributed across Property, Plant and Equipment (£141 million), Cash (£203 million) and other assets and liabilities (net liability of £84 million). Further details are available in the Department of Health 2012-13 accounts.

The restatement in the net pension liability included £1.8 billion in relation to the Scottish Teachers Pension Scheme. In January 2013 the Government Actuary's department (GAD) identified an error of £1.8 billion in the estimate of the pension liability previously supplied as at 31 March 2012. This error has not affected the amount that employers or employees currently pay into the scheme or payments from the scheme to individual pensioners. Further details are available in the Scottish Teachers Pension Scheme 2012-13 accounts. There were also a number of small restatements within local authorities and police and crime commissioner accounts. Individually they are immaterial to WGA, however in total they account for the balance of the restatement on this account.

There has been a classification adjustment in the figures for the Exchange Equalisation account to reflect changes in the presentation of the underlying account in WGA. However, this does not represent an error within the published entity accounts. The impact of this adjustment has been to increase other financial assets by £1.2 billion and increase other financial liabilities by £0.9 billion, leading to a corresponding movement of £0.3 billion in cash and cash equivalents.

A number of local authorities restated their opening balances within the property, plant and equipment note. Under the CIPFA Code of Practice on Local Authority Accounting, local authorities are not required to report land and buildings separately within their own financial statements, and therefore report a combined balance within buildings for the Whole of Government Accounts submission. An additional 150 entities (approximately) chose to report the balances for land and buildings separately for 2012-13, resulting in a £3.9 billion increase to land for the prior year, with a corresponding £3.9 billion decrease to buildings. These adjustments had no effect on the PPE note overall, nor the Statement of Financial Position.

The restatement to reserves included a £7.1 billion transfer of academy schools net assets from restricted reserves to the general fund. This amount represents the balance of the academy reserves for 2011-12, with an initial £10 billion (out of a total of £17.1 billion) having already been transferred into the general fund during the preparation of the 2011-12 financial statements.

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

Restatement of the Consolidated Statement of Financial Position

As at 31 March 2012

	Note	2012 reported £bn	Restatement adjustment £bn	2012 restated £bn
Non-current assets				
Property, plant and equipment	*14*	745.1	(0.6)	744.5
Investment property	*15*	12.6	-	12.6
Intangible assets	*16*	35.0	0.2	35.2
Trade and other receivables	*17*	15.9	-	15.9
Equity investment in the public sector banks	*18*	40.8	-	40.8
Other financial assets	*22*	122.8	2.2	125.0
Total non-current assets		**972.2**	**1.8**	**974.0**
Current assets				
Inventories	*20*	11.4	-	11.4
Trade and other receivables	*17*	126.0	-	126.0
Cash and cash equivalents	*21*	21.5	(0.3)	21.2
Gold holdings		10.4	-	10.4
Assets held for sale	*19*	2.1	-	2.1
Other financial assets	*22*	124.0	1.5	125.5
Total current assets		**295.4**	**1.2**	**296.6**
Current liabilities				
Trade and other payables	*23*	(101.3)	(2.4)	(103.7)
Government borrowing and financing	*24*	(224.2)	-	(224.2)
Provisions for liabilities and charges	*25*	(13.4)	(0.2)	(13.6)
Other financial liabilities	*26*	(340.2)	(0.9)	(341.1)
Total current liabilities		**(679.1)**	**(3.5)**	**(682.6)**
Non-current liabilities				
Trade and other payables	*23*	(53.5)	(1.7)	(55.2)
Government borrowing and financing	*24*	(741.3)	-	(741.3)
Provisions for liabilities and charges	*25*	(99.9)	0.5	(99.4)
Net public service pension liability	*27*	(1007.8)	2.0	(1005.8)
Other financial liabilities	*26*	(33.0)	(0.2)	(33.2)
Total non-current liabilities		**(1,935.5)**	**0.6**	**(1,934.9)**
Net liabilities		**(1,347.0)**	**0.1**	**(1,346.9)**
Liabilities to be funded by future revenues:				
General reserve	*SoCTE*	1,596.6	(7.7)	1,588.9
Revaluation reserve	*SoCTE*	(239.4)	0.6	(238.8)
Other reserves	*SoCTE*	(10.2)	7.0	(3.2)
Total liabilities to be funded by future revenues		**1,347.0**	**(0.1)**	**1,346.9**

Note 40. Date authorised for issue

The financial statements were authorised for issue on 9 June 2014.

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

I certify that I have audited the financial statements of the Whole of Government Accounts (the Account) for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. These comprise the Consolidated Statements of: Revenue and Expenditure, Comprehensive Income, Financial Position and Changes in Taxpayers' Equity; the Consolidated Cash Flow Statement; the related notes; and Annexes 1 to 4. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of a consolidated account for a group of entities each of which appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money, which presents a true and fair view of the state of affairs of the whole of government. My responsibility is to audit, certify and report on the accounts with a view to satisfying myself that they present a true and fair view. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Basis for qualified opinion on financial statements

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

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

However, in Note 1.22 to this Account, HM Treasury defines the accounting boundary for the Account by reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with reference to the accounting standards. By applying such accounting standards, I consider that the Account should include Network Rail.

I also consider that HM Treasury's accounting policy has not been applied consistently in 2012-13 as a number of significant bodies have not been included in the Account, even though they are classified by the Office for National Statistics as being in the public sector and which I also consider should be included in the Account in line with applicable accounting standards.

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

- Network Rail which has gross assets of £52.6 billion and gross liabilities of £44.6 billion;
- Publicly-owned banks which have gross assets £2,324.0 billion and gross liabilities of £2,203.5 billion; and
- Other bodies which have estimated gross assets of £17.2 billion and gross liabilities of £6.5 billion.

Qualification arising from disagreement relating to inconsistent application of accounting policies

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

- bodies in the local government sector follow the Code of Practice on Local Authority Accounting in the UK for 2012-13;
- bodies that follow either pure IFRS or UK GAAP; and
- bodies that follow the Charities Statement Of Recommended Practice.

Accounting standards require that, where the effect of such inconsistent accounting policies are material, adjustments should be made on consolidation. HM Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2012-13. This inconsistency is where infrastructure assets are included in the Account are not valued on a consistent basis. Assets held by local authorities are valued at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost. HM Treasury's estimate of the understatement of assets due to the difference in valuation between historic cost and depreciated replacement cost for local authority assets could be at least £218 billion. I do not have the information to fully quantify the effect of all inconsistent applications of accounting policies.

Qualification arising from disagreement in the accounting for 3G and 4G licences

In April 2000, the Government issued licences to access the 3G telecommunications spectrum. Each licence was awarded for 20 years and the total raised was £22.5 billion. This was recognised as £22.5 billion income in 2000-01. In March 2013, the Government issued further licences to access the 4G telecommunications spectrum. As with 3G each licence was issued for 20 years and the total raised was £2.4billion which has been recognised as income in the 2012-13 financial statements. In respect of both set of licences I consider that it would be more appropriate to recognise this income in the Account over the life of the licences as the licence holders have the right to access the spectrum for 20 years and the Government has an on-going obligation to ensure that the spectrum remains available to licence holders. The impact of this difference is that income would be £1.3 billion less; liabilities would be £10.2 billion greater (£9.0 billion in 2011-12); and the value of the general fund would be £10.2 billion less (£9.0 billion in 2011-12).

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

Local authority maintained schools are required to be included in the Account. There is insufficient evidence over the completeness of the valuation of assets held by these schools. Local authority maintained schools' assets, which are estimated to be up to £23 billion of assets from voluntary aided and foundation schools and £8 billion assets from voluntary controlled schools have been omitted from this Account.

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

The external auditors of the financial statements of a number of bodies that are consolidated into this Account modified their audit opinion. Qualification issues arising in the Department for Education and the Ministry of Defence are material to these financial statements.

- **Department for Education Resource Accounts**: The Department consolidated 2,823 academies using a series of data sources spanning different time frames. This has resulted in a level of misstatement and uncertainty that I consider to be material to these financial statements. I am unable to aggregate the individual errors due to overlapping causes of misstatement and levels of uncertainty.

  In addition, the Department has recognised land and buildings in respect of academies of £25.1 billion in its Statement of Financial Position. The audit evidence available to me was limited in respect of this balance because the

Department was unable to demonstrate that these all met the recognition criteria for a non-current asset under IAS 16 Property, Plant and Equipment.

Finally, the Department was unable to demonstrate the accuracy of the balances transferred on 1 April 2012 in respect of academies open at that date. I have therefore limited the scope of my opinion in this respect.

- **The Ministry of Defence Resource Accounts**. The Department has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17 Leases as interpreted by International Financial Reporting Interpretations Committee 4: Determining whether an Arrangement Contains a Lease. Consequently, the Department has omitted a material value of assets and liabilities from its Consolidated Statement of Financial Position as at 31 March 2012 and 31 March 2013. This has also led to a consequential misstatement of the Consolidated Statement of Revenue and Expenditure for 2011-12 and 2012-13. I am unable to quantify the impact on the financial statements because the Department has not maintained the records or obtained the information required to comply with the relevant accounting standards in this respect.

  In addition, in respect of the valuation of inventory (£3.3 billion) and certain non-current assets in the form of capital spares (£7.2 billion) recorded in the financial statements, the evidence available to me was limited due to the Department having failed to perform an adequate impairment review on a systematic basis. Consequently I was unable to obtain sufficient, appropriate audit evidence to support the valuation of £10.5 billion in the Statement of Financial Position and assess the completeness and accuracy of the associated transactions in the Statement of Comprehensive Net Expenditure. I have also been unable to obtain sufficient, appropriate audit evidence for the corresponding figures for 2011-12, which were also subject to this qualification.

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

Accounting standards require that balances and transactions between bodies consolidated into this Account shall be eliminated in full. HM Treasury has a process in place to identify intra-government balances and transactions between bodies consolidated into the Account, and most balances and transactions have been eliminated. However, there remains a material value of intra-government transactions and balances which have not been eliminated. The effect of not adjusting for these could lead to a potential overstatement of up to £9.1 billion (£16 billion in 2011-12) in gross income and expenditure and up to £3.7 billion (£5.1 billion in 2011-12) in gross assets and liabilities.

I have reviewed the impact of this uncertainty and have assessed that the maximum uncertainty resides within the gross figures in the individual primary statements rather than on the net deficit or net liabilities.

The totals reported for the net deficit and the net liabilities are subject to a maximum uncertainty of some £1.3 billion (£1.0 billion in 2011-12). This information is derived from where only one body has reported an intra-government transaction or balance or there is a mismatch on the amounts reported. There is also uncertainty about whether there are amounts which both bodies involved in a relationship have not reported, leading to further overstatement.

Qualified opinion on financial statements

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

- the financial statements give a true and fair view of the state of the affairs of the Whole of Government Accounts as at 31 March 2013 and of its net deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000.

Emphasis of matter – nuclear decommissioning provisions

In forming my opinion on the truth and fairness of these financial statements, I have considered the adequacy of the disclosures made in areas where there is significant uncertainty in the values reported in Note 1.22.6 to the financial statements, which concerns the uncertainties inherent in estimating the likely costs of the liabilities of the Nuclear Decommissioning Authority. As explained in the Note, the lengthy timescales, final disposition plans for waste and spent fuel, timing of final site clearance and the confirmation of site end states mean that the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustment over time to the value of the provision, which currently stands at £58.9 billion (£52.9 billion in 2011-12).

Opinion on other matters

In my opinion, the information given in the Foreword, Performance Report, Comparison to National Accounts, Remuneration Report and Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitations on audit scope referred to in the basis for qualified opinion paragraphs above:

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

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

- returns adequate for my audit have not been received from component bodies not visited by my staff; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

My Report on pages 165 to 190 includes more details of the matters leading to my qualified opinion.

Amyas C E Morse
Comptroller and Auditor General
9 June 2014

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

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

Summary

1 The Whole of Government Accounts (WGA) is a single set of accounts consolidating the financial activities of the UK public sector. The WGA for 2012-13 is the fourth such set of audited accounts to be published by HM Treasury.

2 The WGA consolidates the financial activities of around 3,800 organisations from across the public sector into a single set of audited accounts showing the overall public sector financial position. It is the largest consolidation of public sector accounts in the world and includes both central and local government bodies as well as public corporations such as the Bank of England.

3 The WGA is now part of the Treasury's framework to improve public financial management and accountability to Parliament of the government's financial position. The WGA is increasingly being used by those within and outside of Treasury to inform decisions which affect public finances. As such, improvements to the quality and timeliness of the WGA help to increase its value to the Treasury in its own management of public finances and enhances accountability to Parliament.

4 Since the 2009-10 WGA was first published, the Treasury has made continuous improvements to its processes for compiling these accounts, to data quality and to its commentary published alongside the accounts. As a result, Treasury has produced the 2012-13 WGA more quickly meeting a major milestone in its aim of delivering WGAs within nine months of the year end by 2014-15.

Scope of this report

5 My Report covers:

- In **Part 1**, the Government's financial position and the progress the Treasury has made in taking forward recommendations made in previous years by the National Audit Office and the Committee of Public Accounts; and
- In **Part 2**, why I qualified my audit opinion on the 2012-13 WGA, and the progress made by the Treasury in resolving my qualifications.

Key findings

6 The WGA shows the UK public sector's overall financial position, as defined by accounting standards. In 2012-13, the WGA net expenditure (the shortfall between income and expenditure) decreased by £6.6 billion to £178.7 billion largely due to a reduction in the government's cost of borrowing and increases in revenue. However, direct expenditure (monies incurred in the direct delivery of the government's policies) increased by £18 billion in 2012-13 to £666 billion, mainly due to increases in purchase of goods and services and provision expense. Also, the government's net liabilities (the shortfall between asset and liabilities) increased to £1,630 billion as at 31 March 2013 from £1,347 billion at 31 March 2012, largely due to increases in public sector pension liabilities and government borrowing.

7 The 2012-13 WGA is a true and fair account of the use of public resources, but my opinion remains qualified in certain aspects. My audit opinion on the 2012-13 WGA is similar to that for 2011-12 and previous years as significant issues remain with the quality and consistency of the data included in the WGA. However, the Treasury has now put plans in place to address the issues that have led me to qualify my audit opinion. If these plans are successful, I may be able to remove a number of my qualifications within the next four years. Bodies, such as Network Rail and Further Education Institutions, continue to be excluded from the WGA even though accounting standards require their inclusion.

8 Since the Treasury first published the 2009-10 WGA, it has brought forward publication of the WGA by five months which allows for more effective transparency and accountability for how public finances are managed. The 2012-13 WGA was published some 15 months after the financial year to which it relates compared to 20 months for the 2009-10 WGA. This improvement is part of the Treasury's aim of delivering the 2014-15 WGA within nine months of the year end. It also reflects the fact that the data collection and accounts production processes supporting the WGA have become much more embedded since the first WGA was published in November 2011.

9 WGA is one part of a wider set of processes which Treasury uses to manage significant risks to public finances. As the Treasury now has more WGA trend data, it is starting to highlight some of the longer-term risks on the balance sheet and beginning to use this information to help inform government's spending plans. For example, WGA data has drawn attention to movements in nuclear decommissioning and clinical negligence provisions. Additionally, the Treasury is working with its spending teams to educate them on the comparative data that WGA provides and how it may be used to help challenge departments on their current and future spending plans.

10 The Treasury is taking steps to make disclosures in WGA more detailed and transparent. Taking forward recommendations made previously by the National Audit Office and the Committee of Public Accounts, the Treasury is currently working to enhance some of its disclosures. This will help the reader to see how government spends taxpayers' monies and assess the impact of the government's spending reduction plans in key areas such as consultancy and to provide an aggregated picture of fraud and losses across government.

11 I continue to regard the WGA as a key means through which Parliament and other stakeholders might gain greater insight into the wide range of activities that the government undertakes, scrutinise public finances and hold the government to account. The Treasury continues to make improvements to the WGA and has made progress against my qualifications, many of which could be resolved in the next four years. However, I believe that more could be done to exploit the WGA's potential as a reporting mechanism.

Recommendations

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

- **Continue its work in strengthening the WGA so that it is a true and fair account in all respects**.
- **Build on the enhancements it has already made to the production process by continuing to work with stakeholders to improve both the quality and timeliness of the data that it uses so that it achieves its aim of producing audited and robust WGAs to earlier timetables.**
- **Continue to raise the profile of the WGA within government and embed it in the routine monitoring of risks to public finances.** As use of the WGA within government increases, the Treasury could usefully expand its annual Performance Report and Foreword to WGA to set out in more detail the specific impact the WGA has had on public finances and be more transparent about how government is using the WGA and its underlying data, particularly to manage balance sheet risks.
- **Continue improving its work on data collection so that disclosures in the WGA can become more detailed, transparent and be of greater use to its readers.**

Part One: The UK Government's Financial Position

The Whole of Government Accounts

1.1 The Whole of Government Accounts (WGA) is a single set of audited accounts consolidating the financial activities of around 3,800 bodies, representing most of the UK public sector. It is the largest consolidation of public sector accounts in the world and includes central and local government and public corporations such as the Bank of England but not independent public sector organisations such as Parliament, the Crown Estate or the National Audit Office (**Annexes 2** and **3** to the WGA set out entities that have not been consolidated). The WGA sets out what the government owns (assets), owes (liabilities), spends (expenditure) and receives (revenue).

1.2 HM Treasury compiles the WGA and has overall responsibility for delivering it as a "true and fair" representation of the financial position and performance of the whole of government. It has also provided a detailed Performance Report (**Chapter 2**) which sets out the government's financial performance for 2012-13.

The purpose of my report

1.3 This Report consists of two parts:

- **Part 1** sets out the Government's financial position and the progress the Treasury has made in taking forward recommendations made in previous years by the National Audit Office and the Committee of Public Accounts; and
- **Part 2** explains why I have qualified my audit opinion on the 2012-13 WGA, and the progress made by the Treasury in resolving my qualifications.

The financial position of the UK Public Sector

1.4 Statistics on the government's financial position are routinely published in the *National Accounts*, monthly *Public Sector Finances Report*, the *Public Expenditure Statistical Analyses* and other sources. These produce two main measures which HM Treasury use for fiscal management: C*urrent Deficit* and *Public Sector Net Debt*.

1.5 The WGA provides a broader view of public finances based on accounting standards. The Treasury sets out the key differences between the two approaches and the reported financial position in **Chapter 3** to the WGA. Between 2009-10 and

2012-13, net expenditure as shown in the WGA has fluctuated whereas the ONS' Current Deficit fell year on year[1]. The WGA also shows that the Net Liability has fluctuated over the same time period whereas Public Sector Net Debt has increased[2].

WGA Net Expenditure

1.6 The WGA shows that net expenditure, the shortfall between income and expenditure as defined by accounting standards, was £178.7 billion in 2012-13 (**Figure 1**). This compares to £185.3 billion reported in 2011-12. The reduction is largely due to falls in the government's cost of borrowing and increases in revenue.

Figure 1

Key elements of the Whole of Government Accounts 2012-13

	Examples	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Assets	Land and buildings, student loans, taxes due.	1,249.5	1,234.3	1,270.6	1,263.8
Liabilities	Public sector pension schemes, government borrowing.	2,477.4	2,420.0	2,617.5	2,893.4
Net Liability		**1,227.9**	**1,185.7**	**1,346.9**	**1,629.6**
Revenue	Taxation, rental from local government housing.	(583.4)	(614.0)	(616.6)	(620.7)
Direct Expenditure (**paragraph 1.8**)	Benefit payments, staff costs, grants, contributions to the EU.	619.5	663.3	647.8	665.8
Other Operating Expenditure	Pension scheme costs and impairment of assets.	47.7	(38.4)	67.3	51.5
Net Financing Cost	Interest paid on borrowing.	78.6	83.2	88.1	79.4
Other	Revaluation of financial assets and liabilities and net loss on disposal of assets.	0.3	0.3	(1.3)	2.7
WGA Net Expenditure for the year		**162.7**	**94.4**	**185.3**	**178.7**

1. All amounts in £ billions

SOURCES

2009-10 - NAO analysis of restated prior year values in 2010-11 WGA

2010-11 - NAO analysis of restated prior year values in 2011-12 WGA

2011-12 - NAO analysis of restated prior year values in 2012-13 WGA

2012-13 - NAO analysis of 2012-13 WGA.

[1] Paragraph 3.28 and Public Sector Current Budget Deficit Table in Chapter 3

[2] Paragraph 3.14 and Public Sector Net Debt Table in Chapter 3

1.7 Last year, the Treasury introduced a new way of explaining the trend in public spending. The Treasury's definition of Direct Expenditure is monies incurred in the direct delivery of the government's policies. This uses items in the WGA's Consolidated Statement of Revenue and Expenditure but excludes those that result from the revaluation of assets or are actuarially determined as these are outside the direct control of individual entities within the WGA and finance costs. Performance using this measure shows that Direct Expenditure rose to £665.8 billion from £647.8 billion last year due to increases in the purchase of goods and services and provision expense (**Figure 1** above**, Table 2.2 and paragraphs 2.43-2.45 in the WGA Performance Report**).

The WGA Net Liability

1.8 Since the WGA was first produced covering 2009-10, the net liability increased by just over £400 billion from £1,227.9 billion to £1,629.6 billion (Figure 1). Most of this increase was due to £214 billion of gilts issued to finance the deficit. A relatively small increase of £37 billion to public sector pension liabilities was net of a significant decrease caused by increasing payments in line with the consumer price index instead of the retail price index.

1.9 In 2012-13, the government's net liability increased by £282.7 billion to £1,629.6 billion. The increase was largely due to a £165.8 billion increase to public sector pension liabilities and £30.7 billion increase to government borrowing in the form of issuing gilts to finance government spending.

Improvements made since the 2011-12 WGA

1.10 The Treasury continues to improve the WGA and take forward recommendations made by both the National Audit Office and the Committee of Public Accounts. Since we last reported, the Treasury has taken forward a number of initiatives which aim to improve the robustness, timeliness and quality of the WGA, and use the WGA to help inform the government's financial position.

1.11 As the WGA is now part of the Treasury's framework to improve public financial management and accountability to Parliament of the government's financial position, these improvements to the WGA help to increase its value to the Treasury in its management of public finances and enhances accountability to Parliament.

Resolving the issues causing a qualified audit opinion

1.12 I am required[3] to provide my Opinion on the WGA and, since the first WGA, I have qualified my Opinion. However, during 2012-13 and subsequently, the Treasury have taken a number of steps so that measures are being put in place that may

[3] Government Resources and Accounts Act 2000

enable me to remove my qualifications at some point over the next four years. **Part 2 of my Report** provides further details.

1.13 There is one area, however, where I am likely to continue to disagree with the Treasury. The Treasury designates bodies for inclusion within the WGA based on decisions made by the ONS. However, I am of the view that Treasury should apply accounting standards in determining which bodies government owns and controls and, hence, which should be included within the WGA. The Treasury's decision means that there are bodies excluded from the WGA which have material assets and liabilities.

Earlier delivery

1.14 The WGA continues to be produced to a much tighter timescale. Building on this, the Treasury currently intends to produce its audited 2013-14 WGA in March 2015 and aims to bring forward future WGAs to much earlier timetables. The first WGA, covering 2009-10, was published in November 2011 (20 months after the year-end) and the 2012-13 WGA is published in June 2014 (15 months). This improvement recognises that the processes for collecting data from the increasing number of bodies included in the WGA, and for how that data is brought to account, is maturing.

Using the WGA to help inform the government's financial position and enhance decision making

1.15 The WGA is one part of a wider set of processes which Treasury uses to manage significant risks to public finances. In the main, financial risk management in government centres on the fiscal, budgeting and spending, and estimates frameworks. While these frameworks were designed for different purposes, they are connected and, in many cases, draw on the same data, such as government departments' monthly reporting of spend to date and forecasts in OSCAR.[4] The Clear Line of Sight initiative has brought about greater alignment of the frameworks and data used to support them.

1.16 The WGA has the potential to help manage longer-term risks to the balance sheet which do not feature in these other frameworks as they tend to focus on government spending, cash requirements or financial assets and liabilities specifically. The WGA is already being used to help manage these longer terms risks - for example, the Office for Budget Responsibility also considers risks to the sustainability of public finances and draws on the WGA, among other sources, when developing its long-term projections of government spending and receipts.[5] However, risks to the balance sheet are considered less routinely by the Treasury but they have told us that most of the information they do use comes from the WGA.

[4] OSCAR, the Online System for Central Accounting and Reporting, is the Treasury's financial reporting and management system which captures and monitors central government spend and prepares the WGA.

[5] Office for Budget Responsibility, *Fiscal Sustainability Report*

1.17 I have previously recommended that the profile of the WGA should be raised within government and for it to be used more effectively to help decision making. In 2013, the Committee of Public Accounts also recommended that the Treasury sets out how it will ensure that the Government makes much better use of the WGA to inform decisions, particularly in areas that involve long term liabilities.[6]

1.18 The Treasury has started to take steps to embed the role of the WGA, and its underlying data, in helping to inform further areas of focus and financial risk management. The Treasury has told us that, now the WGA is in its fourth year of publication, it has useful trend data which it is able to share with others within and outside of Treasury. Specifically, the Treasury highlighted that the WGA:

- has continued to draw attention within the Treasury to trends on, and the scale of, some provisions. For example, the WGA data highlighted that most of the nuclear decommissioning provision was due to rising costs of Sellafield and has drawn attention to the rising clinical negligence provision in the past;
- has contributed to the Spending Round 2013 by providing data on depreciation and the location of fixed assets to help work towards meeting the government's aim to reduce assets;
- has contributed to discussion around streamlining and simplifying Resource Accounts by highlighting key data needed from a whole government perspective; and
- will feed into decisions around how to structure Public Finance 2 (PF2): the government's new approach to involving private finance in the delivery of public infrastructure and services.

1.19 The Treasury recognises the potential for WGA to enhance spending teams' understanding of their relevant department and to use WGA comparative data to challenge departments on their finances and to inform allocation decisions in the next Spending Review. A programme of education by Treasury's Accounting Financial Reporting Policy team is at an early stage and aims to ensure that spending teams understand WGA, can interpret the data and know how the data may be used.

Improving the usefulness of disclosures within the WGA

1.20 I have reported in previous years[7] that the lack of detail in parts of the WGA continues to inhibit its usefulness and have recommended that data collection is improved so that information in the WGA can become more detailed and be of greater

[6] Committee of Public Accounts, *Whole of Government Accounts 2011–12*, Thirty-second Report of Session 2013-14, HC 667, December 2013

[7] For example, paragraph 7.15 in the C&AG's report on the WGA 2009-10, HC1601, November 2011

use to its readers[8]. For example, Note 8 to the WGA, which shows expenditure on the purchases of goods and services by government sector, does not provide further analysis as to how the £163 billion has been spent, such as on consultancy and accommodation. The WGA also does not include additional disclosures showing how public spending is distributed between individual regions or nations across the UK or across the main areas of government, such as defence, health and education. This lack of granularity within the WGA does not help the reader assess the full impact of the government's current and future deficit reduction measures.

1.21 Following the introduction of OSCAR to support the WGA from 2012-13, Treasury has taken the opportunity to begin to capture transactions in a greater level of detail than it has been able to in previous years. Once it has two years' worth of data available, it will be in a position to disclose more information within the WGA. The Treasury aims to address this from 2013-14.

Highlighting the extent of fraud and error across the whole of government

1.22 The Committee of Public Accounts recommended in 2013 that government should report cross-government figures within the WGA which would show the impact of its counter-loss activities.[9] Although the WGA includes the financial impact of fraud, error and loss through the consolidation of central government accounts, it is not yet stated explicitly. Neither does the WGA include losses from local government and public corporations which are not required to disclose their losses in the same way. The Treasury has, however, committed to implementing the Committee's recommendation by July 2015.[10]

[8] Paragraphs 8 to 10 of the C&AG's Report on the WGA for 2011-12, HC531 July 2013.

[9] Committee of Public Accounts, *Whole of Government Accounts 2011-12*, HC 667, Thirty-second Report of Session 2013–14, 12 December 2013

[10] Treasury Minute, Cm 8819, February 2014

Part Two: Qualifying the Comptroller and Auditor General's Audit Opinion

2.1 This part of my Report explains why I have qualified my Audit Opinion on the 2012-13 WGA. It also provides details of the progress the Treasury has made in respect of each qualification since my last Report.

2.2 This is the fourth year that I have audited the WGA and I have been able to report to Parliament that these accounts are a "true and fair" presentation of the whole of government's financial position, although I have always qualified my opinion on a number of matters.

Progress in resolving qualifications

2.3 The Treasury continues to make good progress in moving towards resolving the qualification issues I have raised. Of the six qualifications raised in my Report on the 2011-12 WGA, the Treasury has taken action on all of them and has made progress on five. A detailed description of the actions undertaken by Treasury follows each of my explanations for the basis of individual qualifications further in this Report.

My obligations as auditor

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

Materiality

2.5 In both my Audit Opinion and this Report, I refer to the concept of materiality and this part of my Report explains this and how I apply it in terms of performing my audit.

2.6 The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

2.7 I consider a matter to be material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. I consider the primary users of this account to be Parliament but I recognise that the financial statements will be of general interest to others.

2.8 I calculate a materiality level before the financial statements are produced to assess the risks of material misstatement and to plan the nature, timing and extent of our audit procedures. The appropriateness of the materially is considered throughout the audit and adjusted as required.

2.9 The choice of materiality requires professional judgement and, for the financial statements as a whole, I set this at £8 billion for 2012-13 which is approximately 1 per cent of gross expenditure, although I give consideration to other benchmarks in the financial statements when setting materiality. Materiality is not only a pure quantitative measure, but also includes a qualitative aspect and my opinion is not solely based on total error being under the materiality level.

2.10 There are specific disclosures of figures within the WGA which need to be disclosed in a clear and understandable way. Should there be any error in these figures, I consider the impact that these would have on the users of the financial statements even if the error is below the materiality level.

2.11 I agreed with the Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £100 million as well as any differences below that threshold which in my view warranted reporting on qualitative grounds.

2.12 Due to the number of component bodies making up the WGA, my audit is dependent upon the work of component auditors to provide me with assurance over the accuracy of data submitted as part of the consolidation process. We send detailed instructions over the type and scope of procedures that I require to be performed to all component auditors, supplemented by training on my audit requirements where requested. We also carry out assurance work on all of the significant component audits, together with a sample of non-significant component audits.

2.13 The expenditure base for WGA may reduce in future years as public sector spending constraints continue and this could mean that my materiality level will also reduce in line with this reduced expenditure.

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

2.14 I have qualified my opinion on the 2012-13 WGA because, in a number of significant areas, the WGA does not comply with International Financial Reporting Standards as adapted for the public sector context, and this has a material effect on the figures presented. My qualifications relate to:

- The definition of public bodies that the Treasury has used to determine the boundary of the WGA;
- The inconsistent application of accounting standards; and
- How the Treasury has accounted for income from the sale of 3G and 4G licences.

2.15 I have also limited the scope of my opinion on the 2012-13 WGA because of the following issues which meant I was unable to obtain sufficient and appropriate audit evidence on which to base my opinion in certain areas:

- There was a lack of evidence to support the completeness and accuracy of the value of school's assets included in the Accounts;
- Material issues arising within the audit opinions of accounts included in the WGA where auditors have limited the scope of their audit; and
- There was a lack of evidence to support the completeness of the intra government adjustments to remove transactions and balances between the bodies included in the WGA.

Qualified audit opinion relating to the WGA boundary

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

2.17 I cannot quantify the impact of this on the WGA with certainty, as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view. However, for illustrative purposes, I have examined the impact of adding the gross assets, liabilities, income and expenditure published in the individual accounts of public sector bodies that the Treasury did not include in the WGA. Although these figures are only illustrative, they demonstrate that the exclusions represent material omissions from the WGA (**Figure 2**).

Financial reporting requirements

2.18 In my previous Reports[11], I have noted that in determining the boundary for the whole of government, the Treasury has adopted the classifications of public bodies used by the Office for National Statistics (ONS), rather than apply accounting standards which require including bodies that are subject to government control, and define control as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'.[12]

2.19 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes Network Rail Ltd, which had net assets of £8 billion at 31 March 2013 (£7.9 billion at 31 March 2012).

[11] Comptroller and Auditor General, Report on the Whole of Government Accounts 2011-12, July 2013

Comptroller and Auditor General, Report on the Whole of Government Accounts 2010-11, October 2012

Comptroller and Auditor General, Report on the Whole of Government Accounts 2009-10, November 2011

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

The Treasury has also not applied its own criteria consistently as there are a number of bodies that fall within both statistical and accounting definitions of government 'control' but have not been included in the WGA[13] and include:

- bodies that are not controlled by government, such as Parliament;
- a number of small bodies that have not been consolidated on the basis of size[14]; and
- other bodies that are partly or wholly owned by the Government, such as the Royal Bank of Scotland.

2.20 I consider it appropriate to exclude those bodies that are not controlled by the government, as this treatment meets with accounting standards. I also consider that it is acceptable to exclude the small bodies as they do not represent a significant exclusion from the WGA. However, by adopting generally accepted accounting standards, I consider that the bodies listed in **Figure 2**, where the Government has the ability to control their activities, should be included in the WGA.

Figure 2

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

	Revenue	Expenditure	Impact on net expenditure	Assets	Liabilities	Impact on net liability
2011-12 WGA	616.6	(801.9)	(185.3)	1,267.6	(2,614.6)	(1,347.0)
Total values of entities excluded from 2011-12 WGA	64.7	(67.1)	(2.4)	2,639.5	(2,490.9)	148.6
2012-13 WGA	620.7	(799.4)	(178.7)	1,263.8	(2,893.4)	(1,629.6)
Total values of entities excluded from 2012-13 WGA	65.6	(71.4)	(5.8)	2,393.8	(2,254.6)	139.2
2012-13 figures consist of:						
Network Rail Ltd	6.2	(5.5)	0.7	52.6	(44.6)	8.0

[13] Annex 2 to the WGA

[14] Annex 3 to the WGA

State-owned banks[1] (temporary ownership)	56.8	(64.0)	(7.2)	2,236.9	(2,121.7)	115.2
State-owned banks[2] (longer-term ownership)	1.5	(0.9)	0.6	87.1	(81.8)	5.3
Financial services sector[3]	0.6	(0.6)	-	0.6	(0.6)	-
Further education institutions[4]	-	-	-	14.9	(5.4)	9.5
Trust Ports[5]	0.4	(0.3)	0.1	1.4	(0.4)	1.0
Other[6]	0.1	(0.1)	-	0.3	(0.1)	0.2

NOTES

1. Lloyds Banking Group plc and Royal Bank of Scotland Group plc
2. Northern Rock (Asset Management) plc and Bradford & Bingley plc.
3. Financial Services Authority
4. No amounts have been included for income and spending of Further Education Institutions because the majority of their operations are funded through government grants, which are included in Note 9 to the WGA. Their assets and liabilities have been estimated from data provided by Skills Funding Agency (covering England only) for 2010-11.
5. Trust Ports - figures have been estimated from available accounts for year-ended 31 December 2012.
6. London Councils and other minor bodies.

The net assets of some of the entities are included in the WGA as equity investments, for example the state-owned banks are included in the accounts of the Treasury.

The bodies have been treated as if they had always been entirely owned by the public sector. In particular, for Royal Bank of Scotland and Lloyds Banking Group, no account has been taken of the residual private sector shareholdings.

Not all bodies have a March year-end, e.g. figures for the banks relate to the year ending 31 December 2012.

All figures are in £ billions.

Source: NAO analysis of Note 37 to the WGA and published accounts.

Progress since 2011-12

2.21 There has been progress in including bodies listed in Figure 2. Although some of the originating events driving this progress came from others, the Treasury has contributed positively in considering how these decisions impact upon, and could be reflected in, future WGAs. The future developments are:

- **Network Rail Ltd**: The ONS had previously classified Network Rail Ltd as a private sector body which led the Treasury to exclude Network Rail from the WGA. However, on 17 December 2013, the ONS determined[15] that, following forthcoming changes to national accounting rules[16], Network Rail would be reclassified as being in the public sector from September 2014. The Treasury has considered the impact of this announcement and will consolidate Network Rail into the WGA from 2014-15.

[15] Office for National Statistics, Written statement to Parliament, ONS decision on the classification of Network Rail, 17 December 2013

[16] Office for National Statistics, Latest developments to National Accounts, 16 May 2014

- **Partly-owned Banks**: During 2013-14, as part of the Government's policy of returning the partly-owned banks to private ownership, the Treasury commenced disposal of its shareholdings in Lloyds Banking Group plc bringing its remaining ownership down to 24.9 per cent of the total available shares[17] as at the date of this report. The Treasury currently remains the single largest shareholder although the volume of shares held is less than the 30 per cent defined by the Financial Conduct Authority as being a controlling shareholder[18.] As at the date of this report there have been no disposals in respect of the Government's ownership of the Royal Bank of Scotland Group plc.

- **Wholly-owned banks**: From 2013-14, the Treasury will include UK Asset Resolution Ltd, which comprises Northern Rock (Asset Management) and Bradford and Bingley, into its own Departmental Accounts from 2013-14. Consequently, these banks will also be included in the 2013-14 WGA.

- **Financial services sector**: The Financial Services Authority ceased as an organisation on the 31 March 2013 being succeeded by the Prudential Regulation and the Financial Conduct Authority. The Prudential Regulation Authority has been included in the 2012-13 WGA and the Financial Conduct Authority will be included in the 2013-14 WGA. The Treasury has also identified that the Financial Ombudsman Service should be included within the 2013-14 WGA.

- **Further education institutions**: In my Reports on the WGAs for 2011-12 [19] and 2010-11[20], I recommended that the Treasury should review its criteria for including bodies within the WGA, taking into account changes in the control government exerts over English further education institutions following the passage of the Education Act 2011. The Treasury continue to exclude English institutions from the WGA as the ONS determined that these bodies fall outside of the public sector following the 2011 Act[21]. However, under accounting standards, there remains in my view sufficient government control to warrant their inclusion.

  In addition, there are national differences across the United Kingdom. The

[17] HM Treasury, March 2014, available at https://www.gov.uk/government/news/government-reduces-its-stake-in-lloyds-banking-group-to-below-25

[18] Financial Services Authority, *The Listing Rules*, August 2002, Section 3.13

[19] C&AG's Report within Whole of Government Accounts 2011-12, HC531, July 2013, Paragraph 2.29.

[20] C&AG's Report within Whole of Government Accounts 2010-11, HC687, October 2012, Box 6, paragraph 7.69.

[21] http://www.ons.gov.uk/ons/rel/na-classification/national-accounts-sector-classification/classification-update---may-2012/reclassification-of-further-education-corporations-and-sixth-form-colleges-in-england---article.html#tab-Executive-Summary

further education institutions in Northern Ireland, Scotland and Wales remain excluded from the WGA, despite these being designated by the ONS as falling within the public sector. However, Treasury are reviewing the position of these bodies and are considering the possibility, subject to any future legislative changes, of including these bodies in future years.

- **Trust Ports**: The Treasury is considering the status of Trust Ports with a view to bringing them within the 2014-15 WGA.
- **Other bodies**: In September 2011, the ONS concluded that the governance arrangements for all NHS linked charities were public sector in nature and this reclassification brought NHS charities within the Department of Health Accounts for 2012-13 and, hence, into the 2012-13 WGA.

Recommendations for further action

2.22 I continue to recommend that the Treasury should change its criteria for including bodies within the WGA. I also recommend that the Treasury should perform work in advance of the consolidation of new bodies (such as Network Rail plc) to mitigate against the risk of a material impact arising from inconsistent application of accounting policies.

2.23 Although the Treasury continue to make good progress in consolidating more bodies into the WGA, my qualification on this matter is likely to remain until all significant government controlled entities are included in line with accounting standards.

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

2.24 I have qualified my opinion because of the impact of the inconsistent application of accounting policies.

The WGA financial reporting framework

2.25 The financial reporting framework that WGA must follow is set out in the Government Financial Reporting Manual which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, for 2012-13, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that are inconsistent with the requirements of the Financial Reporting Manual.[22]

2.26 Under accounting standards, the Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the WGA is prepared on the same basis.[23] The Treasury has undertaken an

[22] Annex 4 to the WGA

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

assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2012-13. I do not have the information to fully quantify the effect of all inconsistencies that exist as a result of inconsistent financial reporting frameworks.

2.27 The one area of material misstatement is due to differences between the financial reporting frameworks used by local government, which requires local authorities to value their infrastructure assets using historic cost, and central government which values assets at their depreciated replacement cost in line with the requirements of the Government Financial Reporting Manual.[24] The Treasury estimates that this difference in accounting treatment has resulted in an understatement of asset value of at least £218 billion.[25]

2.28 Local authority infrastructure assets consist primarily of local highways infrastructure but also of other assets such as coastal defences, airports and light rail, including the London underground network.

Progress since 2011-12

2.29 In my Report on the 2011-12 WGA, I recommended that the Treasury should continue to support the Chartered Institute of Public Finance and Accountancy (CIPFA) in considering the basis of valuing assets and take steps to ensure that data collected is considered reliable.

2.30 CIPFA plans that the Code of Practice on Local Authority Accounting will be amended to require local authorities to account for their highways infrastructure assets using depreciated replacement cost accounting in their own financial statements from 2016-17. This timeframe is so that local authorities can prepare and collect accurate information in 2015-16 as opening balances for 2016-17.

2.31 The Treasury, as part of its data collection exercise for the 2012-13 WGA, asked local authorities to provide valuation data on its highways infrastructure assets. The objectives were both to establish a more accurate level of valuation than that presently noted in the WGA and also to learn lessons on data capture that could be implemented in the future once the Code had been amended. Although the Treasury considered the data received insufficiently robust for inclusion in the WGA, I consider this to have been a worthwhile exercise in identifying the problems of data collection in advance of the implementation of the revised Code.

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

[25] Note 14.1 to the WGA: The best proxy available for depreciated replacement cost is the calculated asset value used by the Office for National Statistics from their perpetual inventory model reflected in the *National Accounts*. The 2012 *National Accounts* estimated the value of the road network at £273.5 billion as at 31 December 2012 implying a likely understatement of at least £218 billion.

Recommendations for further action

2.32 The Treasury should continue its work with CIPFA to ensure that these planned changes remain on track and that it is able to take prompt action should there be early indications that the data collected by local authorities is not complete, robust, reliable or auditable. Treasury should also put in place plans to obtain depreciated replacement cost values for the remaining non-highways infrastructure assets.

2.33 Should local government make a successful transition to depreciated replacement cost from 2016-17, which includes providing complete, robust, consistent and auditable data and auditable prior year balances, I may be able to remove my qualification in this area.

Qualification arising from disagreement in the accounting for 3G and 4G licences

2.34 I have qualified my opinion because I consider that the Treasury has not complied with the requirements for accounting for income from the sale of 3G licences in April 2000 and 4G licences in February 2013. The impact of this on the 2012-13 WGA is that income is overstated by £1.3 billion, deferred income is understated by £10.2 billion (£9.0 billion in 2011-12) and the General Fund is overstated by £10.2 billion (£9.0 billion in 2011-12).

Financial reporting requirements

2.35 In April 2000, the Government raised some £22.5 billion from the sale of five licences for the electromagnetic spectrum for third generation mobile phone services. Telecommunications companies paid for the licences in full in 2000 and the Consolidated Fund accounted for these proceeds on a cash basis in its 2000-01 account. In February 2013, the Government raised a further £2.4 billion from the sale of the electromagnetic spectrum for fourth generation mobile phone services to five successful bidders. As with the previous auction telecommunications companies paid for the licences in full and the Consolidated Fund accounted for these proceeds on a cash basis in its 2012-13 account.

2.36 The accounting standard for revenue recognition explains that income should be matched to expenditure[26]. In respect of both licences, the licence holders have the right to access the spectrum for 20 years and, in my view, there is an on-going cost on the government to maintain the airwaves. Therefore a more appropriate accounting treatment would be to recognise this income over the licence period rather than treat it all as income in the first year. The Treasury does not agree with this view and, as disclosed in Note 1.22.3 to the WGA, believes that there are no additional performance obligations. Therefore, the Treasury has not adjusted the WGA for these transactions and I have qualified my opinion accordingly.

[26] International Accounting Standard 18 – Revenue

2.37 The balance of deferred income at 31 March 2012 was some £9.0 billion and, although the balance in respect to 3G licence continues to fall, following the sale of the 4G licences, the remaining balance has increased by some £1.2 billion this year. The remaining balance of £10.2 billion will decrease over time and have a decreasing impact on the Account.

Progress since 2011-12

2.38 Following the sale of the 4G licences, the Treasury has carried out further work on its consideration of the appropriateness of the accounting treatment on the sale of spectrum licences and reviewed the role of the Office of Communications (Ofcom). The Treasury has entered into further discussions with me on this matter but they remain of the view that there are insufficient grounds to adjust the WGA.

2.39 Although not pertinent to my consideration of the treatment under accounting standards, I note that, in February 2014[27] , the Office for National Statistics amended their consideration of the treatment of spectrum licence sales in the United Kingdom National Accounts from treating spectrum licence sales as sales of assets to one where the income is recognised over the life of the licence.

Recommendations for further action

2.40 The Treasury should, in my view, adjust the WGA for the 3G and 4G transactions in line with accounting standards.

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

2.41 I have qualified my opinion in respect to local authority maintained school assets because not all school assets are included in the WGA.

2.42 All local authority maintained schools are classified by the ONS as public sector and hence fall within the Treasury's definition for inclusion within the WGA. Taking an approach based on financial reporting standards[28], I consider that these schools should be included within the WGA, as local authorities and the Secretary of State for Education have the ability to exert control over such schools.

2.43 However, such schools have only been included in the WGA if their financial activities were included in the financial statement of individual local authorities. A

[27] National Accounts Classification Decisions - http://www.ons.gov.uk/ons/rel/mro/news-release/ons-reclassifies-3g-mobile-phone-licences-in-national-accounts/mob0911nr.html

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

working group, led by CIPFA, reported that not all schools were included within local authority financial statements.[29]

2.44 In considering the impact of this treatment of the local authority maintained schools' sector on the WGA, I have concluded that I have insufficient evidence to support the completeness and valuation of these schools' assets within the WGA. Although I have sufficient evidence over the treatment of community schools, which are accounted for within local authorities' accounts, I have been presented with no evidence to allow me to conclude that the assets of foundation, voluntary aided and voluntary controlled schools are all included within the WGA.

2.45 Based on the estimates I do have, the omissions are material to the WGA. **Figure 3** shows that up to £23 billion (2011-12: £26 billion) of assets from voluntary aided and foundation schools and £8 billion (2011-12 £8.5 billion) of assets from voluntary controlled schools have been omitted from the accounts. The reduction in the value of error is primarily due to a reduced number of schools caused by their transition to Academies.

Figure 3

Estimated net book value of local authority maintained schools, and whether these are included or excluded from the WGA

	Voluntary aided and foundation schools (not included in WGA)		**Voluntary controlled schools (may or may not be included in WGA)**	
	Number	**Amount (£m)**	**Number**	**Amount (£m)**
Primary Schools	4,097	12,291	2,409	7,227
Secondary Schools	714	10,710	55	825
Total	**4,811**	**23,001**	**2,464**	**8,052**

NOTES

1. Estimates as at January 2013 based on typical carrying value of £3 million for primary schools and £15 million for secondary schools as estimated by CIPFA.
2. These estimates may be overstated as some schools may lease their assets rather than own them. There is no information available to take account of this.
3. FRAB (108) 11: Consideration of the code of practice on Local Authority Accounting 2011/12 and 2012/13 http://www.hm-treasury.gov.uk/d/frab108_11.pdf and Tables 7d and 7e of Schools, Pupils and their Characteristics.
4. https://www.gov.uk/government/publications/schools-pupils-and-their-characteristics-january-2013

[29] This is the correct treatment for the local authority accounts and there is no suggestion that the underlying opinions on any of these accounts are compromised.

Progress since 2011-12

2.46 The Treasury has been working with CIPFA to align local government accounting treatment for schools in England and Wales. The working group, in December 2013, concluded that that the balance of control rests with local authorities for community schools, voluntary controlled, voluntary aided and foundation schools, and that these schools should be included in the financial statements of local authorities. By including these schools in the financial statements of local authorities, they will be consolidated into the WGA.

2.47 CIPFA issued a consultation note[30] seeking views from stakeholders on amendments to the 2014-15 Code of Practice and, following this consultation, have amended the Code[31] to reflect the conclusion of the working group. This will mean that the currently omitted schools would be brought into the 2014-15 WGA. However, the amendments to the Code would only apply to England and Wales but not apply to those schools in Northern Ireland which are currently omitted. Schools in Scotland are included in the WGA.

Recommendations for further action

2.48 The Treasury should ensure that the data collected in the first year of implementation is sufficiently robust to be considered complete and true and fair in respect of schools brought into local authorities' accounts through implementation of the Code. The Treasury should include all schools in Northern Ireland within the WGA.

2.49 Once sufficient robust data is available in support of the completeness and valuation of voluntary aided, voluntary controlled and foundation schools, I may be able to remove my qualification in this area.

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

2.50 Where the external auditors of bodies in the WGA qualify their opinions on the statutory financial statements, I am required to consider the impact of these 'true and fair' qualifications on my opinion on the WGA. In 2012-13, external auditors qualified their opinions of some 10 accounts (24 accounts in 2011-12).

[30]CIPFA/LASAAC, The 2014/15 code of practice on local authority accounting in the United kingdom, Invitation to comment.

[31] CIPFA, Technical Accounting Alert 3, Accounting for Local Authority Maintained Schools (England and Wales) 2014/15 Financial Statements

2.51 The most significant of these qualifications relate to the Departmental Accounts of the Department for Education and the Ministry of Defence for 2012-13. Given their significance to the WGA, I have also qualified my opinion on the WGA.

2.52 Further details can be found in my audit opinions and within the annual accounts of the Department for Education[32] and the Ministry of Defence[33] .

Progress since 2011-12

2.53 In my Report on the 2011-12 WGA, I reported that I had qualified my opinion on the WGA due to the material impact of the qualifications on the Ministry of Defence and Cabinet Office: Civil Superannuation Accounts for 2011-12. I am pleased to report that I have been able to remove my qualification on the Cabinet Office: Civil Superannuation Account for 2012-13 in respect of the valuation of the pension liability and have therefore, accordingly, removed my qualification of the WGA.

2.54 I also qualified my opinion on the 2011-12 WGA due to a limitation of scope in respect of having insufficient evidence to confirm the values of land and buildings belonging to academies. In 2012-13, although academies are no longer directly consolidated into the WGA as single entities, they are consolidated into the WGA through the Department for Education. My qualification of the Department for Education 2012-13 financial statements included a limitation of scope qualification over the values of land and buildings belonging to academies.

Recommendations for further action

2.55 The Treasury should continue to support both the Department for Education and the Ministry of Defence to help remove these qualifications. I recommend that particular attention is given to the Department for Education over the issues it faces in respect to the accuracy and timeliness of academies data as these weaknesses may impede the Treasury's aim of earlier publication of the WGA.

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

2.56 I have limited the scope of my opinion because of the lack of evidence supporting the completeness and accuracy of the elimination of intra-government transactions and balances, between bodies included in the WGA.

[32] Department for Education Annual Report and Accounts 2012-13, Session 2013-14, HC49, 16 January 2014.

[33] Ministry of Defence Annual Report and Accounts 2012-13, Session 2013-14, HC38, 16 July 2013.

Financial reporting requirements

2.57 The WGA is a consolidated account which is prepared by including the financial activities of around 3,800 government controlled entities. Transactions and balances between these are removed so that income, expenditure, assets and liabilities are not overstated between bodies within the group, as required by accounting standards.

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

2.59 The Treasury collects information from each of the bodies in the WGA on all intra-government transactions and balances that are over £1 million with details of the relevant counter-party. The Treasury uses this data to match balances and transaction streams and removes them from the WGA. Despite the work by the Treasury, there remains a material residual uncertainty over some of the figures in the financial statements because the removal of these transactions and balances is potentially incomplete and inaccurate. This uncertainty arises where:

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

2.60 Using the available evidence, I have estimated the level of uncertainty as being up to £9.1 billion (£16.0 billion in 2011-12) in gross income and expenditure and up to £3.7 billion (£5.1 billion in 2011-12) in gross assets and liabilities (**Figure 4**). The estimated errors reside mainly within individual primary statements.

Figure 4

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

	Statement of Revenue & Expenditure	**Statement of Financial Position**
Entities declaring different intra-government transactions or balances	3.3	1.9
Only one entity declares an intra-government transaction or balance	3.0	1.3
Subtotal of errors that can be linked to specific entities	**6.3**	**3.2**
Neither entity within an expected relationship declares an intra-government transaction or balance	2.8	0.5
Impact on the financial statements (potential	**9.1**	**3.7**

overstatement)

NOTES

All figures in £ billions

Source: NAO analysis of WGA 2012-13

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

Progress since 2011-12

2.62 This level of error, although material in value for my qualification to remain for the 2012-13 WGA, is showing a positive downward trend (**Figure 5**).

Figure 5

Level of potential overstatement in the WGA

	2012-13	2011-12	2010-11
Statement of Revenue and Expenditure	9.1	16.0	22.6
Statement of Financial Position	3.7	5.1	10.4

All figures in £ billions

Source: NAO analysis of WGA 2012-13

2.63 In my Report on the 2011-12 WGA, I recommended that the Treasury should undertake further work to reduce the uncertainties in the elimination of intra-government transactions and balances and I also recommended that further work be concentrated on the area of local government.

2.64 The Treasury has taken a number of actions which have contributed to the reduction of the error in 2012-13. The Treasury has sought to maximise the benefits of the introduction of a change in IT systems by amending its data collection tools with the aim of improving the accuracy of the initial data received in the preparation of the WGA. It also seconded staff with local government and sector expertise to help identify errors within the local government data returns and reduced the threshold at which it would investigate potential imbalances. The Treasury also used other available data from central government sources to review the data it had received.

Recommendations for further action

2.65 The Treasury has made significant progress in reducing the elimination error over the last three years. For 2013-14, the Treasury, and the component bodies submitting data, will be operating a fully established IT system which should help produce more accurate data leading to further reduced levels of error.

2.66 However, with such an extensive body of components preparing information, some error in the initial data preparation is almost inevitable and it is possible that the level of error may not be able to be reduced much further under the current method of collation and preparation. I recommend that Treasury carry out a review of the structural process of data collection in order to determine areas of potential weakness and also to consider alternative methods of proving counter party balances in those areas which are either onerous to prove or are prone to error. If the Treasury can reduce the level of error to an acceptably low level, then I may be able to remove this qualification.

Other issues on which I have not qualified my opinion

2.67 There are two other issues that I wish to draw attention to, although I have not qualified my opinion for these issues:

- I have included an emphasis of matter paragraph in my audit opinion for one account that is significant to the WGA. This relates to the uncertainties in estimating costs of the liabilities of the Nuclear Decommissioning Authority. This value has been calculated based on reasonable assumptions, but could change with future events.
- The external auditor of some 18 accounts[34] (30 in 2011-12) included in the WGA qualified their audit opinions owing to the existence of material irregular transactions; that is not using resources in accordance with Parliamentary intentions. Of these, two are of significance to the WGA and cover error and fraud in benefit payments and tax credit payments. These irregularities have led me to qualify my regularity opinion on the financial statements of the Department for Work and Pensions[35] and HM Revenue and Customs[36]. Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, irregular transactions do not lead to a qualification of my audit opinion on the WGA.

Amyas C E Morse
Comptroller and Auditor General
9 June 2014

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

[34] Included in this number are four accounts qualified on a ‘true and fair’ basis.

[35] Department for Work and Pensions Annual Report and Accounts 2012-13, Session 2013-14, HC20, 10 December 2013

[36] HM Revenue and Customs Annual Report and Accounts 2012-13, Session 2012-13, HC10, 2 July 2013

Annex 1: List of entities consolidated in WGA

The list below comprises entities consolidated in WGA based on their audited accounts. Accounts that were qualified are indicated by a number 1 or 2 by their name. Entities with a number 1 have had qualifications on their financial statements and those with a number 2 have had their accounts qualified on regularity[40] and may be considered in the WGA Governance Statement. In addition, ten entities with a number 3 by their name had their WGA returns qualified. WGA returns translate the underlying statutory accounts into the WGA format and report transactions and balances with other WGA entities.

Central Government

Central government entities are listed by UK government departments and by devolved administrations.

UK central government entities

Cabinet Office

Advisory Committee on Business Appointments
Civil Service Commission
Commissioner for Public Appointments
Committee on Standards in Public Life
House of Lords Appointments Commission
Main Honours Advisory Committee
Parliamentary Boundary Commission for England
Parliamentary Boundary Commission for Wales
Security Vetting Appeals Panel
Senior Salaries Review Body

Charity Commission

The Crown Prosecution Service

Department for Business Innovation and Skills

Accountancy and Actuarial Discipline Board Limited
Advantage West Midlands
Advisory, Conciliation and Arbitration Service
AEA Insurance Ltd
Arts and Humanities Research Council
Biotechnology and Biological Sciences Research Council
BIS (Postal Services Act 2011) Company limited
BIS (Postal Services Act 2011) B Company limited
Capital for Enterprise (GP) Limited
Capital for Enterprise Fund Managers Limited
Capital for Enterprise Ltd
Central Arbitration Committee
Certification Officer
Chief Executive of Skills Funding
Competition Appeal Tribunal
Competition Commission
Competition Service
Construction Industry Training Board
Copyright Tribunal
Diamond Light Source Ltd
Economic and Social Research Council
Engineering and Physical Sciences Research Council
Engineering Construction Industry Training Board
Financial Reporting Council
Financial Reporting Council Limited
Higher Education Funding Council for England
Insolvency Practitioners Tribunal
Insolvency Service
Insolvency Service Investment Accounts
Learn Direct Solutions Limited
Learning and Skills Improvement Service
Medical Research Council
National Consumer Council (Consumer Focus)
The NESTA Trust
Natural Environment Research Council
National Measurement Office
NorwePP (NWDA Subsidiary) Limited
ONE North East
Pirbright Institute
UK Shared Business Services Limited
Science and Technologies Facilities Council
South West Regional Development Agency
STFC Innovations Ltd
Student Loans Company Limited
Technology Strategy Board
The East Midlands Development Agency
The East of England Development Agency
The North West Development Agency
The South East Development Agency
United Kingdom Atomic Energy Authority
United Kingdom Commission for Employment and Skills
United Kingdom Green Investment Bank plc
United Kingdom Energy Efficiency Investments 1 L.P
Energy Saving Investments L.P
United Kingdom Green Sustainable Waste and Energy

[40] A regularity opinion is on whether the transactions recorded in the financial statements are in accordance with Parliamentary or other authority.

Investments L.P
UK Waste Resources and Energy Investments L.P
United Kingdom Space Agency
Yorkshire and the Humber Development Agency
Yorkshire Forward

[2]Department for Communities and Local Government

AWM (Subsidiary) Ltd
Bristol and Bath Science Park Estate Management Company Limited
Building Regulations Advisory Committee
Commission for Local Administration
emEP Limited
High House Production Park Limited
Homes and Communities Agency
Independent Housing Ombudsman Limited
The Leasehold Advisory Service
London Thames Gateway Development Corporation
ONE North East General Partner Limited
[2]Thurrock Development Corporation
Valuation Tribunal for England
Valuation Tribunal Service
West Northamptonshire Development Corporation

Department for Culture, Media and Sport

Advisory Committee on National Historic Ships
Arts Council of England
Arts Council of England Lottery
Artco Trading Ltd
BBC
BIG Lottery Fund
British Film Institute
BFI Lottery
British Library
British Museum
British Museum Great Court Limited
British Tourist Authority
British Tourist Authority Caversham Lakes Trust Limited
Churches Conservation Trust
Children in Need Ltd
Sport England
Sport England Lottery
English Tourist Authority
Gambling Commission
Geffrye Museum
Geffrye Museum Trust Ltd
The Historic Buildings and Monuments Commission for England
Heritage Lottery Fund
Horniman Public Museum and Public Park Trust
Horniman Museum Enterprises Limited
Horserace Betting Levy Appeals Tribunal for England and Wales
Horserace Betting Levy Board
Imperial War Museum
Iveagh Bequest
Joint Industry Grading Scheme Ltd
The Museums, Libraries and Archives Council
Mortimer Productions Ltd
National Gallery
National Heritage Memorial Fund
National Lottery Commission
National Lottery Distribution Fund
National Lottery: UKSC Lottery
National Maritime Museum
National Museums Liverpool
National Portrait Gallery
Natural History Museum
Office of Communications
Office of the Adjudicator – Broadcast Transmission Services
Office of the Adjudicator
Olympic Delivery Authority
Olympic Lottery Distributor
Olympic Lottery Distribution Fund
Registrar of Public Lending Right
Reviewing Committee on the Export of Works of Art
Royal Armouries Museum
S4C
Science Museum
Sir John Soane's Museum
Sports Grounds Safety Authority
Stratford Village Development (GP) Ltd
Tate Gallery
Tate Gallery Projects Limited
Theatres Trust
The Commonwealth Broadcasting Association
The Dame Helen Gardner Bequest
The Development Fund
The Number 3 Trust Fund
The Portrait Fund
The Royal Parks
The Sports Council Trust Company
Treasure Valuation Committee
UK Anti-Doping
The UK Film Council
UK Sport Council
UK Sports Council Lottery
Victoria and Albert Museum
Wallace Collection

[1,2,3]Department for Education

[1,2,3] Academies[41] [42]

Children and Family Court Advisory and Support Service
National College
Social Mobility and Child Poverty Commission
School Teachers' Review Body
Standards and Testing Agency
Teaching Agency
The Children's Commissioner
[1,2]Education Funding Agency

Department of Energy and Climate Change

Carbon Reduction Commitment Trust Statement
Civil Nuclear Police Authority
Coal Authority
Committee on Climate Change
Committee on Radioactive Waste Management
Dounreay Site Restoration Limited
EU Emissions Allowance Trust Statement
Fines and Penalties
Fuel Poverty Advisory Group
Low Level Waste Repository Ltd
Magnox Limited
Nuclear Decommissioning Authority
Nuclear Liabilities Financing Assurance Board
Nuclear Liabilities Fund Ltd
Petroleum Licences Statement
Research Site Restoration Limited
Sellafield Limited

[1,] **Department for Environment, Food and Rural Affairs**

Advisory Committee on Hazardous Substances
Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees (England)
Agricultural Land Tribunals (England)
Agricultural Wages Board for England and Wales
Agricultural Wages Committees for England
Agriculture and Horticulture Development Board
Air Quality Expert Group
[1]Animal Health and Veterinary Laboratories Agency
Centre for Environment, Fisheries and Aquaculture Science (Cefas)
Commission for Rural Communities
Consumer Council for Water
Environment Agency
Food and Environment Research Agency (Fera)
Forestry Commission
Gangmasters Licensing Authority
Independent Agricultural Appeals Panel
Inland Waterways Amenity Advisory Council
Joint Nature Conservation Committee
Marine Management Organisation
National Forest Company
Natural England
Royal Botanic Gardens, Kew
RBG Kew Enterprises Limited
[1]Rural Payments Agency
Science Advisory Council
Sea Fish Industry Authority
Sutton Bridge Experimental Unit Limited
Veterinary Medicines Directorate (VMD)
Veterinary Products Committee

[3]**Department of Health**

Strategic Health Authorities
NHS Direct
NHS Trusts[43]
NHS Foundation Trusts[44]
Primary Care Trusts[45]
NHS Charities

Advisory Committee on Antimicrobial Resistance and Healthcare Associated Infection
Advisory Committee on Dangerous Pathogens
Advisory Group on Hepatitis
Administration of Radioactive Substances Advisory Committee
Appointments Commission
Care Quality Commission
Committee on Carcinogenicity of Chemicals in Food, Consumer Products and the Environment
Committee on the Medical Aspects of Radiation in the Environment
Committee on the Medical Effects of Air Pollutants
Committee on the Mutagenicity of Chemicals in Food, Consumer Products and the Environment
Expert Advisory Group on AIDS
Expert Group on Vitamins and Minerals
Gene Therapy Advisory Committee
General Social Care Council
Health Education England
Health Protection Agency

[41] Academies as established under section 1 of the Academies Act 2010.
[42] There were 22 academies (1%) that received qualified audit opinions. In addition, 67 academies (3%) received regularity reports from auditors that highlighted exceptions.

[43] as established under section 25 of the NHS Act 2006
[44] as established under section 30 of the NHS Act 2006
[45] as established under section 18 of the NHS Act 2006

Health Research Authority
Human Genetics Commission
Human Fertilisation and Embryology Authority
Human Tissue Authority
The Information Centre
Joint Committee on Vaccination and Immunisation Monitor
NHS Commissioning Board
National Health Service Trust Development Authority
National Institute for Health and Clinical Excellence
National Patient Safety Agency
National Treatment Agency for Substance Misuse
NHS Business Services Authority
NHS Institute for Innovation and Improvement
NHS Litigation Authority
NHS Pay Review Body
Professional Standards Authority for Health and Social Care
Review Body on Doctors' and Dentists' Remuneration
Scientific Advisory Committee on Nutrition
Skipton Fund Ltd

Department for International Development
Commonwealth Scholarship Commission in the United Kingdom
The Independent Commission for Aid Impact

Department for Transport
British Transport Police Authority
CTRL Section 1 Finance Plc
Directly Operated Railways
Disabled Persons Transport Advisory Committee
Driver and Vehicle Licensing Agency Trust Statement
General Lighthouse Fund
High Speed Two (HS2) Limited
LCR Finance Plc
London and Continental Railways
Passenger Focus
Traffic Commissioners/ Licensing Authorities
Vehicle Excise Duty

[1,2]**Department for Work and Pensions**
Child Maintenance and Enforcement Commission
Disability Living Allowance Advisory Board (DLAAB)
Equality 2025
Health and Safety Executive
Independent Living Fund (2006)
Industrial Injuries Advisory Council
Ombudsman for the Board of the Pension Protection Fund
The Pensions Advisory Service Limited
Pensions Ombudsman
Pensions Regulator
Social Security Advisory Committee

Export Guarantees Advisory Council

Food Standards Agency

Foreign and Commonwealth Office
BBC World Service
Foreign Compensation Commission
The Great Britain-China Centre
Marshall Aid Commemoration Commission
The UK China Forum
The Westminster Foundation for Democracy Limited
Wilton Park Executive Agency

Government Actuary's Department

HM Procurator General and Treasury Solicitor

[2]**HM Revenue and Customs**
HM Revenue and Customs Trust Statement
Valuation Office Agency

HM Treasury
Asset Protection Agency
Money Advice Service
Financial Services Compensation Scheme
Office for Budget Responsibility
Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations
Royal Household
UK Debt Management Office
UK Financial Investments Ltd

Home Office
Criminal Records Bureau (Disclosure and Barring Service from 1 December 2012)
Disclosure and Barring Service
The Advisory Council on the Misuse of Drugs
Animal Procedures Committee
The Commission for Equality and Human Rights (now in DCMS)
Her Majesty's Inspectorate of Constabulary
Independent Police Complaints Commission
Independent Safeguarding Authority (Disclosure and Barring Serv
Investigatory Powers Tribunal
Migration Advisory Committee
National DNA Database Ethics Group
National Fraud Authority
National Policing Improvement Agency
Office of Surveillance Commissioners
Office of the Immigration Services Commissioner

Police Advisory Board for England and Wales
Police Appeals Tribunal
Police Arbitration Tribunal
Police Negotiating Board
Security Industry Authority
Serious Organised Crime Agency
Technical Advisory Board
United Kingdom Border Agency

[1,2,] Ministry of Defence
ABF: the Soldiers' Charity
Advisory Committee on Conscientious Objectors
Advisory Group on Military Medicine
Armed Forces Pay Review Body
Central Advisory Committee on Pensions and Compensation
Commonwealth War Graves Commission
Council of Reserve Forces and Cadet Associations
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
Independent Monitoring Board for the Military
National Army Museum
National Employer Advisory Board
National Museum of the Royal Navy
Nuclear Research Advisory Council
Review Board for Government Contracts
[2]Royal Air Force Museum
Royal Hospital Chelsea
Science Advisory Committee on the Medical Implications of Less-Lethal Weapons
War Pensions Committees

[1]Ministry of Justice
Administrative Justice and Tribunal Council
Advisory Committees on Justices of the Peace in England and Wales
Advisory Council on National Records and Archives
Advisory Panel on Public Sector Information
Assessor for Compensation of Miscarriages of Justice
Civil Justice Council
Civil Procedure Rule Committee
Office of the Accountant General
Criminal Cases Review Commission
Criminal Injuries Compensation Authority
Criminal Procedure Rule Committee
Crown Court Rule Committee
Family Justice Council
Family Procedure Rule Committee
Her Majesty's Courts and Tribunal Service
Independent Advisory Panel on Deaths in Custody
Independent Monitoring Boards of Prisons, Immigration Removal Centres and Immigration Holding Facilities
Insolvency Rules Committee
Judicial Appointments Commission
Judicial Appointments and Conduct Ombudsman
Judicial College
Judicial Communications Office
Judicial Office
Law Commission
Legal Services Board
Legal Services Commission
Legal Services Ombudsman
Magistrates' Courts Rules Committee
National Offender Management Service
Office of HM Inspectorate of Prisons
Office of HM Inspectorate of Probation
Office of the Judge Advocate General
Office for Judicial Complaints
Office of Legal Complaints
Office of the Information Commissioner
Office of the Public Guardian
Official Solicitor and Public Trustee
Parole Board for England and Wales
Prisons and Probation Ombudsman
Prison Service Pay Review Body
Probation Trusts
Restraint Advisory Board
Sentencing Council for England and Wales
Tribunal Procedure Committee
Victims Advisory Panel
Victims' Commissioner
[2]Youth Justice Board for England and Wales

The National Archives

Office of Fair Trading

Office of Gas and Electricity Markets

Office of Rail Regulation

Office for Standards in Education, Children's Services and Skills

Scotland Office

Wales Office

Security and Intelligence Agencies

Serious Fraud Office

UK Statistics Authority
UK Supreme Court

UK Trade & Investment

Water Services Regulation Authority

Central Funds

- Consolidated Fund
- Contingencies Fund
- Debt Management Account
- Exchange Equalisation Account
- National Insurance Fund
- National Loans Fund
- National Savings and Investments
- Public Works Loans Board

Superannuation Schemes (England and Wales)

- Armed Forces Retired Pay, Pensions etc
- Cabinet Office: Civil Superannuation
- Department for Business, Innovation and Skills: UKAEA pension schemes
- Department for International Development: Overseas Superannuation
- Ministry of Justice: Judicial Pensions Scheme
- [3]NHS Pension Scheme
- Royal Mail Pension Scheme
- Teachers' Pension Scheme (England & Wales)

Northern Ireland central government entities

Northern Ireland Office

Agrifood and Biosciences Institute of Northern Ireland
Arts Council of Northern Ireland
Arts Council of Northern Ireland Lottery Distribution Account
Belfast Education & Library Board - Northern Ireland
Boundary Commission for Northern Ireland
Business Services Organisation
Community Relations Council for Northern Ireland
Construction Industry Training Board
Department for Employment and Learning - Northern Ireland
Department for Regional Development - Northern Ireland
[2]Department for Social Development - Northern Ireland
[2]Department of Agriculture and Rural Development - Northern Ireland
[1]Department of Culture Arts and Leisure - Northern Ireland
[2]Department of Education - Northern Ireland
Department of Enterprise Trade and Investment - Northern Ireland
Department of Finance and Personnel - Northern Ireland
Department of Health Social Services & Public Safety
Department of Justice - Northern Ireland
Department of the Environment - Northern Ireland
DFP - Superannuation & Other Allowances - Northern Ireland
Equality Commission for Northern Ireland
Health and Social Care Pension Scheme
Ilex Urban Regeneration Co Ltd
Invest Northern Ireland
Maze/Long Kesh Development Corporation
National Museums and Galleries of Northern Ireland
North Eastern Education and Library Board - Northern Ireland
Northern Ireland Authority for Utility Regulation
Northern Ireland Blood Transfusion Service
Northern Ireland Consolidated Fund
Northern Ireland Council for the Curriculum, Examinations and Assessment
[2]Northern Ireland Council for Integrated Education
Northern Ireland Fire and Rescue Service
Northern Ireland Fishery Harbour Authority
[1,2] Northern Ireland Legal Services Commission
Northern Ireland Library Authority
Northern Ireland Local Government Officers Superannuation Committee
Northern Ireland Medical and Dental Training Agency
[2]Northern Ireland National Insurance Fund
Northern Ireland Policing Board
Northern Ireland Screen Commission
Northern Ireland Tourist Board
Northern Ireland Water Limited
Office of the First Minister and Deputy First Minister - Northern Ireland
Police Ombudsman for Northern Ireland
Police Pension Scheme - Northern Ireland Office
Police Service of Northern Ireland
Probation Board for Northern Ireland
Public Prosecution Service - Northern Ireland
Regulation and Quality Improvement Authority
South Eastern Education and Library Board - Northern Ireland
Southern Education and Library Board - Northern Ireland
Sports Council for Northern Ireland
Sports Council for Northern Ireland Lottery Distribution Account
Strategic Investment Board Limited
Teachers Superannuation Scheme Statements - Northern Ireland
Ulster Supported Employment Limited - Northern Ireland
Victims and Survivors Service

Western Education and Library Board - Northern Ireland
Youth Council for Northern Ireland

Northern Irish Health and Social Care Trusts

Belfast Health and Social Care Trust
NI Ambulance Service HSS Trust
Northern Health and Social Care Trust
South Eastern Health and Social Care Trust
Southern Health and Social Care Trust
Western Health and Social Care Trust

Scotland Central Government Entities

Care Inspectorate
Creative Scotland
David MacBrayne Ltd
Forestry Commission Scotland
Forth Estuary Transport Authority
Highlands and Islands Airports
Highlands and Islands Enterprise
National Galleries of Scotland
National Library of Scotland
National Museums of Scotland
National Records of Scotland
Royal Botanic Garden, Edinburgh
Scottish Canals
Scottish Childrens Reporter Administration
[2]Scottish Consolidated Fund
Scottish Court Service
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Funding Council
[3]Scottish Government
Scottish Legal Aid Board
Scottish Natural Heritage
Scottish NHS Pension Scheme
Scottish Police Services Authority
Scottish Qualifications Authority
Scottish Social Services Council
Scottish Teachers Pension Scheme
Skills Development Scotland
Sport Scotland
Tay Road Bridge Joint Board
Visit Scotland

Wales Central Government Entities

Arts Council of Wales
Arts Council of Wales National Lottery
Care Council for Wales
Countryside Council for Wales
Children's Commissioner for Wales
Estyn - Her Majesty's Inspectorate for Education and Training in Wales
Higher Education Funding Council for Wales
Local Government Boundary Commission for Wales
National Library of Wales
National Museums and Galleries of Wales
Natural Resources Wales
Older People's Commission for Wales
Sports Council for Wales
Sports Council for Wales National Lottery
Welsh Assembly Government
Welsh Consolidated Fund
Welsh Language Commissioner

Welsh National Health Service Trusts

Velindre
Welsh Ambulance Services
Public Health Wales NHS Trust

<u>Public Corporations and Public Financial Corporations</u>

Audit Commission
Bank of England
Bank of England Asset Purchase Facility
Broadcasters' Audience Research Board Ltd
British Council
BRB Residuary Ltd
Caledonian Maritime Assets Ltd
Channel Four Television Corporation
Civil Aviation Authority
Commonwealth Development Corporation
Companies House
Defence Science and Technology Laboratory
Defence Support Group
Direct Rail Services Limited
Driver and Vehicle Agency - Northern Ireland
Driving Standards Agency
Export Credits Guarantee Department
FCO Services
Fire Service College
Forensic Science Service
Forest Enterprise Agency
Forest Enterprise Agency Scotland
Guaranteed Export Finance Corporation
Government Procurement Service
Intellectual Property Office
International Nuclear Services Ltd
Land Registry
London Organising Committee of the Olympic Games
London Organising Committee of the Olympic Games Limited

Medicines and Healthcare Products Regulatory Agency
MRC Technology Limited
Meteorological Office
[2] National Employment Savings Trust
National Nuclear Laboratory Ltd
NDA Properties Limited
NHS Blood and Transplant
NHS Professionals
[2] Northern Ireland Housing Executive
Northern Ireland Transport Holding Company
Ordinance Survey
Pacific Nuclear Transport Limited
Registers of Scotland
Remploy Ltd
Royal Mail Holdings plc
Royal Mint
Scottish Water
UK Hydrographic Office
Vehicle and Operator Services Agency

Local Government – England

Adur District Council
Allerdale Borough Council
Amber Valley Borough Council
Arun District Council
Ashfield District Council
Ashford Borough Council
Avon and Somerset Police and Crime Commissioner
Avon Fire and Rescue Authority
Aylesbury Vale District Council
Babergh District Council
Barking & Dagenham London Borough Council
Barnet London Borough Council
Barnsley Metropolitan Borough Council
Barrow-in-Furness Borough Council
Basildon District Council
Basingstoke and Deane Borough Council
Bassetlaw District Council
Bath & North East Somerset Council
Bedford Unitary Authority
Bedfordshire Combined Fire and Rescue Authority
Bedfordshire Police and Crime Commissioner
Berkshire Combined Fire and Rescue Authority
Bexley London Borough Council
Birmingham City Council
Blaby District Council
Blackburn with Darwen Unitary Authority
Blackpool Unitary Authority
Bolsover District Council
Bolton Metropolitan Borough Council
Boston Borough Council
Bournemouth Council
Bracknell Forest Borough Council
Bradford City Council
Braintree District Council
Breckland District Council
Brent London Borough Council
Brentwood Borough Council
[3]Brighton & Hove City Council
Bristol City Council
Broadland District Council
Broads Authority (The)
Bromley London Borough Council
Bromsgrove District Council
Broxbourne Borough Council
Broxtowe Borough Council
Buckinghamshire Combined Fire and Rescue Authority
Buckinghamshire County Council
Burnley Borough Council
Bury Metropolitan Borough Council
Calderdale Metropolitan Borough Council
Cambridge City Council
Cambridgeshire Combined Fire and Rescue Authority
Cambridgeshire County Council
Cambridgeshire Police and Crime Commissioner
Camden London Borough Council
Cannock Chase District Council
Canterbury City Council
Carlisle City Council
Castle Point Borough Council
Central Bedfordshire Unitary Authority
Charnwood Borough Council
Chelmsford Borough Council
Cheltenham Borough Council
Cherwell District Council
Cheshire East Unitary Authority
Cheshire Combined Fire and Rescue Authority
Cheshire Police and Crime Commissioner

Cheshire West and Chester Unitary Authority
Chesterfield Borough Council
Chichester District Council
Chiltern District Council
Chorley Borough Council
Christchurch Borough Council
City of York Council
Cleveland Combined Fire and Rescue Authority
Cleveland Police and Crime Commissioner
Colchester Borough Council
Common Council of the City of London
Copeland Borough Council
Corby Borough Council
Cornwall Unitary Authority
Cotswold District Council
County Durham Unitary Authority
Coventry City Council
Craven District Council
Crawley Borough Council
Croydon London Borough Council
Cumbria County Council
Cumbria Police and Crime Commissioner
Dacorum Borough Council
Darlington Borough Council
Dartford Borough Council
Dartmoor National Park Authority
Daventry District Council
Derby City Council
Derbyshire County Council
Derbyshire Dales District Council
Derbyshire Combined Fire and Rescue Authority
Derbyshire Police and Crime Commissioner
Devon & Somerset Combined Fire and Rescue Authority
Devon and Cornwall Police and Crime Commissioner
Devon County Council
Doncaster Metropolitan Borough Council
Dorset County Council
Dorset Combined Fire and Rescue Authority
Dorset Police and Crime Commissioner Authority
Dover District Council
Dudley Metropolitan Borough Council
Durham Combined Fire and Rescue Authority
Durham Police and Crime Commissioner
Ealing London Borough Council
East Cambridgeshire District Council
East Devon District Council
East Dorset District Council
East Hampshire District Council
East Hertfordshire District Council
East Lindsey District Council
East London Waste Authority
East Northamptonshire District Council
East Riding of Yorkshire Council
East Staffordshire Borough Council
East Sussex County Council
East Sussex Combined Fire and Rescue Authority
Eastbourne Borough Council
Eastleigh Borough Council
Eden District Council
Elmbridge Borough Council
Enfield London Borough Council
Epping Forest District Council
Epsom and Ewell Borough Council
Erewash Borough Council
Essex County Council
Essex Combined Fire and Rescue Authority
[3]Essex Police and Crime Commissioner
Exeter City Council
Exmoor National Park Authority
Fareham Borough Council
Fenland District Council
Forest Heath District Council
Forest of Dean District Council
Fylde Borough Council
Gateshead Council
Gedling Borough Council
Gloucester City Council
Gloucestershire County Council
Gloucestershire Police and Crime Commissioner
Gosport Borough Council
Gravesham Borough Council
Great Yarmouth Borough Council
Greater London Authority
Greater Manchester Combined Authority
Greater Manchester Fire and Rescue Authority

Greater Manchester Police and Crime Commissioner
Greater Manchester Waste Disposal Authority
Greenwich London Borough Council
Guildford Borough Council
Hackney London Borough Council
Halton Borough Council
Hambleton District Council
Hammersmith and Fulham London Borough Council
Hampshire County Council
Hampshire Combined Fire and Rescue Authority
Hampshire Police and Crime Commissioner
Harborough District Council
Haringey London Borough Council
Harlow District Council
Harrogate Borough Council
Harrow London Borough Council
Hart District Council
Hartlepool Borough Council
Hastings Borough Council
Havant Borough Council
Havering London Borough Council
Hereford and Worcester Combined Fire and Rescue Authority
Herefordshire Council
Hertfordshire County Council
Hertfordshire Police and Crime Commissioner
Hertsmere Borough Council
High Peak Borough Council
Hillingdon London Borough Council
Hinckley and Bosworth Borough Council
Horsham District Council
Hounslow London Borough Council
Humberside Combined Fire and Rescue Authority
Humberside Police and Crime Commissioner
Huntingdonshire District Council
Hyndburn Borough Council
Ipswich Borough Council
Isle of Wight Council
Isles of Scilly (Council of the)
Islington London Borough Council
Kensington and Chelsea Council (Royal Borough of)
Kent Combined Fire and Rescue Authority
Kent County Council
Kent Police and Crime Commissioner
Kettering Borough Council
Kings Lynn and West Norfolk Borough Council
Kingston upon Hull City Council
Kingston upon Thames Council (Royal Borough of)
Kirklees Metropolitan Council
Knowsley Metropolitan Borough Council
Lake District National Park Authority
Lambeth London Borough Council
Lancashire County Council
Lancashire Combined Fire and Rescue Authority
Lancashire Police and Crime Commissioner
Lancaster City Council
Lee Valley Regional Park Authority
Leeds City Council
Leicester City Council
Leicester Combined Fire and Rescue Authority
Leicestershire County Council
Leicestershire Police and Crime Commissioner
Lewes District Council
Lewisham London Borough Council
Lichfield District Council
Lincoln City Council
Lincolnshire County Council
Lincolnshire Police and Crime Commissioner
Liverpool City Council
London Legacy Development Corporation
London Fire and Emergency Planning Authority
Luton Borough Council
Maidstone Borough Council
Maldon District Council
Malvern Hills District Council
[1]Manchester City Council
Mansfield District Council
Mayor's Office for Policing and Crime
Medway Towns Unitary Authority (The)
Melton Borough Council
Mendip District Council
Merseyside Fire and Rescue Authority
Merseyside Integrated Transport Authority

Merseyside Police and Crime Commissioner
Merseyside Waste Disposal Authority
Merton Borough Council
Mid Devon District Council
Mid Suffolk District Council
Mid Sussex District Council
[3]Middlesbrough Council
Milton Keynes Council
Mole Valley District Council
Museum of London
New Forest District Council
New Forest National Park Authority
Newark and Sherwood District Council
Newcastle upon Tyne City Council
Newcastle-under-Lyme Borough Council
Newham London Borough Council
Norfolk County Council
Norfolk Police and Crime Commissioner
North Devon District Council
North Dorset District Council
North East Derbyshire District Council
North East Lincolnshire Council
North Hertfordshire District Council
North Kesteven District Council
North Lincolnshire Council
North London Waste Authority
North Norfolk District Council
North Somerset Council
North Tyneside Metropolitan Borough Council
North Warwickshire Borough Council
North West Leicestershire District Council
North York Moors National Park Authority
North Yorkshire County Council
North Yorkshire Combined Fire and Rescue Authority
North Yorkshire Police and Crime Commissioner
Northampton Borough Council
Northamptonshire County Council
Northamptonshire Police and Crime Commissioner
Northumberland National Park Authority
Northumberland Unitary Authority
Northumbria Police and Crime Commissioner
Norwich City Council
Nottingham City Council
Nottinghamshire Combined Fire and Rescue Authority
Nottinghamshire County Council
Nottinghamshire Police and Crime Commissioner
Nuneaton and Bedworth Borough Council
Oadby and Wigston Borough Council
Oldham Metropolitan Borough Council
Oxford City Council
Oxfordshire County Council
Peak District National Park Authority
Pendle Borough Council
Peterborough City Council
Plymouth City Council
Poole (Borough of)
Portsmouth City Council
Preston City Council
Purbeck District Council
Reading Borough Council
Redbridge London Borough Council
Redcar and Cleveland Borough Council
Redditch Borough Council
Reigate and Banstead Borough Council
Ribble Valley Borough Council
Richmond upon Thames Borough Council
Richmondshire District Council
Rochdale Borough Council
Rochford District Council
Rossendale Borough Council
Rother District Council
Rotherham Borough Council
Rugby Borough Council
Runnymede Borough Council
Rushcliffe Borough Council
Rushmoor Borough Council
Rutland County Council
Ryedale District Council
Salford City Council
Sandwell Metropolitan Borough Council
Scarborough Borough Council
Sedgemoor District Council
Sefton Metropolitan Borough Council
Selby District Council
Sevenoaks District Council
Sheffield City Council
Shepway District Council

Shropshire Combined Fire and Rescue Authority
Shropshire Unitary Authority
Slough Borough Council
Solihull Metropolitan Borough Council
Somerset County Council
South Bucks District Council
South Cambridgeshire District Council
South Derbyshire District Council
South Downs National Park
South Gloucestershire Council
South Hams District Council
South Holland District Council
South Kesteven District Council
South Lakeland District Council
South Norfolk District Council
South Northamptonshire Council
South Oxfordshire District Council
South Ribble Borough Council
South Somerset District Council
South Staffordshire District Council
[3]South Tyneside Council
South Yorkshire Fire and Rescue Authority
South Yorkshire Integrated Transport Authority
South Yorkshire Police and Crime Commissioner
Southampton City Council
[3]Southend-on-Sea Borough Council
Southwark London Borough Council
Spelthorne Borough Council
St Albans City and District Council
St Edmundsbury Borough Council
St Helens Metropolitan Borough Council
Stafford Borough Council
Staffordshire County Council
Staffordshire Moorlands District Council
Staffordshire Combined Fire and Rescue Authority
Staffordshire Police and Crime Commissioner
Stevenage Borough Council
Stockport Metropolitan Borough Council
Stockton-on-Tees Borough Council
Stoke-on-Trent and Staffordshire Fire Authority
Stoke-on-Trent Unitary Authority
Stratford-on-Avon District Council
Stroud District Council
Suffolk Coastal District Council
Suffolk County Council
Suffolk Police and Crime Commissioner
Sunderland City Metropolitan Borough Council
Surrey County Council
Surrey Heath Borough Council
Surrey Police and Crime Commissioner
Sussex Police and Crime Commissioner
Sutton London Borough Council
Swale Borough Council
Swindon Unitary Authority
Tameside Metropolitan Borough Council
Tamworth Borough Council
Tandridge District Council
Taunton Deane Borough Council
Teignbridge District Council
Telford and Wrekin (Borough of)
Tendring District Council
Test Valley Borough Council
Tewkesbury Borough Council
Thames Valley Police and Crime Commissioner
Thanet District Council
Three Rivers District Council
Thurrock Unitary Authority
Tonbridge and Malling Borough Council
Torbay Council
Torridge District Council
Tower Hamlets London Borough Council
Trafford Metropolitan Borough Council
Transport for London
Tunbridge Wells Borough Council
Tyne & Wear Integrated Transport Authority
Tyne and Wear Fire and Rescue Authority
Tyne and Wear Passenger Transport Executive (Nexus)
Uttlesford District Council
Vale of White Horse District Council
Wakefield City Council
Walsall Metropolitan Borough Council

Waltham Forest London Borough Council
Wandsworth London Borough Council
Warrington Borough Council
Warwick District Council
Warwickshire County Council
Warwickshire Police and Crime Commissioner
Watford Borough Council
Waveney District Council
Waverley Borough Council
Wealden District Council
Wellingborough Borough Council
Welwyn Hatfield District Council
West Berkshire Council
West Devon Borough Council
West Dorset District Council
West Lancashire District Council
West Lindsey District Council
West London Waste Authority
West Mercia Police and Crime Commissioner
West Midlands Fire and Rescue Authority
West Midlands Integrated Transport Authority
West Midlands Police and Crime Commissioner
West Oxfordshire District Council
West Somerset District Council
West Sussex County Council
West Yorkshire Fire and Rescue Authority
West Yorkshire Integrated Transport Authority
West Yorkshire Police and Crime Commissioner
Western Riverside Waste Authority
Westminster City Council
Weymouth and Portland Borough Council
Wigan Metropolitan Borough Council
Wiltshire Combined Fire and Rescue Authority
Wiltshire Police and Crime Commissioner
Wiltshire Unitary Authority
Winchester City Council
Windsor and Maidenhead (Royal Borough of)
Wirral Metropolitan Borough Council
Woking Borough Council
Wokingham Council
Wolverhampton City Council
Worcester City Council
Worcestershire County Council
Worthing Borough Council
Wychavon District Council
Wycombe District Council
Wyre Borough Council
Wyre Forest District Council
Yorkshire Dales National Park Authority

Local Government – Northern Ireland

Antrim Borough Council
ARC21 Joint Committee
Ards Borough Council
Armagh City & District Council
Ballymena Borough Council
Ballymoney Borough Council
Banbridge District Council
Belfast City Council
Carrickfergus Borough Council
Castlereagh Borough Council
Coleraine Borough Council
Cookstown District Council
Craigavon Borough Council
Derry City Council
Down District Council
Dungannon and South Tyrone Borough Council
Fermanagh District Council
Larne Borough Council
Limavady Borough Council
Lisburn City Council
Magherafelt District Council
Moyle District Council
Newry and Mourne District Council
Newtownabbey Borough Council
North Down Borough Council
Omagh District Council
Strabane District Council

Local Government – Scotland

Aberdeen City Council
Aberdeenshire Council
Angus Council
Argyll and Bute Council
Central Scotland Fire and Rescue Service
Central Scotland Police
Clackmanannshire Council
Dumfries and Galloway Council
Dundee City Council
East Ayrshire Council
East Dunbartonshire Council
East Lothian Council

East Renfrewshire Council
Edinburgh City Council
Falkirk Council
[3]Fife Council
Glasgow City Council
Grampian Fire and Rescue Service
Grampian Police
Highland Council
Highlands & Islands Fire Brigade
Inverclyde Council
Lothian & Borders Fire and Rescue Service
Lothian & Borders Police
Midlothian Council
Moray Council
North Ayrshire Council
North Lanarkshire Council
Northern Constabulary
Orkney Islands Council
[3]Perth and Kinross Council
Renfrewshire Council
Scottish Borders Council
Shetland Islands Council
South Ayrshire Council
South-East of Scotland Transport Partnership (SESTRAN)
South Lanarkshire Council
Stirling Council
Strathclyde Fire and Rescue Service
Strathclyde Partnership for Transport
Strathclyde Police
Tayside Fire and Rescue Services
Tayside Police
West Dunbartonshire Council
West Lothian Council
Western Isles Council (now Comhaile Eilean Siar)

<u>Local Government – Wales</u>

Blaenau Gwent County Borough Council
Bridgend County Borough Council
Caerphilly County Borough Council
Cardiff City and County Council
Carmarthenshire County Council
Ceredigion County Council
Conwy County Borough Council
Denbighshire County Council
Dyfed Powys Police Authority
Flintshire County Council
Gwent Police Authority
Gwynedd County Council
Isle of Anglesey County Council
Merthyr Tydfil County Borough Council
Mid and West Wales Fire Authority
Monmouthshire County Council
Neath Port Talbot County Borough Council
Newport City Council
North Wales Fire Authority
North Wales Police Authority
Pembrokeshire Coast National Park Authority
Pembrokeshire County Council
Powys County Council
Rhondda Cynon Taff County Borough Council
Snowdonia National Park Authority
South Wales Fire Authority
South Wales Police Authority
Swansea City and County Council
Torfaen County Borough Council
Vale of Glamorgan County Council
Wrexham County Borough Council

Annex 2

Entities that are not consolidated in WGA

The accounting policy for the WGA boundary set out in Note 1.3 is based on section 9(1) of the Government Resources and Accounts Act 2000 (GRAA) and the Government Financial Reporting Manual (FReM) which adapts IAS 27 to reflect the requirements of the GRAA. The GRAA requires HM Treasury to consolidate entities that appear to HM Treasury to "exercise functions of a public nature" or to be "substantially funded from public money". HM Treasury's decisions apply the GRAA and the FReM, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics (ONS). This is because the ONS consider the factors listed in the GRAA when making their classification decisions as well as taking account of the degree of control that government has over each entity. As a result the scope of WGA is similar to other fiscal measures, which enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances.

Entities that are minor

A number of small entities are not consolidated within the accounts on the basis of materiality. These minor entities are listed in Annex 3.

Entities that are not responsible to an executive arm of government

There are a few entities that would satisfy the criteria set out in the GRAA and are classified as public sector entities by the ONS, but which HM Treasury, consistent with its legislative remit, has decided to exclude from WGA. This is because, whilst they are accountable to their respective parliaments or assemblies, they are not responsible to an executive arm of the government, and therefore do not form part of "government". These entities, which are all relatively small in size, are listed below:

- Audit Scotland
- The Crown Estate
- Electoral Commission
- Independent Parliamentary Standards Authority
- National Assembly for Wales
- National Audit Office
- Northern Ireland Assembly
- Northern Ireland Audit Office
- Parliamentary Ombudsman
- Scottish Parliament
- Wales Audit Office
- Westminster Parliament

Public sector financial institutions

There are a number of financial institutions that would satisfy the criteria set out in the GRAA and are classified as public sector entities by ONS: the Royal Bank of Scotland, Lloyds Banking Group, Northern Rock (Asset Management) plc, and Bradford and Bingley plc. These have not been fully consolidated in these accounts but instead are shown as investments.

Northern Rock (Asset Management) plc and Bradford and Bingley plc will be consolidated into WGA from 2013-14, as they are expected to be a permanent part of government until their mortgage books have expired and therefore form a longer-term part of the public sector. The remaining banks will continue to be held as available-for-sale financial assets and liabilities. Their financial assets and liabilities have not been fully consolidated into these accounts, for reasons outlined in Note 37.

The summarised financial statements of all these institutions are disclosed in Note 37.

Other entities

In addition, some entities have been excluded for reasons specific to their circumstances. In these instances, their exclusion is under review and they may be consolidated within WGA in future.

A list of these entities is provided below:

- Financial Conduct Authority – was formed in 2013 as an independent business conduct regulator to ensure that business across financial services and markets is conducted in the appropriate way. This is proposed to be consolidated in future, date to be agreed
- Further education institutions – were being considered for consolidation after being reclassified to the government sector by ONS in October 2010, however following legislative changes they were reclassified back to the private sector by ONS from 2012-13 and therefore no further work to consolidate was carried out
- Higher education institutions – classified to the private sector by ONS
- Local government pension schemes – not separately designated as the net public sector pension liability is included within the accounts of local authorities
- Maintained schools – not separately designated as net assets, income and expenditure are usually included by local authorities
- Municipal ports – pragmatic exclusion as net assets are immaterial to WGA and the expenditure is reflected in WGA
- Parish councils – pragmatic exclusion as net assets are immaterial to WGA and the expenditure reflected in WGA
- Pension Protection Fund – proposed to be included in 2013-14
- Trust ports –pragmatic exclusion as net assets are immaterial to WGA

Annex 3: Minor entities excluded from the consolidation

There are a number of entities within the public sector that are relatively small in size. These small entities that are not consolidated in underlying accounts are deemed minor entities and are considered too small to have any material impact on WGA and are therefore not consolidated in WGA. In order to be minor, they must satisfy certain tests which are reviewed annually, as described in Note 1.22.1. The number of minor bodies has reduced in 2012-13 following the implementation of the Clear Line of Sight reforms which expanded the consolidation boundary of government departmental accounts resulting in many minor bodies being consolidated in underlying accounts and so included within WGA. The entities listed below have not been consolidated into WGA for 2012-13 as they met the minor entity criteria.

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
2013 World Police and Fire Games	3,474	0	0
Architects Registration Board	3,162	426	1,644
Armagh Observatory and Planetarium	2,321	7,559	6,363
British Hallmarking Council	73	-	-
Brecon Beacons National Park Authority	6,608	4,426	(1,272)
Charity Commission for Northern Ireland	1,025	322	(45)
Children's Commissioner for Wales	1,755	12	365
CITB Construction Skills Northern Ireland	3,296	1,978	4,575
Comhairle na Gaelscolaiochta	736	20	(65)
Commission for Children and Young People for Northern Ireland	1,573	90	97
Commission for Older People for Northern Ireland	(573)	22	29
Commission for Victims and Survivors for Northern Ireland	857	9	63
Council for Catholic Maintained Schools	3,181	11	(4,404)
Professional Standards Authority for Health and Social Care	3,518	114	773
Covent Garden Market Authority	17,507	5,601	8,685
Criminal Justice Inspection Northern Ireland	1,458	121	(110)
Culture Company 2013 Limited	890	0	0
General Consumer Council for Northern Ireland	2,446	432	404
General Teaching Council for Northern Ireland	1,141	5	1,155
General Teaching Council for Wales	8,243	54	460
Health and Safety Executive for Northern Ireland	1,052	64	169
Labour Relations Agency	3,610	349	296
Livestock and Meat Commission for Northern Ireland	2,126	882	2,613
Local Government Staff Commission for Northern Ireland	701	444	(45)
Northern Ireland Events Company Limited	3	0	(1,291)
Northern Ireland Guardian ad Litem Agency	4,076	133	108
Northern Ireland Judicial Appointments Commission	1,310	11	(74)
Northern Ireland Memorial Fund	3,262	0	371
Northern Ireland Museums Council	414	1	(15)
Northern Ireland Police Fund	1,501	10	51

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
Northern Ireland Practice and Education Council for Nursing and Midwifery	1,702	56	(517)
Northern Ireland Social Care Council	3,611	66	300
North West Regional Waste Management Group	370	0	0
Office for Fair Access	973	-	-
Patient and Client Council	1,848	8	(249)
Police Complaints Commissioner for Scotland	1,148	352	525
Police Rehabilitation and Retraining Trust	3,092	0	0
Queen Elizabeth II Conference Centre	7,162	1,640	10,438
Risk Management Authority	939	9	169
Royal Ulster Constabulary George Cross Foundation	150	1	84
Scottish Criminal Cases Review Commission	1,074	20	193
Southern Waste Management Partnership	549	72	134
Staff Commission for Education and Library Boards	358	2	(6)
Amounts excluded from WGA in 2012-13	**103,722**	**25,322**	**31,971**
Amounts excluded from WGA in 2011-12	**92,052**	**24,674**	**58,962**

Annex 4: List of departures from the 2012-13 Government Financial Reporting Manual

These financial statements are prepared in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2012-13 Government Financial Reporting Manual (FReM). However, in some circumstances departures from the FReM have been made, and these are described below.

Departures in the underlying accounts

General government entities (including devolved administrations and the National Health Service)

HM Treasury's Accounts Direction given in accordance with section 5(2) of the GRAA allows for departures from the FReM in exceptional circumstances, where to comply with the FReM would not give a true and fair view. In these instances, any departure is agreed with HM Treasury's Accounting and Financial Policy Reporting team.

The Ministry of Defence has not applied IFRIC 4 '*Determining whether an Arrangement Contains a Lease*' to all of its contracts. It is believed that a limited number of significant, largely single source contracts, particularly strategic procurement arrangements with key contractors, would meet the IFRIC 4 definition of containing a lease if they were reviewed against IFRIC 4; and that some of these leases would meet the definition of a finance lease per IAS 17 '*Leases*'. The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Consequently, the Comptroller & Auditor-General qualified his opinion on the 2012-13 accounts of the Ministry of Defence on the basis that a material value of leased assets and liabilities were omitted from its Statement of Financial Position. The department conducted an initial review on the application of IFRIC 4 to the accounts which completed in September 2013. This resulted in the agreement not to implement IFRIC 4 for legacy contracts and this decision was agreed with the Treasury on value for money grounds. Further information is available in the Ministry of Defence's 2012-13 Annual Report and Accounts.

The Department of Health's 2012-13 Annual Report and Accounts include a number of departures from the FReM as agreed with HM Treasury, but these have no material impact on consolidation in these accounts. Some NHS organisations whose accounts are consolidated into the department's annual report and accounts receive donations that are held on trust.

Inconsistencies in accounting frameworks that led to departures in the FReM

Local government entities

Local authority accounting complies with the Code of Practice on Local Authority Accounting in the UK (The Code) developed by the CIPFA / LASAAC Board. The Code is based on international accounting standards.

The most significant difference between the FReM and the Code arises from the accounting treatment of highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical cost basis compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation of these assets on a depreciated replacement cost basis for inclusion in the Whole of Government Accounts. The 2012-13 process collected data from local authorities, but it was not considered sufficiently reliable for inclusion in the 2012-13 financial statements. However, this does set a foundation for further analysis to be undertaken to inform the 2013-14 accounts and potentially act as an interim solution until the introduction of the new accounting policy in 2016-17.

In the meantime, the best proxy available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2012 National Accounts estimated the value of the road network at £275 billion (2011-12: £266 billion) as at 31 December 2012[46]. Infrastructure assets are likely to be understated by at least £200 billion.

[46] UK National Accounts, The Blue Book, 2013, Table 10.9 'Other Structures'

Local authorities value the bulk of housing stock within the Housing Revenue Account under the valuation method 'Existing Use Value for Social Housing', which is defined by the Royal Institution of Chartered Surveyors Valuation Standards 6th Edition. This is in accordance with current CIPFA and HM Treasury guidance. However, this method of valuation is not recognised under IFRS and is a departure from IFRS and FReM.

Under the disclosure requirements in the 2012-13 Code, local authorities do not provide the same level of disclosure as required by the FReM. This impacts this account in the following way:

- Local authorities are not required to separately disclose vehicles. As a result, plant and machinery in Note 14 include vehicles held by local authorities.
- Local authorities under the Code are not required to separately identify provision expense in their Statement of Revenue and Expenditure. This gives rise to a difference between the provision expense shown separately in the WGA Statement of Revenue and Expenditure and the movement in provisions shown in the Statement of Financial Position.

Public corporations

Except where specific powers are defined in statute, public corporations are subject to all the discipline of corporate legislation including conforming to the financial reporting requirements of the Companies Act, and not the FReM.

Scottish Water values its infrastructure assets at historical cost in its accounts, rather than replacement cost per the FReM. An adjustment has been made of £40 billion (2011-12: £38 billion) to reflect the replacement cost in these accounts.

Specific WGA departures from the FReM

PFI disclosures

A number of WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported off-balance sheet contracts in their accounts in different ways in 2012-13, as the accounting standards allow flexibility as to how to present the information. Therefore it is not possible to provide a summary of all these PFI contracts in this account. Included in Note 30 is a list of the significant PFI contracts that have been reported.

Level of disclosures

On certain matters, the level of disclosure reported by individual entities in their accounts varies, which has impacted on the level of disclosures able to be reported in these accounts. For example, local authority accounting requirements disclose exit packages at different cost bands to those required to be disclosed in the FReM, and this has been reflected in the cost bands disclosed in Note 7.4. In these instances, the level of disclosure still provides users of the accounts with sufficient information to understand the state of the Whole of Government Accounts.

On certain matters, the detailed level of disclosure required by financial reporting standards is not appropriate for WGA, as it would create an unwieldy document including details from 3,800 entities that would not serve the purpose of the Whole of Government Accounts. In such cases detailed disclosures are omitted but are available in the individual accounts of the consolidated entities. This affects the following items:

Disclosure	Information omitted
Donated assets	Details of restrictions where a donor imposes restrictions on the use of donated assets.
Heritage assets	Information on the age and scale of assets, how they were acquired and what use is made of them.
Valuation of assets	Detailed disclosures regarding valuations including the following: name and qualification of the value or valuer's organisation and a description of its nature, date and amounts of valuations, if a valuation is performed by an employee or officer of the entity, and certain detailed disclosures regarding impairments required under IAS 38.
Investment property revaluation reserve	Investment property revaluation reserve to be shown separately from any other revaluation reserve.
Secured payables	Details of secured payables and the nature of security given.
Long term contracts	Payments on account of long term contracts separately disclosed in receivables and payables.
Managing capital	Qualitative and quantitative information about objectives, policies and procedures for managing capital.
Related party transactions	Details of material financial transactions between entities that are regarded as related parties.

Annex 5: Glossary

Accruals basis
A method of recording transactions to relate them to the period when the consumption of the goods, services or financial asset took place, or when the income is earned. For example, value added tax accrues when the expenditure to which it relates takes place, but HM Revenue and Customs receive the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable.

Actuarial assumptions
Assumptions used to calculate the costs of future events that affect the pension liability.

Actuarial gains and losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation or the actuarial assumptions have changed.

Assets
Anything of positive economic value that can be owned or controlled.

Asset Purchase Facility
Facility created in January 2009 to increase the availability of corporate credit, in order to support the Bank of England's responsibilities for financial stability and monetary stability in the UK, and for monetary policy purposes.

Bank of England (BoE)
The Bank of England is the central bank of the United Kingdom. It is independent of the government and has two core purposes: monetary stability and financial stability. Since 1997 the Bank has had statutory responsibility for setting the UK's official interest rate.

Balance sheet
Also known as the Statement of Financial Position. A statement, drawn up at a particular point in time, showing the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

Bond
A certificate of debt issued by a government or corporation in order to raise money - a bond is essentially an IOU. A bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. In the UK, government bonds are called 'gilts'.

Capital expenditure
Money spent on building, purchasing or upgrading physical assets (i.e. infrastructure, buildings, machinery etc.), for the purpose of creating future benefits.

Cash basis
The recording of transactions when cash or cash equivalents are paid out or received, rather than on an accruals basis.

Cash equivalents
Short-term, highly liquid bank deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Clear Line of Sight (CLoS)
A government driven project to simplify central government financial reporting to Parliament by reporting in a more consistent way, in line with the fiscal rules. Also refer to:
http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/psr_clear_line_of_sight_intro.htm

Consolidated Fund
The government's "current account", operated by the Treasury, through which pass most central government payments and receipts.

Consumer Prices Index (CPI)
A measure of inflation. The CPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The CPI is the main UK measure of inflation for macroeconomic purposes and forms the basis for the government's inflation target.

Corporation tax
A tax on the taxable profits made by companies, limited companies and other organisations including clubs, societies, associations and other unincorporated bodies.

Current service costs
The increase in scheme liabilities arising from service in the current financial year.

Defined benefit scheme
A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme
A pension or other retirement benefit scheme into which the employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or

constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives
Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (for example a government bond or a bank deposit), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

Designation Order
The statutory instrument which lists the entities consolidated into WGA and must provide data to HM Treasury.

Discount rate
The rate used to adjust for the time value of money. Discounting is a technique used to compare costs and benefits that occur in different time periods.

Effective interest rate
The rate that discounts estimated future cash receipts or payments over the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the asset or liability. The annual rate of interest that accounts for the effect of compounding – i.e. when compounding occurs more often than once a year.

Equity
Equity is ownership or potential ownership of a company, as evidenced by the ownership of ordinary shares. They differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are merely outside creditors.

Equity instruments
An 'equity instrument' is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities, eg ordinary shares.

Estimates
Estimates for central government departments are presented to the House of Commons to seek Parliamentary authority for expenditure, specifically the voted element of spending plans set out in Spending Reviews and Budgets. Estimates are presented on a budgetary basis, the means by which the Treasury monitors and controls departmental spending.

Exchange rate
The rate at which one currency can be exchanged for another.

Exchange Equalisation Account (EEA)
An account of central government held by the Bank of England in which transactions in the official reserves are recorded. It is the means by which the government, through the Bank of England, influences exchange rates.

Expected rate of return on pensions assets
For a funded, defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets of the scheme.

Finance Bill
The annual Finance Bill puts into law the measures announced in the Budget. Its formal description is 'a Bill to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, to make further provision in connection with finance.'

Financial asset
Any asset that is cash; an equity instrument of another entity; a contractual right to receive another financial asset or exchange financial assets or liabilities on potentially favourable term; or certain types of contract which will or may be settled in the entity's own equity instruments.

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

Financial leasing
A form of leasing in which the lessee contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the assets to the lessee, financed by an imputed loan. The leasing payments are split into interest payments and repayments of principal.

Financial liabilities
Any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or certain types of contracts which will or may be settled in the entity's own equity instruments

Fiscal policy
The use of government spending and tax policy to affect changes in and influence the economy.

FReM
The 2012-13 Government Financial Reporting Manual which applies EU adopted International Financial Reporting

Standards as adapted or interpreted for the public sector context.

General reserve
The main reserves account to which all revenue transactions are credited and from which revenue liabilities are discharged.

Gilts
Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

GRAA
Government Resources and Accounts Act 2000 which requires HM Treasury to prepare the Whole of Government Accounts.

Grants
Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

Gross Domestic Product (GDP)
GDP is a measure of economic activity. It is the sum of all goods and services produced by a country over a given time period (usually a year). A rise in GDP shows the economy is growing, whilst falling GDP means the economy is contracting. GDP can be measured in three ways:

i) Income (the value of the income generated mostly in terms of profits and wages);
ii) Output (the value of the goods and services produced); and
iii) Expenditure (the value of the goods and services purchased).

Hedge
A hedge is an asset or derivative used to offset the risk in another asset held or liability.

Housing Revenue Account (HRA)
A separate account recorded by local authorities which is required by statute for recording income and expenditure on the provision of council housing. The rental and other HRA income pays for repairs, managing and maintaining the housing stock and repaying any money borrowed for past building and improvements. The HRA is ring fenced and can only be used to fund expenditure on council housing.

Income Tax
A tax on personal income, i.e. wages or salary. The level of Income Tax an individual pays depends on their level of income – higher earners pay higher rates of Income Tax. However, nearly everyone who lives in the UK is entitled to an Income Tax personal allowance. This sets the amount of income you can receive each tax year without having to pay tax on it.

Index-linked gilts
Gilts whose coupon and redemption value are linked to movements in the retail prices index.

Inflation
A rise in the general price level of goods and services. Often measured over a 12 month period.

Intangible assets
An intangible fixed asset is an identifiable non-monetary asset which are without physical substance. Intangible fixed assets include mineral exploration, computer software and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced intangible assets such as patented entities, leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

Interest rate
A cost that is charged by a person or organisation that lends money to another. Usually expressed as a percentage.

International Monetary Fund (IMF)
The fund was set up in 1947 to supervise the fixed exchange rate system and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries' subscriptions according to agreed quotas. It currently has about 180 member countries including most of the major countries of the world.

IMF quota subscription
A member's International Monetary Fund (IMF) quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund.

Inventories
Inventories consist of finished goods (held by the producer prior to sale, further processing or other use) and products (for example, materials and fuel) acquired from other producers to be used for intermediate consumption or resold without further processing.

Liability
A claim on one entity by another which gives rise to a payment or other transaction transferring assets to the other entity. Conditional liabilities, that is where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

Liquidity
The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

Machinery of Government (MOG) change
Transfer of functions from one part of the public sector to another in the UK.

Managing Public Money
A HM Treasury document for departments in central government that sets out the main principles for dealing with resources used by public sector organisations in the UK. It is publicly available at:
https://www.gov.uk/government/publications/managing-public-money

Monetary policy
The regulation of money supply and interest rates by a central bank, such as the Bank of England, to achieve economic objectives.

National Insurance contributions (NICs)
National Insurance is a government-operated social security scheme. It is funded by compulsory contributions by employers, employees and the self-employed. Contributions increase according to the level of earnings (or profit, in the case of the self-employed).

NICs pay for contributory benefits, including the State Pension. A proportion of NICs are also used to help fund the National Health Service. Individuals stop paying NICs when they reach State Pension age or are no longer working. Various National Insurance credits are available to maintain entitlements where an individual is not able to work and there is also an option to pay voluntary contributions where credits are not available

National Loans Fund
An account of HM Government set up under the National Loans Fund Act (1968) which handles all government borrowing and most domestic lending transactions.

National Non Domestic Rates
National Non-Domestic Rates (NNDR) (also known as business rates) are collected by each local authority. An element is retained and an element is paid into a national pool, which is shared out between local authorities as part of a formula grant (general government funding for local authorities). This funding, together with Council Tax, is used by local authorities to pay for local services.

Non-current assets
Assets that are themselves used repeatedly or continuously for more than one year. They include buildings and other structures, vehicles and other plant and machinery and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy cattle. They also include intangible assets such as computer software and artistic originals.

Non-departmental public body (NDPB)
A body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers.

Operating leasing
The conventional form of leasing, in which the lessee makes use of the leased asset for a period in return for a rental while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor, and the intermediate consumption of the lessee. See also financial leasing.

Parliament
Parliament examines what the government is doing, makes new laws and debates the issues of the day. The business of Parliament takes place in two Houses: the House of Commons and the House of Lords. Both Houses hold debates in which Members discuss government policy, current issues, and debate and pass legislation.

Past service costs
The cost of retroactive benefits to member granted in a plan amendment as a result of the introduction, change or improvement to retirement benefits. Past service costs are amortised over the remaining expected service life of the members in the plan at the date it was amended.

Pension funds
The institutions that administer pension schemes. Pension schemes are significant investors in securities.

Pension scheme liabilities
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Preference share
This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference share holders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However in the UK they usually do not, and are therefore classified as bonds.

Private Finance Initiative (PFI)
Private Finance Initiative (PFI) projects are schemes involving the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk to the private sector, including the design, construction, maintenance and operation of the asset. In return, the government pays an

annual charge over the lifetime of the contract, which is typically 25-30 years.

Private sector
The part of a nation's economy which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state.

Privatisation
The process of transferring a government-owned asset such as a company or property to the private sector.

Public corporations
These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A public corporation is publicly controlled to the extent that the public authority, that is central or local government, usually appoints the whole or a majority of the board of management.

Public finances
The government's accounts, including tax receipts, expenditure, borrowing and debt.

Public sector
The part of the nation's economy that is classified to the public sector by the Office for National Statistics.

Public sector current budget deficit
The amount by which government spending exceeds accrued government income during a specified period of time (usually a year), as measured by the Office for National Statistics.

Public sector net debt
The total amount of money owed by the public sector as measured by the Office for National Statistics.

Recession
The commonly accepted definition of a recession in the UK is two or more consecutive quarters (a period of three months) of contraction in national GDP.

Reserves
Reserves are created to finance expenditure occurring in future years. They include general reserve working balances, reserves for financing capital expenditure, and "earmarked" reserves for specific projects.

Retail Prices Index (RPI)
The RPI is a measure of inflation. The RPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The RPI is similar in nature to the Consumer Prices Index (CPI) however there are differences in calculation and in the basket of goods covered. In particular the RPI includes mortgage interest payments and housing depreciation whereas CPI does not.

Revaluation reserve
Entities are required to revalue their assets on a regular basis to reflect changes in value as a result of inflation. The revaluation reserve shows the cumulative effect of these revaluations. On sale of the asset, any remaining balance in the revaluation reserve is released to the Statement of Revenue and Expenditure.

Reverse sales and repurchase agreement (reverse repo)
Where an entity purchases securities and agrees to sell them back at a specified time and price. Securities pledged by an entity as collateral via reverse repos remain on its own statement of financial position.

Sale and repurchase agreements (repo)
Where an entity sells securities and agrees to repurchase them at a fixed price at a future date: essentially, a form of secured borrowing. Securities that are pledged by the entity as collateral via sales and repurchase agreements remain on its statement of financial position.

Sector
In the economic accounts the economy is split into different institutional sectors according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, households and non-profit institutions serving households (NPISH). See also private sector and public sector.

Special Drawing Rights (SDRs)
The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged by IMF members for freely usable currencies. IMF members can buy SDRs to discharge obligations to the IMF, and can sell SDRs in order to adjust the composition of their reserves. SDRs are also the IMF's unit of account.

Special Liquidity Scheme
Scheme created in 2008 to encourage banks to lend to each other, by allowing banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills.

Spending Review
Spending reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending.

Subsidies
Current unrequited payments made by general government or the European Union to entities.

Taxes
Compulsory unrequited transfers to central or local government or the European Union.

Third party assets
Assets held by the government, through various public entities, as custodian or trustee, but which belong to third parties, for example funds in court or money held on behalf of others.

Treasury (The)
HM Treasury is the United Kingdom's economics and finance ministry. It is the Government department responsible for formulating and implementing the government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

Treasury Bills
Short-term securities or promissory notes which are issued by government in return for funding from the money market. In the United Kingdom every week the Bank of England invites tenders for sterling Treasury Bills from the financial institutions operating in the market. EU-denominated bills are issued by tender each month. Treasury Bills are an important form of short-term borrowing for the government, generally being issued for periods of 3 or 6 months.

United Kingdom
Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

Value Added Tax (VAT)
VAT is a tax that is charged on goods or services. It is levied at each stage in the chain of production and distribution. However, smaller businesses do not have to register for VAT and when VAT-registered businesses buy goods or services they can generally reclaim the VAT that they have paid on them. Therefore VAT principally affects consumers. This is with the exception of certain goods that are taxed at zero per cent, including food, books, newspapers and children’s shoes and clothes.

Value at Risk (VaR)
This measures the aggregate market risk on a portfolio. VaR is an estimate of the maximum potential loss in the value of a portfolio.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-1-4741-0541-5

9 781474 105415