HM Treasury

Annual Report and Accounts 2013-14

HC 20

July 2014

HM Treasury

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Section 5.2 of the Financial Reporting Manual requires departments to meet the reporting requirements of the 2006 Companies Act. To meet these requirements Chapters 1, 2 and Annex B of this report may be considered as a proxy for the Strategic Report and the Lead Non Executive's Report, Chapters 3, 4 and 5 and Annex A may be considered as a proxy for the Director's Report. The Permanent Secretary has signed both sections accordingly.

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Foreword

Foreword by the Chancellor of the Exchequer

The government's long term economic plan is working, and Britain is coming back. This year the IMF expects the UK economy to grow faster than any other G7 country, and the deficit is set to halve. We now have more people in work than ever before, with over 2 million new jobs created since 2010.

But the job is far from done. There is much more that we have to do to build a more resilient economy. To do this, we must tackle Britain's historic weaknesses.

We must, as a nation, export more, manufacture more, and save more. And so in the 2014 Budget we took further steps to support firms looking to enter new markets, to cut the cost to firms of manufacturing in Britain, and to back our savers. We took action to raise the point at which people start paying income tax to £10,500 from April 2015. We announced that cash and shares ISAs would be merged into a single ISA with an annual tax-free savings limit of £15,000 from 1 July. And we announced a historic reform of our pensions systems, giving people much greater control and access to the money they have paid into their pension pots over decades of hard work.

We also announced that the Help-to-Buy equity scheme for new-build homes would be extended to 2020. A key policy announced in last year's Budget, Help-to-Buy is now well underway with the task of helping first time buyers and supporting responsible lending. Overall it has already helped more than 27,000 households, and this figure will only increase over the coming years.

However, we need to remain vigilant on the UK housing market. In May we therefore announced much greater powers over mortgages for the Bank of England's Financial Policy Committee, including the power to cap the size of mortgage loans of family incomes or the value of the house.

We have to lay the foundations for a sustainable, balanced recovery – and that means having infrastructure at the heart of our long term economic plan. It enables economic activity now and in the future, and it creates jobs and growth. More than 200 infrastructure projects are due to start construction in this financial year, with the same number also due to be completed in that time. The projects due to start this year are part of a planned £36 billion public and private sector investment in infrastructure across the country in 2014-15.

We must ensure that we have a stable and resilient financial sector to support our economic recovery, with Financial Services reform a key focus for the Treasury over the last 4 years. Introduced to Parliament in February 2013, the Banking Reform Bill received Royal Assent in December, implementing many of the recommendations of the Independent Commission on Banking, including ring-fencing everyday banking from investment banking so taxpayers are better protected when things go wrong.

We must also work to protect the Union, keeping Scotland as a valuable part of the UK. The Treasury has played a central role in the government's programme of analysis on Scotland's place in the UK and how it contributes to and benefits from being part of the UK. This work will continue to intensify in the run up to the independence referendum in September.

And we need to work tirelessly to ensure we are winning the global race. The past year has seen a further strengthening of our economic relationship with international partners. A hugely successful Economic Financial Dialogue in China in October saw contracts on inward investment, commitments on nuclear energy and further steps to establish London as the western hub of the Chinese currency, Renminbi.

The biggest risk now to economic security would be abandoning the plan that's laying the foundations for a brighter economic future, and the Treasury lies at the heart of that plan. The Ministerial team continue to receive support and advice of the highest standard from officials in the Treasury Group. On behalf of all Treasury Ministers, I would like to thank them for their continued dedication and hard work. I am also very grateful to the Non Executive Board Members for the challenge and support they provide to the department.

The Rt Hon George Osborne MP

Lead Non Executive's Report

The wide range of Treasury responsibilities gives particular importance to the horizon-scanning exercises conducted by the Board, to ensure that the skills and capabilities of a high-quality but small department are deployed to best advantage. We use the Board sessions with Ministers to gain understanding of their views of these capabilities and future needs in the light of their strategic objectives, and then use our quarterly sub-committee meetings of senior executives and independent directors to work through the implications, review performance and policy delivery, and seek to identify future challenges.

In the past year, my non-executive colleagues and I have increased our engagement with the department outside formal meetings, and also have sought to enhance this process by engaging in a review of stakeholder opinions, ably led by Dame Amelia Fawcett. And we have continued to challenge the Treasury to develop its remuneration policies to ensure it has sufficient capability in key areas.

As the Chancellor recognises in his Foreword, the department has shown great flexibility in deploying its resources to meet new demands, such as the work it has carried out over the past year to inform the debate on Scotland's relationship with the rest of the United Kingdom in the run-up to the referendum on Scottish independence. This flexibility has been maintained despite a significant reduction in manpower, which has streamlined the department and reduced costs. However, the coming year will no doubt make its own new demands on Treasury capabilities, and the stakeholder survey revealed concerns that it should not stretch these resources too thin.

The past year has seen significant enhancement in the strength of the leadership team, with recruitment from outside the civil service and retention of high-calibre internal management both playing their part. The Permanent Secretary has played a key role in attracting and deploying this cadre of talent. Moreover, in signing up to the 30 per cent Club, the Treasury has put down a marker on its progress in improving the gender mix at the highest level.

Further work is needed through the coming year to build capability through the department, to ensure it has the depth of skills needed to deliver its responsibilities, not only in macroeconomics and the co-ordination of fiscal and monetary policy, or the control of public expenditure and reform of the tax system, but in financial services and the delivery of the long-term growth strategy and associated infrastructure projects. The Treasury will also need to ensure it has the right capabilities to manage major international challenges, including the United Kingdom's relationship with the European Union.

The role of the Board in the work of the Treasury and its effectiveness was reviewed this year by Dr Tracey Long, a fellow non-executive from the Department of Culture, Media and Sport and founder of the highly-respected evaluation specialist, Boardroom Review. Her findings have been shared with both executive and non executive board members and discussed with the Chancellor of the Exchequer. We are fully supportive of the recommendations made and will work together on their implementation in 2014-15.

In summary:

- **Strategic clarity –** Sub-committee meetings are conducted in an honest and straightforward environment where members are able to explore issues freely. Individual meetings between the Chair and the Chancellor can help to add value alongside main Board meetings, allowing the Chair to understand the evolution of ministerial priorities ahead of sub-committee meetings and to ensure these discussions are well-focused.

- **Non-executive capabilities –** the evaluation process helped us to identify future needs, informing the next round of recruitment. Richard Meddings, the former Finance Director of Standard Chartered, has since joined the Board, and a further appointment will be made during 2014-15. It is clear the department is now far more comfortable with calling on non-executives' time and experience to help achieve its results. After observing an agenda item on Dame Amelia Fawcett's work on the forthcoming departmental improvement plan and garnering the views of Treasury stakeholders, Dr Long commented, "The recent involvement of a non executive in stakeholder management illustrates the value of matching departmental needs with non executive expertise, interest and time commitments." Senior management and non executives are committed to finding more opportunities for collaboration in the year ahead.
- **Management information and risk management –** the quality of this has improved as the Treasury has refined its approach, and members continue to be impressed by the quality of the majority of papers and financial information tabled to the Board. However, there is a need to clarify the respective roles of the Board sub-committee and the Audit Committee. Members are agreed that the sub-committee should continue to be the primary forum for horizon-scanning and the discussion of risk, there is a need for better co-ordination between this and the work of the Audit Committee, with greater membership crossover. To strengthen the link between both committees the incoming Audit Chair (from September 2014) will be asked to consider increasing the number of non executive board members on the committee and the makeup and remit of the committee itself.

I would like to thank ministers, executive and non-executive board members for their assistance over the course of the year in taking the Treasury Board and its committees forward, to a place where their role is clearer, and their functions better delineated and understood. In particular, I would like to thank Dame Deirdre Hutton who stepped down from the Board this year after 5 years of dedicated service to the department. With two fiscal events and the Scottish referendum to take place in 2014-15 it will be an interesting and demanding time for ministers and civil servants, and my non-executive colleagues and I will strive to provide continuing challenge and support.

Sarah Hogg

Baroness Hogg

Treasury Group structure (at March 2014)

Core Department:

HM Treasury, Office of Tax Simplification and Infrastructure UK
Nick Macpherson
Permanent Secretary and Principal Accounting Officer

Executive Agency:

UK Debt Management Office[1]
Robert Stheeman
Chief Executive

Non-Departmental Public Bodies:

Office for Budget Responsibility
Robert Chote
Chairman

Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations
Adam Lawrence
Chief Executive

Levy Funded Bodies:

Money Advice Service
Caroline Rookes
Chief Executive

Financial Services Compensation Scheme
Mark Neale
Chief Executive

Managed by the Royal Household:

Sovereign Grant
Keeper of the Privy Purse and Treasurer's Office
Sir Alan Reid GCVO

Treasury Owned Companies:

UK Financial Investments Ltd
James Leigh-Pemberton
Executive Chairman

UK Asset Resolution Ltd
Managed by UK Financial Investments Ltd on the Treasury's behalf

Help to Buy (HMT) Ltd

Infrastructure Finance Unit Ltd

[1] The UK Debt Management Office has it's own Non-Departmental Public Body (Public Works Loan Board (PWLB))

Ministerial responsibilities

The Rt Hon George Osborne MP
Chancellor of the Exchequer

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

He is supported by:

- the Chief Secretary to the Treasury
- the Financial Secretary to the Treasury
- the Exchequer Secretary to the Treasury
- the Economic Secretary to the Treasury
- the Commercial Secretary to the Treasury

The Rt Hon Danny Alexander MP
Chief Secretary to the Treasury

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

The Rt Hon Nicky Morgan MP
Financial Secretary to the Treasury

- EU Budget and wider EU issues
- women and the economy
- childcare policy
- tax credits and child poverty, and assisting the Chief Secretary on welfare reform
- charities, the voluntary sector and gift aid
- environment and transport taxation, North Sea oil, gas and shipping
- energy policy and climate change
- excise duties, including excise fraud and law enforcement
- deputising for the Chancellor at Ecofin
- foreign exchange reserves and debt management policy, National Savings and Investments and the Debt Management Office
- the Royal Mint

David Gauke MP

Exchequer Secretary to the Treasury

- strategic oversight of the UK tax system, including direct, indirect, business, property and personal taxation
- corporate and small business taxation, with input from the Commercial Secretary
- European and international tax issues
- gambling duties
- departmental minister for HM Revenue & Customs and the Valuation Office Agency
- overall responsibility for the Finance Bill
- personal savings and pensions policy and the Government Actuary's Department

Andrea Leadsom MP

Economic Secretary to the Treasury

- financial services policy and overall strategic relationship with UK financial services
- banking and financial services reform and regulation (at home and in the EU) including PRA
- financial stability
- City competitiveness
- bank lending and access to finance
- Help to Buy
- financial conduct and the FCA
- asset management
- RBS, Lloyds and UKFI
- retail financial services, consumer finance, financial advice and capability
- Equitable life

Lord Deighton

Commercial Secretary to the Treasury

- the Treasury spokesman in the House of Lords
- delivery of infrastructure projects across the public sector and facilitating private sector investment into UK infrastructure
- supporting the Chief Secretary on capital investment
- corporate finance, including public corporations, public private partnerships, PF2, existing PFI contracts, and sales of government assets
- better regulation and competition policy
- asset freezing and financial crime
- supporting the Chancellor and Financial Secretary on wider growth policy
- supporting the Secretary of State for Culture on the Olympics legacy, working with DCMS Ministers and Lord Coe in his role as Legacy Ambassador
- working with Lord Green and UKTI to promote the UK as a destination for foreign direct investment including through being 'contact Minister' for the major energy utility companies
- Crown Estate and the Royal Household

HM Treasury (at 31 March 2014)

HM Treasury

Executive Management Board

Nick Macpherson
Permanent Secretary

Sharon White
Second Permanent Secretary

John Kingman
Second Permanent Secretary

Vacant Director General
Public Spending

Charles Roxburgh Director General
Financial Services

Director led Groups

Ministerial and Communications
Nick Macpherson, Permanent Secretary

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

Strategy, Planning and Budget
James Bowler, Director

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

Economics
Dave Ramsden, Director General

Responsible for UK economic analysis, surveillance, and professionalism

Business and International Tax
Mike Williams, Director

Responsible for business tax, indirect taxes and international tax

Financial Stability
Lowri Khan, Director

Responsible for ongoing stability issues and resolution of financial interventions

Personal Tax, Welfare and Pensions
Beth Russell, Director

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

Financial Services
Alison Cottrell, Director
Vacant, Director

Responsible for financial services regulatory framework and financial markets policy issues

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

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

Dave Ramsden Director General
Chief Economic Adviser

Indra Morris Director General
Tax and Welfare

Alison Cottrell Director
Corporate Services

Kirstin Baker Group Finance
Director

James Bowler Director
Strategy, Planning and Budget

Mark Bowman Director General
International and EU

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

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

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

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

Fiscal
James Richardson, Director

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

Treasury Legal Advisors
Stephen Parker, Director

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

Public Spending
Julian Kelly, Director

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

Public Services
Tamara Finkelstein Director
Lindsey Fussell, Director

Responsible for oversight of major public service expenditure

1 Introducing the Treasury

Ourselves – introducing the Treasury[1]

1.1 The Treasury is the United Kingdom's economic and finance ministry, setting the direction of the UK's economic and fiscal policy and working to achieve strong and sustainable economic growth.

1.2 We are responsible for:

- reducing the structural deficit in a fair and responsible way
- securing a growing economy that is more resilient, and more balanced between public and private sectors
- continuing the reform of the regulatory framework for the financial sector to avoid future financial crises
- building a great Treasury that operates as a high performing organisation in collaboration with its strategic partners

Our purpose – is to be a great economics and finance ministry, focused on setting the UK's economic and fiscal policy, controlling public spending, and achieving strong and sustainable growth.

1.3 With around 1000 members of staff, based mainly in London but with offices in Norwich and Edinburgh, the department is split into 14 groups. We are led by the Chancellor of the Exchequer and his 5 ministerial colleagues, and by a senior management team known as the Executive Management Board.

Our vision – is for every member of Treasury staff to play a full, productive and valued role in helping us achieve our purpose, ensuring we operate as a high performing organisation working effectively with our partners.

Our partners – introducing the Treasury Group

1.4 The Treasury Group is the wider family of partner organisations, companies and accounts overseen by Nick Macpherson, the principal accounting officer for the Treasury Group and the Permanent Secretary of the department. At the end of the 2013 to 2014 financial year there were 11 members of the Treasury Group, as set out on page 7 of this document.

[1] For the purposes of this document 'the Treasury' and 'the department' refer to HM Treasury. References to the wider family will always be signalled by the use of 'Treasury Group' unless otherwise stated.

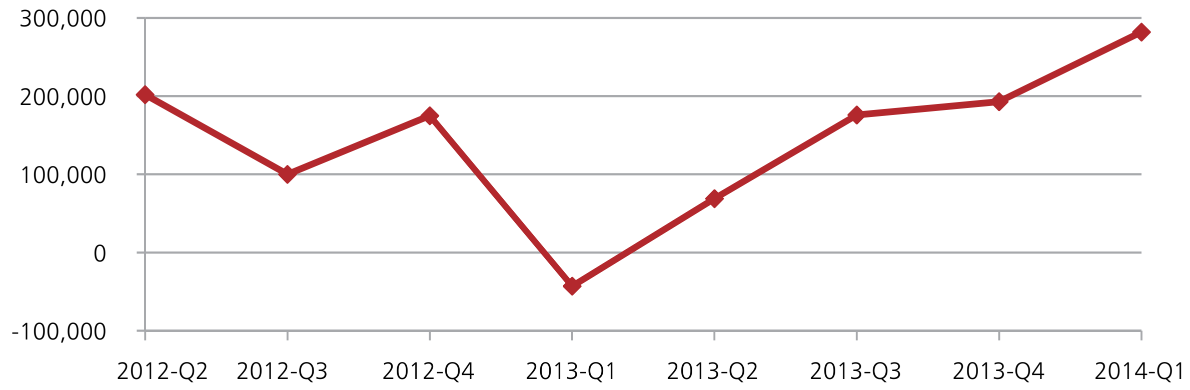
1.5 The department works closely with each of its partners in the Treasury Group to deliver our collective aims and objectives and our partners are involved in many of the deliverables set out in chapter 2. Further information on the relationship between the Treasury and each of its partners can be found in chapter 3 of this report, and details of the activities and deliverables of each entity can be found in their own annual report or website. [2]

Our year – the Treasury in 2013-14

1.6 We ended the 2013-14 financial year with a more positive economic outlook than that reported in our 2012-13 annual report. The labour market, which has performed strongly throughout the crisis, continues to make gains and inflation is lower.

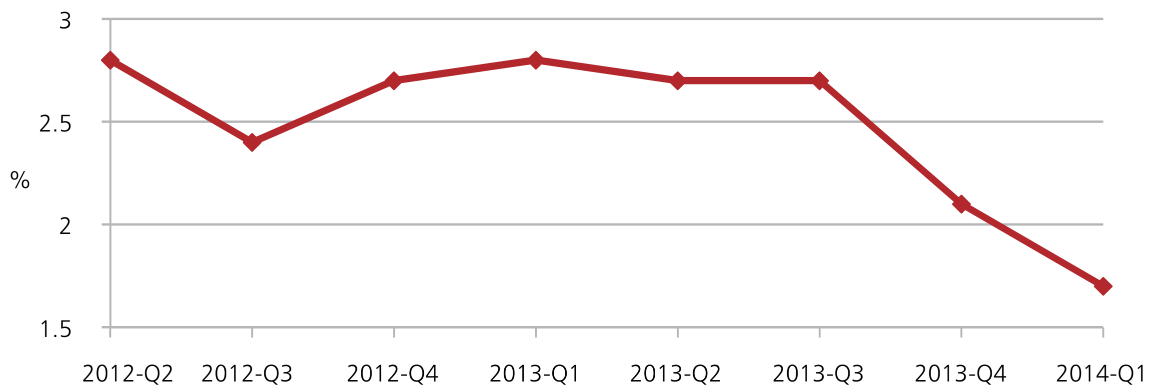
1.7 The economy grew by 1.7% in 2013 and the Office for Budget Responsibility estimates that economic growth will rise to 2.7% in 2014 and 2.3% in 2015. There are still risks in the global economy but these have receded compared to the height of the eurozone crisis.

Employment (change over quarter)



Source: Office of National Statistics

Inflation (average level)

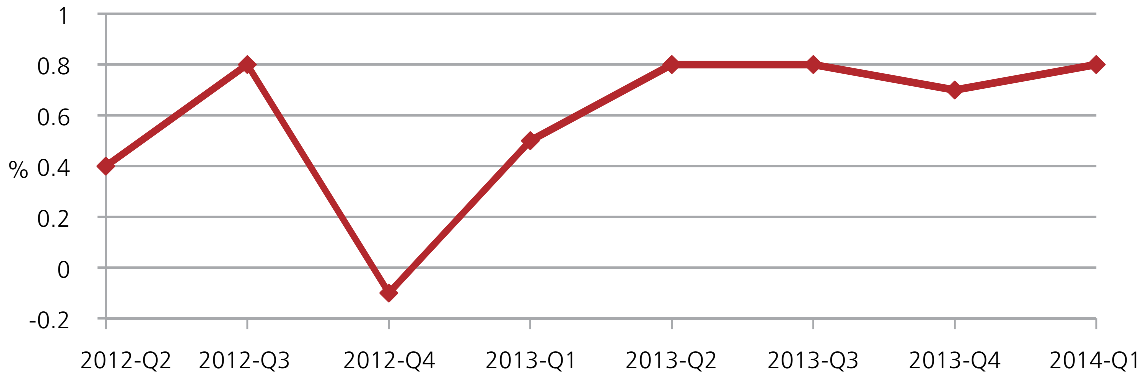


Source: Office of National Statistics

1.8 The public finances are also on an improving trajectory. Overall public spending is falling by over 0.5% of Gross Domestic Product (GDP) a year. Public Sector Net Debt (PSND) was forecast at Budget 2014 by the OBR to be 77.3% as a share of GDP in 2014-15. It had been expected at Autumn Statement 2013 to peak at 80% in 2015-16, but at Budget 2014 was forecast to peak at 78.7% in 2015-16.

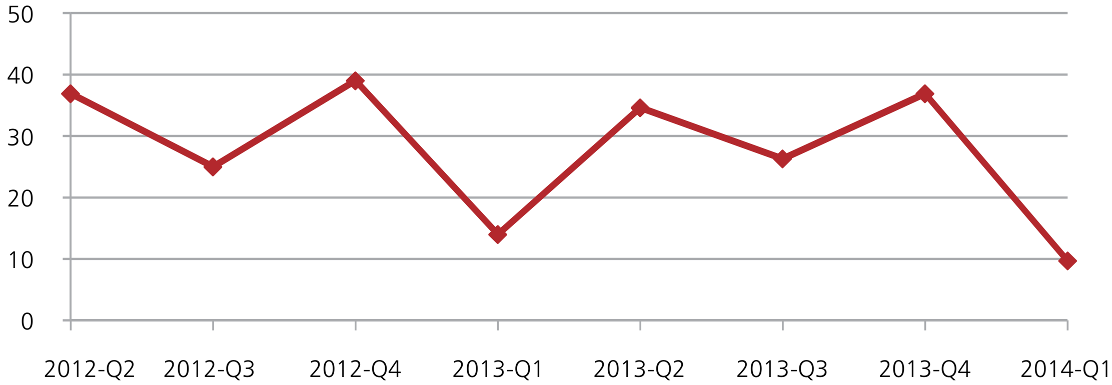
[2] http://www.fscs.org.uk/; http://www.moneyadviceservice.org.uk; http://budgetresponsibility.independent.gov.uk/; http://www.gov.uk/government/organisation/office-of-tax-simplification; http://www.royalmint.com/aboutus/advisory-committee; http://www.ukar.co.uk/; http://www.dmo.gov.uk/; http://www.ukfi.co.uk/

Gross Domestic Product (%)



Source: Office of National Statistics

Public Sector Net Borrowing (excluding Royal Mail and the Asset Purchase facility[3](£bn))



Source: Office of National Statistics

1.9 Moreover, there are positive signs of improving financial stability. The government's sales of Lloyds' shares in September 2013 and March 2014 took shareholdings down to less than a quarter.

Our year ahead – the Treasury in 2014-15

1.10 The coming year will be an exciting and challenging one for the Treasury. As we enter into the last full financial year of the Parliament, there remain two further fiscal events before the general election on 7 May next year, the 2014 Autumn Statement and the 2015 Budget. And on 18 September this year Scotland votes on whether or not to remain part of the UK.

1.11 The year will also be one of major implementation for the department – supporting the government to achieve its fiscal and economic programme to the best of our ability. Some key areas of delivery include:

- work to strengthen the Treasury's approach to growth – including competition, markets and supply side reform
- spending reductions from the 2010 and 2013 spending rounds
- the Budget 2014 measures on pensions flexibility and avoidance
- tax free childcare

[3] Public sector net borrowing excludes the transfers associated with the Royal Mail Pension Plan in 2012-13 and ongoing between the Exchequer and the Bank of England's Asset Purchase Facility

- the new institutional arrangements for financial stability centred on the Bank of England
- the Balance of Competences reviews of the EU Budget and Financial Services

1.12 The department must deliver against these priorities while meeting the challenges set by the 2010 Spending Review, which required a 33% reduction in the Treasury Group net resource budget; the Autumn Statement 2012, which announced a further reduction in departmental plans of 1% in 2013-14 and 2% in 2014-15; and Budget 2013 which introduced a further 1% reduction in plans for 2015-16.

Our commitment to openness and transparency

1.13 The Treasury is committed to openness and transparency in every sphere of our work – from how we develop and deliver policy to how we are progressing on project delivery, how we engage with the public and parliament, and where our key areas of spend are.

1.14 While this document is one of our main channels of communication, we publish new information daily via our website.[4] Additionally the department publishes a mid-year report to parliament, monthly updates on our action plan and quarterly reports on ministers and senior officials' expenses and meetings with the private sector.

Open in our policy making

1.15 The department is committed to delivering new policy in as open and creative a way as possible. We are increasing and improving our engagement with stakeholders, from think-tanks and others with external expertise on specific areas of interest to ministers, to members of the public with opinions and suggestions in our policies. Ahead of Budget 2014, the Treasury received 439 representations on potential budget measures – 260 from individuals, 163 from businesses and 16 from Members of Parliament.

Policy consultations and impact assessments

1.16 One of the longest standing strands of our open policy making agenda is our consultations process. These allow us to deliver policies that have been carefully evaluated and are fair to those they impact upon. During the 2013-14 financial year the Treasury published 50 documents on the GOV.UK website relating to all formal and informal consultations conducted within the department.[5] Examples of consultations conducted during this time include:

- *Raising the stakes on tax avoidance*
- *Tax free childcare*
- *Freedom and choice in pensions*

1.17 Attached to public consultations are impact assessments, a policy tool used to assess the impact, in terms of costs, benefits and risks of any proposed regulation which could affect businesses, charities or the voluntary sector. These are also published on the GOV.UK website.[6] The Treasury has guidance in place to assist officials with assessing the impact of measures, covering issues such as tax impacts, equalities and rural proofing.[7]

[4] http://www.gov.uk/government/organisations/hm-treasury

[5] https://www.gov.uk/government/publications?publication_filter_option=consultations

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

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

Open on our project delivery progress

1.18 As part of the wider government transparency policy for publication of major project data, the department has worked closely with the Cabinet Office's Major Projects Authority (MPA) on those Treasury projects included in the Government Major Project Portfolio (GMPP)

1.19 In the 2013 MPA Annual Report the Treasury published information on 2 projects, Project Oscar and the Equitable Life Payment Scheme (ELPS).

Project name	Overview	Notes
OSCAR	Project OSCAR replaced the 'COINS' financial reporting system which supports fiscal management and spending control within Treasury, produces Parliamentary Estimates and Public Expenditure Statistics	The project has now been completed.
Equitable Life Payment Scheme	The Scheme was established to make payments to eligible Equitable Life policyholders for their relative loss as a consequence of regulatory failure.	Further information on the progress of this project can be found at 3.57 of this report

1.20 The MPA's Annual Report[8] includes further information on our projects, and the Treasury follows MPA guidance on identifying future projects for inclusion in the GMPP.

Open to scrutiny

1.21 The Treasury prides itself on welcoming scrutiny, whether from our active internal audit function, the National Audit Office, Members of Parliament or members of the public. For example the department and our ministers replied to almost 27,000 letters and emails in 2013 and responded to over 3,000 parliamentary questions during the 2013-14 parliamentary session.

Scrutiny by Parliament – Treasury Committee

Parliamentary Hearings in 2013-14 – House of Commons Treasury Committee

Date of Hearing	Subject
May 2013	Private Finance 2
July 2013	Spending Review
December 2013	Autumn Statement
April 2014	Budget 2014

Source: House of Commons Treasury Committee

[8] https://www.gov.uk/government/publications/major-projects-authority-annual-report-2014

Scrutiny by Parliament – Committee of Public Accounts

Parliamentary Hearings in 2013-14 – House of Commons Committee of Public Accounts

Date of Hearing	Subject
July 2013	Confidentiality Clauses
July 2013	Duchy of Cornwall Accounts
October 2013	Severance payments
October 2013	Royal Household Accounts
October 2013	Whole of Government Accounts
November 2013	SMEs access to finance
February 2014	Infrastructure investment
April 2014	Tax Reliefs
May 2014	Debt owed to Government

Source: Treasury Officer of Accounts

Scrutiny by Parliament – Parliamentary Questions

1.22 Treasury ministers and officials are committed to providing timely and accurate responses to parliamentary questions and the government has agreed to provide regular statistics to the House of Commons Procedure Committee.

1.23 The latest statistics show Treasury ministers responded on or before the parliamentary deadlines in relation to 81% of the 1,643 ordinary written questions; 70% of the 1,026 named day questions; and 98% of the 439 Lords written questions tabled to the department in the 2013-14 parliamentary session. Whilst this compares favourably with the higher performing departments in Whitehall, the department will continue to work towards improving our performance.

Independent scrutiny – the Parliamentary Ombudsman

1.24 The Parliamentary and Health Service Ombudsman (PHSO) can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf.[9]

1.25 In May 2014 the PHSO published The Parliamentary Ombudsman's review of government complaint handling, 2013.[10] This review confirms during 2013 there were 37 (2012, 34) Treasury related enquiries; of these, 3 complaints were accepted for investigation, and 1 was not upheld. At the end of the calendar year, 2 complaints remained under scrutiny.

Open on our spending

1.26 While chapter 5 of this report and the Annual Account section of the document will set out the detail of how the Treasury and our Group partners have managed spending through 2013-14, we are committed to even greater openness on our most common areas of spending. The table below sets out departmental spend split into categories based on the Cabinet Office's standard definitions and cover areas such as people, estates, procurement, ICT and corporate services.

[9] The Treasury's own complaints procedure can be found at https://www.gov.uk/government/organisations/hm-treasury/about/complaints-procedure

[10] http://www.ombudsman.org.uk/improving-public-service/annual-government-performance-information

2013-14 Common areas of spending (£million)

		2013-14	2012-13
Spend by Budget type[1]	Voted resource DEL outturn, sub-total	(264)	(206)
	Voted resource AME outturn, sub-total	8,485	(17,575)
	Other expenditure outside DEL and AME	-	-
	Total spend	8,221	(17,781)
Spend by type of internal operation	Cost of running the estate (net), sub-total	15.0	16.8
	Cost of running IT (net), sub total	6.7	7.6
	Cost of corporate services, sub-total	12.3	12.7
	Policy and policy implementation, sub-total	(274.2)	97.8
	Other costs	-	-
	Total spend	(240.2)	134.9
Spend by type of transaction	Procurement costs, sub-total	83.8	80.0
	People costs, sub-total	67.2	68.1
	Grants, sub-total	38.8	37.7
	Other costs	-	-
	Total spend	189.8	185.8

[1] The control totals voted in Parliament and set out in the Department's Supplementary Estimates are set for the HM Treasury Group on an eliminated basis to take account of transactions between group bodies.
When considering the HM Treasury Group as a whole, expenditure reported against these control totals takes account of eliminations between Group bodies. Figures presented above, however, exclude the expenditure that would otherwise be reported for FSCS, MAS, Sovereign Grant and UKAR. This ensures that reporting is in-line with Quarterly Data Summary returns.
2012-13 expenditure figures have been revised to reflect the impact of UKAR Ltd coming into the group; these figures have been adjusted by eliminating the transactions between HM Treasury and UKAR Ltd.

Payment of suppliers

1.27 In May 2010, the government introduced a 5 day target for Small and Medium sized Enterprise (SME) suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2013-14, the Treasury Group made 84.05% of all supplier payments within 5 days against a target of 90% (2012-13, 84.65%). The department continues to work on improving its payment processes to meet this target.

2 Measuring our success

2.1 We have 4 objectives as a department. The first 3 are the government's objectives for the Treasury over the life of this parliament, and the fourth has been set by the Executive Management Board as a means to deliver the others

- reducing the structural deficit in a fair and responsible way
- securing a growing economy that is more resilient, and more balanced between public and private sectors
- continuing the reform of the regulatory framework for the financial sector to avoid future financial crises
- building a great Treasury that operates as a high performing organisation in collaboration with its strategic partners

2.2 The actions underpinning the government's objectives for us are set out within our Structural Reform Plan (SRP). This has been refreshed annually since its first publication in November 2010 and the plan, along with monthly updates on our progress against individual actions, is available on the Number 10 transparency website.[1]

2.3 The actions we will deliver under the fourth objective are consistent with the government's broader Civil Service Reform Plan[2] and build on the wide ranging programme of reform the department has been engaging in since 2010. In 2014-15, along with our fellow government departments, the Treasury will publish a departmental improvement plan to shape the department's corporate objectives over the next 3 to 5 years.

2.4 The issue of sustainability runs through each of our four objectives. Details of how the Treasury is committed to developing sustainable policy, and acting in a sustainable manner can be found at Annex A.

Meeting the government's strategic objectives

2.5 Over the course of 2013-14 the Treasury has progressed 78 actions split between the 3 government objectives. This section sets out how we have delivered against these objectives and the actions we will focus on in 2014-15.

2.6 The SRP also included a number of data sets which can be used as illustrative indicators to help judge whether the government's policies and reforms are having the desired effect on the overall objective. The Treasury publishes updates on these data sets after every fiscal event and the latest results are published here.

[1] http://transparency.number10.gov.uk/

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

Objective 1 – reduce the structural deficit in a fair and responsible way – the Treasury will take action to tackle the deficit in a fair and responsible way, ensure that taxpayers' money is spent responsibly, and get the public finances back on track whilst protecting growth.

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
1	1	0	0	0

2013-14 key achievements

- The government remains on course to meet its fiscal mandate one year early in 2017-18 and public sector net borrowing as a percentage of GDP is forecast to have fallen by half from its 2009-10 peak by 2014-15
- The department successfully delivered Spending Round 2013[1] (SR 2013), setting out details of the government's plans to reduce current spending by £11.5 billion in 2015-16, within the total spending envelope set at Budget 2013. SR 2013 also set out plans for Private Finance 2 and a cap on Annually Managed Expenditure
- In conjunction with the Cabinet Office, Treasury initiated a rolling programme of efficiency reviews with all major government departments to help departments live within their future settlements
- SR 2013 announced a central government asset sales target of at least £15 billion between 2015 and 2020 and proposed a series of policy changes to support the delivery of this target, including: improved levers to drive implementation of agreed asset sales, clearer accountability for asset sales targets and improved incentives for departments
- At the June 2013 European Council meeting, Treasury negotiated a satisfactory agreement on the EU Budget Multiannual Financial Framework (MFF) 2014-20. This agreed a reduction to the seven year payments ceiling by 3% compared to the current MFF
- The Finance Act 2013 received Royal Assent on 17 July 2013, which included a number of new measures tackling tax avoidance, including the General Anti-Abuse Rule

Deadlines missed

No deadlines have been missed against this priority.

[1] https://www.gov.uk/government/publications/spending-round-2013-documents

2.7 At 31 March 2014, 10 of our objective 1 actions remained ongoing as these were planned to end after this date.

Indicators of progress on objective 1

Indicator	2013-14	2012-13	Notes
Administration cost of supporting tax and spending policy	£22m	£16.7m	Figures are reported in £million and represent the net expenditure from the Resource Departmental Expenditure Limits (RDEL). Expenditure reported is in relation to the activities of the following Treasury groups: Public Spending; Public Services; Business and International Tax; and Personal Tax, Welfare and Pensions.
Cyclically adjusted current deficit as a percentage of GDP	2.8% (March 2014 OBR forecast)	3.5% (2010-11)	Data is given as a percentage of GDP. The data set used is the Office for Budget Responsibility's forecast for the economy and the public finances. It is their view of whether the government is likely to achieve its deficit reduction targets. The forecast and outturn is updated at Budget and Autumn Statement events.
Public sector net debt as a percentage of GDP	74.5% (March 2014 OBR forecast)	74.2% (2010-11)	Data is given as a percentage of GDP. Public sector net debt (PSND) refers to the sum of money owed to the private sector by central government, local authorities, and public corporations. The government uses a measure of PSND that excludes the temporary effects of financial interventions but includes the permanent ones (PSND ex) and is intended to show the underlying state of the public sector finances. The forecast and outturn is updated at Budget and Autumn Statement events.
Departmental DEL outturn v forecast	0.9% (2012-13)	1.3% (2011-12)	DEL plans contained in the Budget are management information. DEL outturn data is a national statistic.
Overall impact of spending, tax, tax credit and benefit changes on households in 2014-15 as a percentage of 2010-11 net income	Please see Chart 2.B within Impact on households: distributional analysis to accompany Budget 2014[1]	Please see Chart 2.A within Impact on households: distributional analysis to accompany Budget 2013[2]	The average loss to households as a result of this government's spending, tax, tax credit, and benefit measures in 2014-15, as a proportion of 2010-11 net income. Update provided as a chart.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293738/budget_2014_distributional_analysis.pdf

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188366/budget2013_distributional_analysis.pdf.pdf

Objective 1 actions for 2014-15

2.8 The Treasury's SRP sets out the individual actions to reduce the deficit in the year ahead. In summary the Treasury will continue to focus on:

- implementing a cross-government deficit reduction plan and monitoring the implementation of spending plans
- implementing a government fiscal strategy that supports fiscal sustainability
- supporting sustainable long-term public service reform to address medium and long term fiscal pressures
- reforming public service pay and pensions
- improving the UK's ability to tackle tax avoidance and tax evasion

- improving the sustainability of the tax base
- promoting the efficient management of government owned assets
- effectively managing government financing

Objective 2 – secure a growing economy that is more resilient and more balanced between public and private sectors – the Treasury will take action to boost enterprise, support green growth and build a fairer and more balanced economy to achieve a sustainable distribution of growth across the economy.

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
12	11	0	0	1

2013-14 key achievements

- Treasury published details of the Help to Buy[1] mortgage guarantee scheme 3 months in advance of the scheme's start date. This allowed lenders to start originating loans supported by the scheme and the £12 billion scheme formally opened on 2 January 2014
- SR 2013 announced details of an additional £3 billion of capital spending from 2015-16. Funded by a reduction in current spending this will mean £18 billion of additional capital spending over the next parliament
- Through infrastructure guarantees £33 billion of projects have been prequalified for government support. 2 guarantees were issued in 2013-14: Drax Power and Sustainable Development Capital – UK Energy Efficiency Investments Fund (NCP) and a stand-by loan facility has been signed with the Greater London Authority to support the Northern Line Extension. A guarantee of the Mersey Gateway Bridge was issued post year end
- In July 2013 Treasury undertook an assessment of Whitehall's ability to deliver major infrastructure projects and develop Individual Capacity Plans with other departments
- The Treasury coordinated the government's Scotland analysis programme[2] and has produced 6 of the programme's 15 papers[3]
- Round 4 of the Regional Growth Fund was announced on 11 July 2013 with 102 projects and programmes being selected for conditional support of £506m from the £3.2bn fund
- Treasury successfully delivered the May 2013 G7 Finance Ministers' and Central Bank Governors' meeting and contributed to successful agreements at the G8 finance agenda at the Lough Erne summit in June. This delivered clear consensus on: the global economic outlook; global imbalances and policy responses; and implementation of financial regulation, trade and tax initiatives
- Treasury delivered an effective chairmanship of the G8-Deauville Finance Ministers process
- IMF/World Bank Spring meetings furthered UK interests on global economic prospects and policy. Additionally Treasury managed the successful 2013 Economic and Finance Dialogue with China
- The second wave of City Deals has been announced. 17 deals have now been announced with the remaining cities expected to conclude negotiations in the near future
- Treasury worked with HMRC to deliver the new £2,000 Employment Allowance support to small businesses and announced details of the scheme in February 2014
- Treasury remains on track to deliver its Plan for Growth (published in March 2011). As of March 2014, 75% of the Plan for Growth and Autumn Statement 2011 growth commitments have been delivered
- Treasury delivered a significant pro-growth package at the March 2014 Budget to support British businesses including: doubling the Annual Investment Allowance (AIA) until December 2015; a £7bn package to help businesses with energy costs; a doubling of UK Export Finance's direct lending facility to £3bn and a reduction in interest rates to the lowest levels allowed by international agreements

Deadlines missed

Action 2.4 (i) – due for completion in January 2014

Shape reforms to the International Monetary Fund in line with UK interests

Reason for delay

The delay in implementing the IMF's Fourteenth Review quota increases, agreed in 2010, has meant that the IMF Executive Board has not been able to complete its work in connection with the Fifteenth General Review of Quotas by the January 2014 deadline as requested by the IMF Board of Governors. On 22 January 2014 the Executive Board proposed that the deadline for the completion of the Fifteenth Review be moved from January 2014 to January 2015.

[1] https://www.gov.uk/government/news/help-to-buy-mortgage-guarantee-scheme-details-set-out-by-chancellor

[2] https://www.gov.uk/government/collections/scotland-analysis

[3] Currency and monetary policy, Financial services and banking, Macroeconomic and fiscal performance, Assessment of a sterling currency union, Fiscal policy and sustainability, and the final paper in the series, United Kingdom, united future: conclusions of the Scotland analysis programme

2.9 At 31 March 2014, 32 actions against objective 2 remained ongoing. Of these 31 were planned to end after this date and 1 has overrun due to reasons outside the department's control.

Indicators of progress on objective 2

Indicators	2013-14	2011-12	Notes
Administration cost of supporting macroeconomic and fiscal policy	£20.3m	£42.7m	Figures are reported in £million and represent the net expenditure from the Resource Departmental Expenditure Limits (RDEL). Expenditure reported is in relation to the activities of the Office for Budget Responsibility and the following Treasury Groups: Economics; Fiscal; and Strategy, Planning and Budget.
GDP per capita – latest quarter growth on corresponding quarter of previous year	2.0% (2013 Q4)	-1.3% (2012 Q4)	The chained volume measure of GDP measures the level of total economic activity in the UK, adjusted for the effect of inflation (as a percentage of GDP). To express real GDP in per capita (or 'per head') terms, it is divided by the resident population of the UK.
Business investment as a share of GDP	8.0% (Q3 2013)	8.0% (Q4 2012)	The current prices measure of Business Investment (as a percentage of GDP) measures the level of total business investment in the UK. To express business investment as a share of GDP, it is divided by the nominal measure of GDP. Business investment data is frequently revised – the estimates here are based on data as published on 30 June 2014.
Employment Rate	72.9% (Feb-Apr 2014)	71.5% (Feb-Apr 2013)	Percentage employed out of the working age population (16-64). This is provided as a three month moving average.

Objective 2 actions for 2014-15

2.10 The Treasury's SRP sets out individual actions on our objective to secure a growing economy in the year ahead. In summary the Treasury will continue to focus on:

- promoting macroeconomic stability through policy advice and advocacy
- setting and providing stewardship of the monetary policy framework
- ensuring the UK is an influential, credible and effective international actor to promote stronger growth in line with UK interests
- ensuring that there is an open, rules-based international economic system based on effective institutions
- supporting ministers in their objective of maintaining Scotland as part of the UK
- continuing to implement the government's credit easing policy to reduce the cost and improve availability of lending to SMEs
- driving delivery of the growth agenda across government
- supporting a world class competitive business environment, including ensuring regulation is no more burdensome than is necessary[3]
- improving government mechanisms for monitoring and supporting delivery of infrastructure investment
- working with departments to put in place policies that support more housing supply
- promoting the UK's objectives for trade and investment in financial services and other industries
- delivering reforms that support the sustainability, fairness and competitiveness of the UK tax system
- promoting a well functioning labour market
- delivering cost effective ways to manage climate change

[3] Annex B of this report sets out the detail of the Treasury's work on the Better Regulation Agenda during 2013-14.

Objective 3 – complete the reform of the regulatory framework for the financial sector to avoid future financial crises – the Treasury will replace the current system of financial regulation with a framework that promotes responsible and sustainable banking, where regulators have greater powers to curb unsustainable lending practices and we take action to promote more competition in the banking sector.

No of actions due to complete	Met on time	Missed by < 1 month	Missed by < 2 months	Missed by >3 months
8	6	0	1	1

2013-14 key achievements

- Necessary amendments to legislation arising out of the Parliamentary Commission on Banking Standards were introduced in June 2013.
- In September 2013, the department promoted competition in the high street by making it easier for customers and businesses to change banks through a new Switch Service
- The June 2013 Mansion House speech outlined the government's plans for the partly state owned banks RBS and Lloyds, including a review of RBS and the potential sale of Lloyds shares. Subsequently the Treasury published RBS and the case for a bad bank: the government's review[1] in November 2013
- The Financial Services (Banking Reform) Act[2] received Royal Assent on 18 December 2013
- Treasury reduced its shareholding of Lloyds' shares to 24.9% through two successful sales, both generating a cash profit for the taxpayer
- Outcomes negotiated at ECOFIN meetings in a number of areas, include: the Banking Recovery and Resolution Directive; and the Markets in Financial Instruments Directive

Deadlines missed

Action 3.4 (ii) – due for completion in March 2014.

Deliver the 2014 Financial Sector Resilience Plan

Reason for delay

This was delayed due to delays in receiving information from flood-hit departments. This is now due to be completed by the end of May 2014.

Action 3.7 (ii) – due for completion in January 2014

Strengthen anti-money laundering and counter-terrorist financing regimes, including by negotiating new standards in the EU.

Reason for delay

This objective includes negotiations with the EU. The EU's timetables for the directive have shifted so this cannot be marked as complete. The EU is yet to agree on a firm date for the conclusion of negotiations and we do not expect to receive a date that is before the Autumn.

[1] https://www.gov.uk/government/publications/rbs-and-the-case-for-a-bad-bank-the-governments-review

[2] https://www.gov.uk/government/policies/creating-stronger-and-safer-banks

2.11 At 31 March 2014, 13 actions against objective 3 remained ongoing. 11 that were planned to end after this date and 2 that have overrun due to reasons outside the department's control. 1 action has been completed ahead of time.

Indications of progress on objective 3

Indicators	2013-14	2012-13	Notes
Administration cost of supporting international engagement and financial services policy	£18.0m	£16.6m	Figures are reported in £million and represent the net expenditure from the Resource Departmental Expenditure Limits (RDEL). Expenditure reported is in relation to the activities of the Asset Protection Agency (APA),[1] UK Financial Investments Ltd and the following Treasury Groups: International and EU; Financial Services; Financial Regulation and Markets; and Financial Stability.
Government shareholdings in banks: RBS, Lloyds Banking Group	The Treasury has not purchased any RBS or Lloyds Banking Group shares during 2013-14. During the course of 2013-14, the Treasury sold a total of 9,837,445,038 shares for £7.41bn.		
RBS	The shareholding in RBS comprises of ordinary shares, B-shares and a single dividend access share		
Value of shareholding	£29.6bn	£26.4bn	
Cost of Shareholding:	£45.8bn	£45.8bn	
Lloyds Banking Group	The shareholding in LBG comprises of ordinary shares.		
Value of shareholding:	£13.3bn	£13.4bn	
Cost of Lloyds Banking Group shareholding	£7.0bn	£21.6bn	The reported historical cost is attributable to the shares held at the reporting date.

[1] The APA closed on 31 October 2012. The Financial Regulations and Markets group merged with the Financial Stability group on 1 April 2013.

Objective 3 actions for 2014-15

2.12 The Treasury's SRP for the year ahead sets out individual actions to help complete the reform of the regulatory framework for the financial sector. In summary the Treasury will continue to focus on:

- completing implementation of the reform of the domestic financial services regulatory regime[4]
- negotiating to continue to reform EU and international regulatory regimes to improve the stability and efficiency of financial markets and their contribution to sustainable economic growth
- monitoring, preparing for and mitigating risks to financial stability with the Financial Policy Committee, Prudential Regulation Authority, Financial Conduct Authority and Bank of England
- implementing major reforms to savings and pensions policy
- combating illicit finance at home and abroad
- promoting competition & fostering diversity in the banking sector
- providing responsible stewardship of government-supported banks on the path to a managed exit from government support

[4] Annex A sets out in detail the work of the Treasury in relation to regulating for stability in 2013-14.

Objective 4 – build a great Treasury – we will take focused action to ensure our department delivers innovative and professional policy making, underpinned by great stakeholder engagement, the right skills, excellent management and a supportive working environment.[5]

2.13 Since 2010 the Treasury has been engaged in a programme of corporate reform to improve our performance as an economic and finance ministry; become a smaller and more focussed department; provide a high quality service to ministers while supporting a diverse workforce; and display our values of appreciation, openness, collaboration and challenge.

- the 2010 Strategic Review led to structural and cultural changes to enable the Treasury to live within its 2010 Spending Review settlement. This involved finding economies (by stopping work in certain areas) as well as efficiencies (by designing improved ways to work), and in doing so, the Treasury has sought to be an exemplar to other Whitehall departments. As part of this review, the Treasury's Executive Management Board agreed to reduce headcount from 1400FTE to 1000FTE (Full Time Equivalent) by March 2014[6]
- the 2012 Capability Action Plan recognised the significant positive progress made since the Strategic Review, while also encouraging the department to continue investing in staff capability; more consistently to articulate the department's direction internally and externally; to enhance stakeholder management; and to continue to set high standards to ensure rigorous analysis, evidence and customer insight underpin the policy-making process
- the 2012 Review of HM Treasury's Management Response to the Financial Crisis recommended ways for the Treasury to strengthen its financial services and crisis management capability, as well as wider organisational issues. The financial services groups have taken forward many of the specific recommendations, while the department-wide recommendations have been captured and implemented through the Capability Action Plan: managing high turnover; valuing expertise and experience; encouraging more policy challenge; improving knowledge; and risk management
- the 2013 Financial Management Review identified that significant progress has been made in strengthening financial management in government while proposing ways to build on this. The Treasury agreed to combine the role of Head of the Government Finance Profession with the position of Director General, Public Spending, with the new Director General Public Spending and Finance post having a formal management relationship with all the heads of finance across departments. In addition the department will lead work to improve the consistency and quality of management practices and reporting across government, and will form a new independent agency consolidating internal audit services into a single integrated service

[5] This objective will be defined as part of the department's improvement plan, Building a great Treasury, in July 2014

[6] The department met this internal headcount target in March 2014, excluding Infrastructure UK staff and paid but non active staff.

2013-14 key achievements

- introduction of a new diversity action plan with individual Executive Management Board members taking responsibility for elements of the plan
- introduction of a *Reasonable Adjustment Passport* for disabled staff
- new guidance on enabling part time working
- launch of the open recruitment for Director General Public Spending and Head of the Government Finance Profession

Indicators of progress on objective 4

2.14 The Treasury uses its annual staff survey results as an indicator of progress on its corporate objective. In October 2013 the department took part in the fifth annual Civil Service People Survey and with an 89% response rate, we can have a high level of confidence in our results. Our Employee Engagement Index – the key indicator of staff opinion – rose by 3% from the 2012 survey and the Executive Management Board was pleased to see the average scores for all nine supporting themes had also increased.

2.15 The table shows the Treasury's 2013 results with the Civil Service average included in brackets for comparison purposes.[7]

HM Treasury Staff Survey results 2013

Employee Engagement Index	68% (58%)	Learning and development	54% (47%)
Leadership and managing change	59% (42%)	Pay and benefits	19% (29%)
My work	82% (74%)	Resources and workload	77% (74%)
My manager	71% (67%)	Inclusion and fair treatment	77% (74%)
Organisational objectives and purpose	90% (82%)	My team	84% (79%)

Objective 4 actions for 2014-15

2.16 In preparation for the next Spending Round and the next parliament, we will publish an improvement plan, *Building a great Treasury*, in July 2014 that will shape a sustained difference to the working lives of all staff. The plan will bring together existing work and knowledge from past initiatives; with a small number of new actions in key areas. The Treasury Board has agreed 5 thematic areas the plan will focus on:

- continuing to deliver open and innovative policy-making, including by drawing more on expertise from outside the civil service
- getting the best out of its stakeholder relationships to help develop and deliver better policy
- recruiting the right people with the right skills, and developing and retaining its current staff to lead through a period of change
- bringing all management relationships up to the standard of the best, to drive performance and support staff development
- continuing to build a great working environment where systems and processes support business needs

[7] http://resources.civilservice.gov.uk/wp-content/uploads/2013/11/csps2013_benchmark_report_20121125.pdf

3 Governing the Treasury

3.1 The Treasury's governance arrangements exist principally to help the department manage its policy and operational risks. The structures and processes we have put in place are designed to ensure our risks are identified, prioritised and, when possible, appropriately mitigated. This chapter sets out our administrative framework and how we address the many challenges faced as both the UK's economics and finance ministry and as a Whitehall department.

The Treasury's ministers

3.2 The Chancellor of the Exchequer, the Rt Hon George Osborne MP, has overall responsibility for the Treasury. He has a duty to parliament to account, and be held to account, for all the policies, decisions and actions of the department, our Non Departmental Public Bodies and our arms length bodies. Within the Treasury, the Chancellor has chosen to devolve responsibility for a defined range of departmental work to his 5 fellow ministers whose responsibilities can be found on pages 8-9 of this report.

The Treasury Board and its committees

3.3 The Treasury Board, is the most senior of the department's oversight committees. Chaired by the Chancellor of the Exchequer in his role as lead minister in the department, it draws together ministerial and civil service leaders with experts from outside government. The Board provides support and challenge on the effective running and long term strategy of the Treasury as well as on the department's performance and risk management, and progress against delivery of our objectives and priorities.

3.4 While the Board does not decide policy or exercise the power of Treasury ministers it does advise on the operational implications and effectiveness of policy proposals and reflect on strategic plans. It also provides an opportunity for ministers, officials and non executives to discuss the service the department provides to the ministerial team.

3.5 Membership of the Treasury Board at 31 March 2014 was as follows:

Ministerial members:

- Rt Hon George Osborne MP – Chancellor of the Exchequer (Chair)
- Rt Hon Danny Alexander MP – Chief Secretary to the Treasury
- David Gauke MP – Exchequer Secretary to the Treasury
- Nicky Morgan MP – Economic Secretary to the Treasury (from 7 October 2013)
- Lord Paul Deighton – Commercial Secretary to the Treasury
- Rt Hon Sajid Javid MP – Financial Secretary to the Treasury (from 7 October 2013)

Executive Board members:

- Nick Macpherson – Permanent Secretary
- John Kingman – Second Permanent Secretary (economics)
- Sharon White – Second Permanent Secretary (finance, from 4 November 2013)
- Dave Ramsden – Chief Economic Adviser
- Kirstin Baker – Group Director, Finance

Non Executive Board members:

- Baroness Sarah Hogg – Chair of the Financial Reporting Council; Senior Independent Director of BG Group; Non-executive director of John Lewis Partnership; and Chairman of the Frontier Economics Group (until October 2013) (Lead Non Executive Board Member)
- Dame Amelia Fawcett – Chair of the Hedge Fund Standards Board (London, UK); Non-Executive Director of State Street Corporation (Boston Massachusetts, USA); Non-Executive Director, and Deputy Chair of Investment AB Kinnevik (Stockholm, Sweden); Chair of the Prince of Wales's Charitable Foundation
- Michael O'Higgins – Chairman, Pensions Regulator (until 31 March 2014); Chairman, NHS Confederation; Non Executive Board Member, Network Rail; Chairman, Investec Structured Products Calculus VCT plc

3.6 Over the course of 2013-14 the Board membership changed due to some members leaving the Treasury. Dame Deirdre Hutton's 2 term service as a Non Executive Board Member came to an end on 30 September 2013. Deirdre was a valued member of the Board and was thanked for her service by the Chancellor, fellow Non Executives and EMB members.

3.7 On 7 October 2013, as part of a ministerial reshuffle, Sajid Javid MP became Financial Secretary to the Treasury, Nicky Morgan MP joined the Treasury as Economic Secretary and Greg Clark MP moved to the Cabinet Office as Minister of State (Cities and Constitution).

3.8 On 9 April 2014 Sajid Javid MP left the Treasury to become Minister of State for the Department of Culture, Media and Sport. The Rt Hon Nicky Morgan MP became Financial Secretary to the Treasury and Andrea Leadsom MP joined the department as Economic Secretary to the Treasury and City Minister.

3.9 The Board met twice during the 2013-14 financial year on 21 October 2013 and 4 February 2014. All Members attended, with the exception of Dame Amelia Fawcett, who sent apologies to the February meeting.

3.10 With such a large portfolio to consider, the Chair has delegated responsibility for certain Board activities to several supporting committees. A summary of the work of each committee is provided below.

Treasury Board (Sub-committee)

3.11 The main Sub-committee to the Board is made up of the Non Executive Board Members and the Executive Management Board, joined by Edward Troup the Tax Assurance Commissioner and Second Permanent Secretary at HMRC. Edward, formerly a member of EMB, sits on the Sub-committee in a non executive capacity to strengthen the relationship between the two departments.

3.12 The Sub-committee meets ahead of the main Board to consider the department's performance and key risks and will also meet on an ad-hoc basis to discuss specific policy or Treasury Group related issues They met 5 times in 2013-14, accepting apologies from Mark Bowman and Indra Morris on 6 February 2014, Edward Troup, Kirstin Baker and Sharon White on 6 November 2013 and Tom Scholar on the 25 July 2013.

3.13 Over the year, the Boards considered a broad range of the policy and corporate issues facing the Treasury, including:

- departmental policy priorities and pressures
- performance and risk management
- the Treasury's shareholdings in RBS
- the UK Guarantees Scheme
- cyber security
- the Debt Management Office
- Treasury pay, recruitment and retention

Nominations Committee

3.14 Non Executives meet with the Permanent Secretary in a closed session to consider senior succession planning within the department and review the systems in place to identify and develop leadership potential. These meetings, which also consider the performance and remuneration of the senior management team, are known as Nominations Committee meetings.

3.15 The meetings of this small committee occur in advance of end year performance appraisals and the Director of Corporate Services may be asked to attend. Baroness Hogg sent her apologies to the February Nominations Committee and met separately with the Permanent Secretary to discuss matters arising.

Treasury Group Audit Committee

3.16 The Audit Committee supports the Permanent Secretary and his Additional Accounting Officers in their responsibilities for managing risk, control and governance. Members of the Committee are appointed by the Permanent Secretary. The Chair, who reports directly to the Permanent Secretary, is also a Non Executive Member of the Treasury Board.

3.17 The membership of the Committee at the close of 2013-14 was:

- Michael O'Higgins – Chairman, Pensions Regulator (until 31 March 2014); Chairman, NHS Confederation; Non Executive Board Member, Network Rail; Chairman, Investec Structured Products Calculus VCT plc
- Mike Ashley – Non Executive Director, and Audit Committee Chairman, Barclays Plc. Previously Head of Quality and Risk Management and Board Member, KPMG Europe LLP
- Mary Hardy – Audit Committee Member, Institute of Chartered Accountants in England and Wales; Audit and Risk Committee Member, Glasgow 2014; Non Executive Member, Defence Audit Committee; Non Executive Member of the Board of the Royal Navy, and Chair of its Audit Committee
- Abhai Rajguru – Non Executive Director, Leeds Building Society; Chairman, Alexander Rosse; Managing Partner, Pravara Capital LLP; Non Executive Director, Tollers LLP; Governor, Northampton College

3.18 The contract of 1 Committee Member, Janet Baker, came to an end in 2013-14. Janet was a valued 2 term member of the Committee and was thanked for her service by the Chair, the Permanent Secretary and fellow Members at her last meeting.

3.19 The Committee met 5 times in 2013-14, taking the opportunity for pre-committee discussions with the National Audit Office and Internal Audit on each occasion. The Chair accepted apologies in May from Abhai Rajguru, and Mike Ashley and Janet Baker for the June meeting.

3.20 Over the course of the year, as well as scrutinising the Treasury's financial management and balance sheet risks, the Audit Committee considered a wide range of issues relating to the system of control governing the department, including:

- the risk management framework
- the move to a shared services provision for procurement
- the delivery of the Whole of Government Accounts
- the delivery of the sale of Lloyds Banking Group shares
- the work of Infrastructure UK (IUK), including the UK Guarantees Scheme
- the department's progress on delivery of the Help to Buy Scheme

The role of Non Executive Board Members

3.21 The Treasury's Non Executive Board Members provide challenge to help shape the strategic thinking of ministers and officials. They are experts from outside government but with significant experience of working with the public and/or third sectors and have strong commercial expertise. Using this expertise they influence and advise the department, challenging where appropriate. Outside of the meetings individual members have shared their commercial and professional expertise across the Treasury.

The Permanent Secretary and senior civil service

3.22 The Permanent Secretary of the Treasury, Nick Macpherson, is also its Accounting Officer. He is responsible and accountable to parliament for the organisation and management of the department, including our use of public money and stewardship of assets. He also has overall responsibility for the delivery of the aims and priorities of ministers and the decisions and actions taken by Treasury officials.

3.23 Should he ever be directed by the Chancellor to take responsibility for the delivery of an aim, priority or action he believes is contrary to the principles of Managing Public Money (the main guidance for Accounting Officers) he may seek a written direction to continue. No written directions have been sought in the Treasury during 2013-14 or indeed through the life of this parliament.

3.24 The department also has 2 Second Permanent Secretaries, John Kingman and Sharon White. Sharon White, appointed following an external recruitment campaign on 4 November 2013, oversees the department's finance ministry functions, including tax, spending, international and fiscal issues. She also has oversight of NS&I. John Kingman, Second Permanent Secretary since his return to the department in 2012, has oversight of the economics ministry functions of the Treasury, including financial services, growth and infrastructure.

3.25 There are 5 Directors General (DG) in the Treasury who act as senior policy advisers to the Chancellor on specific areas: Mark Bowman, DG International and EU (formerly Michael Ellam, until July 2013); Dave Ramsden, Chief Economic Advisor; Charles Roxburgh, DG Financial Services; Indra Morris, DG Tax and Welfare; and a DG who oversees public spending.

3.26 The DG Public Spending role became vacant in November 2013 with the appointment of Sharon White as Second Permanent Secretary. Following the recommendations of the Financial Management Review this role has now been combined with the Head of Government Finance Profession position and after an external recruitment campaign Julian Kelly took up the post from 2 June 2014.

3.27 The Treasury is divided into 14 Director-led groups. Each Director has responsibility delegated to them from the Executive Management Board for the delivery of policy and management of risk within their group. They are also responsible for ensuring any policy or operational risks in their groups are shared across the department to help actively manage the cross-cutting risks facing the Treasury. The group structure and split of responsibilities as of 31 March 2014 can be found on pages 7-11 of this report.

The Treasury's executive committees

3.28 The DGs and Permanent Secretaries make up the senior management team for the department, known as the Executive Management Board (EMB). They are joined on EMB by the Directors for Finance (Kirstin Baker), Corporate Services (Alison Cottrell) and Strategy, Budget and Planning (James Bowler) and this executive team take personal and corporate responsibility for the operational success of the department.

3.29 EMB meets once a week to discuss corporate and policy issues, focusing its time on the management and coordination of the department as a whole. An annual business planning process, overseen by EMB, sets the department's priorities for the year ahead – focusing on the Treasury's core functions, ministerial priorities, and identified risks. The Board also ensures delivery against our work programme and allocates our resources efficiently and effectively.

3.30 The Strategy and Capability Board (SCB), is a sub-committee of EMB established to support the senior management team in enhancing the department's strategy, delivery and capability. Members are the Directors for Finance, Corporate Services and Strategy, Budget and Planning, alongside the Second Permanent Secretary (Economics) and the Director of Public Services. SCB meets fortnightly.

3.31 The Investment Approvals Committee (IAC), is a further sub-committee of EMB and will provide financial, commercial and business case approval for expenditure over £1 million.

3.32 The Executive Management Board has 3 sub-committees looking specifically at risk. The Economic, Fiscal and Operational Risk Groups report directly to the Board and are each chaired by an EMB member.

Additional Accounting Officers

3.33 The Central Funds (the Consolidated Fund, the National Loans Fund, the Contingencies Fund and the Exchange Equalisation Account) are reported on independently of this Annual Report and Accounts, as are the Whole of Government Accounts. Each Accounting Officer produces an individual governance statement for their corresponding account.

Account name	Accounting Officer	Notes
Consolidated Fund (CF)	Nick Macpherson	The CF was first set up on 1787 and is akin to government's current account. It receives the proceeds of taxation and other government receipts.
National Loans Fund (NLF)	Nick Macpherson	The NLF was established in 1968 and is akin to the government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office and National Savings and Investments
Contingencies Fund	Sharon White (until 2 June 2014, then Julian Kelly)	The Contingencies Fund is used to finance payments for urgent services in anticipation of parliamentary agreement and to provide funds temporarily to departments for working balances or meet other temporary cash deficiencies. All advances from the Fund must be repaid and where practical are recovered in the same financial year.
Exchange Equalisation Account (EEA)	Dave Ramsden	The EEA was established in 1932 to provide a fund that could be used, when necessary to regulate the exchange value of sterling. It holds, amongst other assets, the UK's reserves of gold and foreign currency assets and comprises the UK's official holdings of international reserves.
Whole of Government Accounts (WGA)	Sharon White	The WGA consolidates the audited accounts of around 4000 public sector organisations to produce a comprehensive, accounts based picture of the financial position of the UK public sector.

Group Internal Audit

3.34 In May 2013, Chris Wobschall was appointed as new head of Treasury Group Internal Audit and has provided an annual report on the effectiveness of the risk management, control and governance framework for the Treasury Group to the Accounting Officer and Audit Committee. In April 2013 the Treasury Group Internal Audit team became part of the Cross-Departmental Internal Audit Service (XDIAS).

3.35 The Treasury's Audit Committee challenged and approved the Internal Audit work programme throughout the year. On the recommendation of the Audit Committee, the department's operational risk group took on an additional oversight role within the department, following up and challenging outstanding internal audit recommendations.

The Corporate Governance Code and boards' effectiveness

3.36 As part of the preparation of this annual report, the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code and is assured it complies fully with the principles of the Code.

3.37 Over the course of 2013-14 the Treasury considered what action it could take to make the corporate governance of the department even more robust, with EMB taking a decision to increase the number of in depth strategy sessions they undertake, and to hold annual joint meetings with the Executive Committee of HMRC.

3.38 In line with the Cabinet Office (CO) guidance on board effectiveness the Board Sub-committee undertook a third self assessment of its performance during the year. This assessment was led by Sarah Hogg, assisted on this occasion by external oversight from Dr Tracy Long (a DCMS Non Executive). The outcome of this assessment, including the Board's views on the quality of management information reviewed, is set out in the foreword to this document as part of the Lead Non Executive's Report.

Challenges faced by the Treasury in 2013-14

3.39 To draw together this section, we have considered the four main areas in which the department has faced challenges over the course of the financial year: those which are faced by every government department; those which we have set ourselves in order continually to improve; those which we face in partnership with others; and those which are driven by our role as the UK's economics and finance ministry.

Departmental challenges

3.40 Whilst delivering its priorities, the department must balance its responsibilities as a finance and economics ministry while living within its own spending review settlement. A firmly established annual business planning process is managed systematically by the Executive Management Board, in consultation with ministers, and produces an agreed work programme. Progress against the plan is monitored on a quarterly basis, alongside an assessment of risks to delivery.

3.41 Horizon scanning is therefore an important part of the Treasury's risk management framework. EMB engage in 'state of the nation' style horizon scanning at their weekly meetings and twice yearly away days focus on horizon scanning and strategic planning. Horizon scanning is also applied to policy. The department uses its own forecasts and those of the OBR to consider fiscal sustainability in its spending and tax raising policies, and also works closely with the DMO and NS&I to manage the country's debt and borrowing.

3.42 The department recognises our main resource is our people. The department's annual staff survey results show higher than Civil Service average scores in 9 of the 10 main reporting themes. These include employee engagement, leadership and managing change, my work and manager, and organisation objectives and purpose.

3.43 By valuing training the department shows staff we appreciate our strength comes from the calibre of our people and continued professional development. Over the course of the year we have delivered both structured and unstructured training ranging from the mandatory unconscious bias and counter fraud and corruption Civil Service Learning courses, through to multiple seminars and workshops on topics from current economic issues to better policy making.

3.44 The Treasury is best served by an open flow of information amongst our people. However, the department has always been mindful of the risks posed by the increasing quantities of sensitive information to which officials are privy and therefore takes information and security risks seriously.

3.45 Our staff are bound by the rule of law, the Civil Service Code and the government's security policy. Security is included in the departmental induction course and there is an annual requirement for all staff to complete the appropriate level of 'Responsible for information' e-learning training. There is comprehensive guidance on all aspects of security on the departmental intranet and prompts on specific security topics are regularly broadcast as intranet new items and notices.

3.46 The Executive Management Board and Non Executive Board Members have received a tailored briefing from the Cabinet Office on cyber security, and receive regular briefings from our Departmental Security Officer on issues such as the introduction of Civil Service Passes (now issued to all Treasury staff) and the new Government Security Classifications.

3.47 The Treasury routinely monitors and assesses its information and security risks in order to identify and address any weaknesses; security breaches are reported monthly to Directors. No protected personal data incidents were recorded in the department during 2013-14.[1]

Summary of Protected Personal Data Related Incidents formally reported to the Information Commissioner's Office in 2013-14

Date of Incident	Nature of Incident	Nature of Data involved	Number of people potentially affected	Notification steps
Treasury has no incidents to report during 2013-14				
Further action on information risk	The department will continue to monitor and assess its information risks in order to identify and address any weakness and ensure continuous improvement of its systems			

Summary of Other Protected Personal Data Related Incidents in 2013-14

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	0
V	Other	0

Improvement challenges

3.48 The Treasury continues to carry a number of financial exposures on its balance sheets and our contingent liabilities remain significant. It therefore strives to make continuous improvements to strengthen control systems.

3.49 Lessons learned exercises from the spending round influenced preparations for Budget 2014 which was project managed into clear workstreams with accountable lead managers for each. The department also took the opportunity to update the technology used to help manage and track fiscal events. The Fiscal Event Database (FED), introduced in January 2014, brought together all Autumn Statement, Budget and Finance Bill data in time to be accessible to all those working on the Budget. Streamlining the Treasury's most high profile processes, the database is now also the central repository for guidance on important issues such as copylists, state aid and the data is used for all event management and decision making processes.

3.50 A new Treasury Management Information Unit was formed in spring 2013 to streamline, and make more accessible, the provision of internal and external HR and external Finance management information. The new unit and centre of expertise reflects a priority to provide accurate and relevant information for decision makers in the department. The unit is also responsible for implementing the Treasury's commitments made under the Government's Transparency Agenda to publish corporate expenditure and other data and to provide corporate benchmarking data to other government departments.

[1] Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

3.51 The Treasury has made significant progress in strengthening financial management in government and is committed to making further improvements. Spending Round 2013 saw the launch of the Financial Management Review, led by Sharon White and Richard Douglas (head of the Government Finance Profession) with Lord Sainsbury as the expert external advisor.

3.52 A key recommendation made by the review was to combine the role of Head of the Government Finance Profession with that of the Treasury's Director General of Public Spending. This new role, Director General Public Spending and Finance, will drive reforms to financial management, strengthen financial leadership across government, and have a formal management relationship with all the heads of finance across departments.

3.53 The review also made a number of recommendations regarding government internal audit services, which are now being implemented. Internal audit shared services will be consolidated over the medium-term to provide a single, integrated internal audit service led by the Head of Government Internal Audit and reporting to the Treasury's DG Public Spending and Finance. As a future member of the Treasury Group, EMB and the Permanent Secretary are closely monitoring the set up of this new service.

3.54 In line with the Civil Service Reform Plan[2] commitment to continuous improvement by sharing a wide range of services and expertise across government, the department has considered its own commercial contracting skills and needs. The Treasury Group, along with CO and Department for Communities and Local Government (DCLG), agreed to be a pathfinder department for a centrally managed service. In early 2013 Treasury established a project team to oversee these changes and the Group's procurement and commercial function was transferred to the Government Procurement Service on 1 July 2013. The SCB, EMB and the Audit Committee have kept an ongoing watch on the service provided after transfer.

3.55 Planning is underway to move Finance and Human Resources transactional services to a managed service and again the SCB, EMB and Audit Committee will be monitoring the planned transfer carefully over the coming months.

Shared challenges

3.56 The department naturally relies on its strategic partners to help in the delivery of our priorities and therefore we continually look to improve working relationships. In this financial year senior management have held joint meetings with several of our key partners, for example HMRC and the Bank of England. EMB recognised the importance of establishing a strong and positive working relationship with newly appointed Governor of the Bank, Mark Carney, and his senior management team.

3.57 National Savings & Investments manage the Treasury's longest running delivery project, the Equitable Life Payment Scheme. At Budget 2013 the Chancellor announced the government would make a single ex gratia payment of £5,000 to the approximately 9000 Equitable Life With-Profits Annuitants whose annuities began before 1 September 1992. An additional £5,000 would also be paid to those policyholders who were in receipt of Pension Credit on 1 November 2013. These payments are intended to help this group of elderly policyholders who may be living with a reduced annuity income, and to relieve some of the pressures associated with this.

3.58 The payments were originally scheduled to be made in 2014-2015. Payments to living policyholders were completed in December 2013, with the assistance of the Prudential Assurance Society.

3.59 Payments were made to the 234 estates of annuitants who died since the Budget announcement by the end of the financial year 2013-2014. The remaining 76 eligible estates will be paid in the financial year 2014-2015.

[2] http://my.civilservice.gov.uk/reform/the-reform-plan/

3.60 The Treasury is coordinating a UK Government programme of work as part of the Scottish independence referendum debate. The department is examining how Scotland contributes to and benefits from being part of the UK, and how the rest of the UK benefits from its partnership with Scotland. A series of papers are being produced over the course of 2013 and 2014 covering key legal, economic and policy issues and at the time of publication 15 papers will have been published of which 6 have been produced by the Treasury.

3.61 On the international agenda the Treasury worked effectively with other government departments to deliver successful G7 and G8 meetings during the UK's Presidencies in 2013. The meeting of G7 Finance Ministers and Central Bank Governors provided a forum for a frank and informal discussion of the global economy, and reinvigorated the G7 as a frank and private forum for advanced economy discussions. The meeting was delivered under budget and costs were shared with the Bank of England. Treasury ministers and the Prime Minister saw this work as one of the Civil Service's greatest achievements of the year.

3.62 Since the G8 Summit on 17-18 June 2013, we have made very good progress on fairer taxes, opening up trade and increasing transparency, benefiting countries across the world including the poorest nations. The 2013 UK G8 Presidency report Trade, Tax and Transparency[3] summarises commitments made by G8 countries since June. The Treasury is now advancing the Government's agenda on international tax and beneficial ownership through the G20.

Policy challenges

3.63 The UK Guarantees Scheme was implemented to avoid delays in infrastructure projects caused by shortage of long-term financing and to help infrastructure projects raise debt finance. The scheme uses the UK's sovereign credit rating to support infrastructure projects and it was extended in the 2013 Spending Review to 31 December 2016. A project makes an application for a UK government guarantee. Treasury ministers decide if the project is eligible for a guarantee. This is known as pre-qualification. The project goes through a rigorous assessment and due diligence process before being put to a risk committee and finally sent to the Chancellor for approval.

3.64 There have been over 160 enquiries about the Scheme and projects with a capital value of £33 billion have been pre-qualified. Sectors seen include rail, road, energy, waste management, housing and higher education projects. 2 guarantees were issued in 2013-14: Drax Power and Sustainable Development Capital – UK Energy Efficiency Investments Fund (NCP). A stand-by loan facility has been signed with the Greater London Authority to support the Northern Line Extension. A guarantee of the Mersey Gateway Bridge was issued post year end.

3.65 Given the impact on contingent liabilities, the UK Guarantee Scheme has been subject to scrutiny by the Treasury Board Sub-committee, the Executive Management Board and the Operational Risk Group. Additionally the Audit Committee have not only taken specific updates on the scheme and provided challenge on the governance structures (including the makeup of the risk committee); committee member Abhai Rajguru has spent time with Infrastructure UK seeking additional information and assurances.

[3] https://www.gov.uk/government/publications/uk-g8-presidency-report-2013

3.66 Budget 2013 announced Help to Buy, a major new package of measures to increase the supply of low-deposit mortgages for credit-worthy households, increase the supply of new housing and contribute to economic growth. The 'Help to Buy equity loan', launched in April 2013 and operated by DCLG and BIS, provides a loan worth up to 20 per cent of the value of a new build home, interest free for the first 5 years. Under 'Help to Buy mortgage guarantee', the government offers lenders the option to purchase a guarantee on mortgages between 80 and 95% loan to value (LTV), encouraging them to offer more mortgages to borrowers with small deposits. Over the life of the scheme, the government will make available £12 billion of guarantees, which will be sufficient to support up to £130 billion of high LTV mortgages. Lenders pay the Treasury a commercial fee for each mortgage in the scheme.

3.67 The Budget announced that the mortgage guarantee scheme would be operational by January 2014. In October 2013, the department published the scheme rules, allowing lenders to start originating loans supported by the scheme. The scheme formally opened on 2 January 2014. To date, Aldermore, Barclays, Halifax, Bank of Scotland, HSBC, Lloyds, NatWest, RBS, Santander and Virgin Money have signed up to the scheme and have launched new high LTV products supported by the scheme. The scheme was extended to Islamic mortgages in February 2014. Recognising the risks to the wider economy associated with Help to Buy it has been a regular agenda item at Treasury Board, Treasury Board Sub-committee and Executive Management Board meetings.

3.68 In his Mansion House Speech[4] of June 2013, the Chancellor announced a review into the creation of a bad bank to hold and manage RBS' legacy assets. To support the delivery of the bad bank review, the Treasury appointed Rothschild as corporate finance advisors, BlackRock Solutions as asset specialists and Slaughter and May as commercial legal advisors. Following the conclusion of the Review, the Treasury published in November 'RBS and the case for a bad bank: the Government's Review',[5] alongside RBS' announcement of a new direction.

3.69 Under this new direction, a bad bank would be created to separate and wind down RBS' poorly-performing and high-risk assets that are a legacy of what went wrong in its past. The internal bad bank will deliver similar benefits to an external bad bank, but instead of being funded using taxpayers' money, it will be funded by RBS. For the first time since the crisis began, RBS's new direction is supported fully by the management and Board of RBS, the Bank of England, UK Financial Investments and the Treasury.

3.70 In September 2013 UKFI and the Permanent Secretary advised the Chancellor the time was right to sell part of the government's shareholding in the Lloyds Banking Group. The Chancellor wrote to the Chairman of the Treasury Committee, Andrew Tyrie MP on 17 September to confirm the government had sold 6% of the bank's shares to institutional investors for 75p per share, raising £3.2 billion. This sale decreased the national debt by over £500 million and the shareholding in Lloyds reduced to 32.7%.

3.71 UKFI and the Permanent Secretary wrote again to the Chancellor on 25 March 2014 recommending a further sale of 24% of the government's remaining shares. On 26 March 2014 proceeds of £4.2 billion were generated from a sale of shares priced 75.5p. This reduced the government's overall shareholding to 24.9% of the bank and reduced the national debt by over £780 million. In total the programme of sales of Lloyds shares has now reduced the national debt by just under £1.4 billion.

[4] https://www.gov.uk/government/speeches/speech-by-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-mansion-house-2013

[5] https://www.gov.uk/government/publications/rbs-and-the-case-for-a-bad-bank-the-governments-review

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

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

Governance of the wider Treasury Group and related bodies

3.74 The Treasury Group has expanded again this year with the consolidation of UK Asset Resolution (UKAR) into our accounts. In addition to the department the Group now consists of:

- UK Debt Management Office
- Office of Tax Simplification
- Office for Budget Responsibility
- Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations
- Financial Services Compensation Scheme
- Money Advice Service
- UK Financial Investments
- UK Asset Resolution Group

3.75 The Group also includes the Sovereign Grant (which supports the Queen's official duties, including the maintenance of the Occupied Royal Palaces), Infrastructure Finance Unit Ltd and Help to Buy Ltd.

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

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

3.78 The Financial Services Compensation Scheme[6] is a single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it. The FSCS is operationally independent and was set up by the Financial Services Authority (FSA) in accordance with Part XV of the Financial Services and Markets Act 2000 (FSMA).

3.79 Governance arrangements were further updated within the Financial Services Act 2012 and following this the responsibility for oversight transferred from the FSA to the newly created Financial Conduct Authority (FCA) on 1 April 2013. Further updates to governance arrangements were introduced in the Financial Services (Banking Reform) Act 2013. Mark Neale who is the Chief Executive of the FSCS is also its Accounting Officer.

3.80 The Money Advice Service[7] was established under the Financial Services and Markets Act 2000 (FSMA) as an independent body. Its aim is to provide information to the public on financial matters, including on how the UK financial system works and how they might manage their own financial affairs. Caroline Rookes is the Chief Executive of the Service and is also its Accounting Officer.

3.81 As operationally independent bodies, the Treasury's Accounting Officer must balance the need to give the FSCS and MAS autonomy, while ensuring that monies received by them by way of levy are properly accounted and they are achieving high and reliable standards of propriety and regularity.

3.82 The Office for Budget Responsibility[8] was created in 2010 to provide independent and authoritative analysis of the UK's public finances. It is a Non Departmental Public Body sponsored by the Treasury. The legal underpinnings for the OBR are set out in the Budget Responsibility and National Audit Act 2011. The OBR's Chairman, Robert Chote, is also its Accounting Officer.

3.83 The Office of Tax Simplification[9] was created in 2010 to provide the Government with independent advice on simplifying the UK tax system. It is an independent office of the Treasury. The Non Executive Chair and Tax Director are responsible to Ministers for the OTS' work. The other two members of the OTS' Board, one each from the Treasury and HMRC, are senior full-time executives of their respective departments. Indra Morris, the Treasury's Director General for Tax and Welfare, is the Accounting Officer.

3.84 The Royal Household is responsible for the upkeep of the Royal Finances and the Sovereign Grant[10] expenditure to support HM The Queen in Her official duties. Introduced in 2012 this funding replaced the Civil List and 3 Grants-in-Aid for travel, communications and information, and the maintenance of the Royal Palaces. The Keeper of the Privy Purse and Treasurer's office has overall responsibility for the Sovereign's financial affairs. This post is currently held by Sir Alan Reid GCVO, who is also the Accounting Officer for the Sovereign Grant.

3.85 The Royal Mint Advisory Committee[11] was established in 1922. Its original purpose was to raise the standard of art on the UK's coins and this remains its primary concern, being charged, on behalf of the Treasury and other government departments, with the recommendation of all new designs for UK coins and official medals. It is an advisory NDPB sponsored by the Treasury and the Royal Mint's Chief Executive, Adam Lawrence, is its Accounting Officer.

[6] http://www.fscs.org.uk/

[7] http://www.moneyadviceservice.org.uk/

[8] http://budgetresponsibility.independent.gov.uk/category/publications/annual-report/

[9] https://www.gov.uk/government/organisations/office-of-tax-simplification

[10] https://www.royal.gov.uk/TheRoyalHousehold/Royalfinances/Sourcesoffunding/TheSovereignGrant.aspx

[11] http://www.royalmint.com/aboutus/advisory-committee

3.86 During 2013-14 the department conducted a review of the work of the Committee, establishing the continuing need for their work, that their NDPB status continued to be the most appropriate structure and that the committee are following the appropriate corporate governance procedures. The departmental minister for the Treasury, the Economic Secretary, approved the report and it was submitted to Parliament in February 2014.[12]

3.87 The UK Debt Management Office (DMO)[13] was established as an Executive Agency of the Treasury in 1998. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. The DMO's Chief Executive Officer, Robert Stheeman, is its Accounting Officer.

3.88 UK Financial Investments Ltd (UKFI)[14] is a Companies Act Company and Treasury is its sole shareholder. It was established in 2008 as part of the UK's response to the financial crisis and is responsible for managing the Government's shareholdings in the Royal Bank of Scotland Group plc and Lloyds Banking Group plc. UKFI is also responsible for managing the Government's 100 per cent shareholding and loans in UK Asset Resolution Ltd and its subsidiaries. James Leigh-Pemberton who is the Executive Chairman of UKAR holds the position of Accounting Officer.

3.89 UK Asset Resolution (UKAR)[15] is the holding company established on 1 October 2010 to bring together the businesses of Bradford & Bingley (B&B) and Northern Rock (Asset Management) plc (NRAM). On 8 October 2013, UKAR Corporate Services Limited (UKARcs), a subsidiary business of UKAR, became responsible for the administration of the Government's Help to Buy Mortgage Guarantee Scheme on behalf of HM Treasury.

3.90 Richard Banks who is the Chief Executive of UKAR holds the position of Additional Accounting Officer. UK Financial Investments Limited (UKFI) manages HM Treasury's 100 per cent shareholding in UKAR.

Statement by the Permanent Secretary

3.91 As Principal Accounting Officer, my review of the effectiveness of the system of internal control for 2013-14 was informed by assurances and feedback from executive managers across the Treasury Group through the system of internal accountability and escalation that is in place to support the scheme of delegation.

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

3.93 In addition, a number of parliamentary committees, including the Public Accounts Committee (PAC) have called witnesses from across the Treasury Group on key issues such as the private finance initiative, fiscal events and infrastructure investment. The Treasury welcomes the oversight, challenge and scrutiny this process provides, responds positively to the recommendations it receives and implements them where appropriate.

3.94 For example, following a PAC report in July 2013 on the Equitable Life payment scheme the department commenced work on implementing the Committee's recommendations. By the time the associated Treasury Minute was published in November 2013, work was in progress to fulfil 5 recommendations, 1 had already been completed and an alternative solution was proposed for the final recommendation. Further details about the Treasury's interaction with Parliamentary Committees can be found in chapter 1 of this report.

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[12] http://data.parliament.uk/DepositedPapers/Files/DEP2014-0517/Triennial_Review_Report_Royal_Mint_Advisory_Committee.pdf

[13] http://www.dmo.gov.uk/index.aspx?page=publications/Annual_Reports

[14] http://www.ukfi.co.uk/publications/

[15] http://www.ukar.co.uk/

3.95 Particular assurances have been provided by:

- the Chief Executives of the Debt Management Office, the Financial Services Compensation Scheme, UK Financial Investments Ltd, UK Asset Resolution and the Money Advice Service, and Accounting Officers of the Office for Budget Responsibility, the Office of Tax Simplification, the Royal Mint Advisory Committee and the Royal Household
- the Treasury's Executive Management Board
- the Group Finance Director
- the Head of the Treasury Legal Advisors, who has advised on outstanding legal and regulatory issues
- the Deputy Chief Economic Adviser, on the quality assurance of business critical Treasury models
- the Group Head of Internal Audit, who has provided reports on the effectiveness of the risk management, control and governance framework for the Treasury Group to me and the Audit Committee throughout the period. The Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

3.96 Alongside these assurances, I have placed reliance upon the Group Head of Internal Audit's view that, based on the internal audit work of his team throughout 2013-14, he is able to provide reasonable assurance over the risk management, control and governance framework relevant to the annual report and accounts; and that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Governance Statement.

3.97 The Treasury Group Annual Accounts are audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out in Chapter 8. The cost of the external audit is set out in Note 7 of the Resource Accounts.

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

3.99 I have considered the evidence that supports this Governance Statement and I am assured the Treasury has a strong system of controls to support the Department's achievement of its policies, aims and objectives. I therefore have no disclosures of control weaknesses to make for the 2013-14 financial year.

Nick Macpherson
Permanent Secretary
11 July 2014

4

Managing the Treasury

Our people[1]

4.1 The following tables describe the Treasury Group – its size and workforce dynamics.

Treasury Group – Staff Numbers[1]

Full time Equivalents (FTEs)	31 March 2014	31 March 2013	31 March 2012
Core Treasury			
CS Permanent	1153	1084	1048
CS Casual	38	49	30
Gross Control Total	**1091**	**1133**	**1078**
Core Treasury excluding IUK, paid maternity staff, paid secondees out and agency staff	*1004*		
DMO			
CS Permanent	107	106	104
CS Casual	0	1	0
Gross Control Total	**107**	**107**	**104**
APA[2]			
CS Permanent	0	0	29
CS Casual	0	0	1
Gross Control Total	**0**	**0**	**30**
OBR			
CS Permanent	16	16	16
CS Casual	1	2	1
Gross Control Total	**17**	**18**	**17**
HM Treasury Group			
CS Permanent	1176	1206	1297
CS Casual	39	52	32
Gross Control Total	**1215**	**1258**	**1329**

[1] The people tables in this chapter set out staffing numbers for core Treasury, APA, DMO and the OBR, in accordance with ONS reporting requirements. The figures exclude contract and agency workers and staff who are on unpaid maternity leave, unpaid sick absence or on career breaks.

[2] APA closed on 31 October 2012.

[1] This chapter provides information on the way Treasury manages itself. It does not include data relating to the Financial Services Compensation Scheme (FSCS), Money Advice Service (MAS), UK Asset Resolution (UKAR), UK Financial Investments Ltd (UKFI) or Royal Household (Sovereign Grant) which are not consolidated into the Treasury Group for management information purposes. Further information on each body can be found on their individual websites: FSCS - www.fscs.org.uk/ MAS - www.moneyadviceservice.org.uk/en UKFI - www.ukfi.co.uk/ Royal Household - www.royal.gov.uk/theroyalhousehold/overview.aspx

Treasury Group – Payroll/Non-payroll staff[1]

		31 March 2014	31 March 2013
Payroll Staff			
	Department and agencies	1,198	1,240
	NDPBs and other bodies	17	18
Average payroll staff costs (£)		£58,008	£55,596
Non-payroll staff			
	Department and agencies	32.8	33.8
	NDPBs and other bodies	0	0

1 Non-payroll staff encompasses consultants and contingent labour ie interim managers, specialist contractors and agency staff

Treasury Group – Workforce Shape (%)

	31 March 2014	31 March 2013
Administrative Assistants and Officers (including students)	7.2	8.3
Executive Officers	10.5	11.2
Higher and Senior Executive Officers	35.5	34.9
Grade 7/6	27.6	27.2
Senior Civil Servants	7.3	7.4
Other Grades	11.9	10.9

HM Treasury – Number of Senior Civil Service by pay band

Range	31 March 2014	31 March 2013
F	65	69
G	14	16
H	7	8
Total	86	93

Treasury Group – Workforce breakdown

		31 March 2014	31 March 2013
Workforce Dynamics	Recruitment Exemptions (number)	206	131
	Annual Turnover rate (%)	23	22
Workforce Diversity (%)	Black and Minority Ethnic	16.8	18.5
	Women	46.9	47
	Disabled	5.9	6.5
Diversity of Senior Civil Servants only (%)	Black and Minority Ethnic	4.5	7.5
	Women	42.7	43
	Women (Top Management posts)	40.9	
	Disabled	4.5	4.3
	Part Time	8.5	6.5
Attendance (AWDL)[1]	Actual (days)	3.9	4.4

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

Our recruitment

4.2 Our recruitment team plays a key role in supporting the department in attracting and employing the best possible talent. Throughout 2013-14 and working in partnership with all the Treasury policy groups, Civil Service Recruitment, and the Civil Service Commission, the team has planned, developed and run a wide range of assessment, selection and recruitment activities including:

- tailored campaigns for individual vacancies
- a large scale campaign to maintain a constant supply of our key policy advisers at Range D, aiming to recruit those with 1-2 years post-university experience
- interchange opportunities for secondments and loans from and to other

government departments and private sector partners;

- apprenticeship campaigns to bring young people into the department at entry level. We are especially proud of the success of this scheme. During 2012-13 the Treasury recruited 6 apprentices who have now gained their qualification, become permanent employees and continue to develop their skills and add real value to the department. In 2013-14 the intake increased to 9 people with more planned for 2014-15 and the Treasury has similarly high hopes for their success.

Treasury recruitment 2013-14 (2012-13)

Range	Permanent appointments[1]	Fixed-term appointments[2]	Loans from other government departments	Secondments	Total
B	10 (18)	11 (6)	0 (0)	0 (0)	21 (24)
C	9 (15)	6 (3)	1 (2)	0 (1)	16 (21)
D	86 (100)	7 (19)	26 (24)	16 (6)	135 (149)
E	20 (27)	5 (2)	19 (8)	4 (13)	50 (74)
E2	5 (*)	0 (*)	5 (*)	0 (*)	10(*)
Commercial Specialist	3 (2)	9 (3)	0 (0)	4 (4)	16 (9)
SCS	5 (5)	0 (0)	4 (5)	2 (1)	11 (11)
Total	**138 (167)**	**38 (33)**	**55 (39)**	**26 (25)**	**257 (264)**

[1] Including permanent transfers from other departments

[2] Excludes the 34 sandwich and placement students recruited via the Government Economic Service

Our diversity

4.3 The Treasury seeks to promote a culture which values difference and recognises that diversity enriches the economy and society and to assist with this the department has formed a Diversity Board chaired by the Executive Management Board's Dave Ramsden. The Board is made up of members from the Disability Advisory Group, the Parents and Carers Network, the LGBT network, the Ethnic Minority Network, the Job Sharers Network, and the Mental Wellbeing Network and Women in the Treasury.

4.4 The Treasury's Diversity Action Plan 2013-14 focussed on 6 areas for progress to a working environment that fully reflects the Treasury's values: disability; unconscious bias and ethnicity; flexible working; bullying and harassment; carers; and mental wellbeing.

4.5 While these 6 areas have taken priority, progress has been made in the department in all diversity related areas over the course of the year.

Progress on diversity issues in 2013-14

Area for focus	Progress
Disability	Rollout of a reasonable adjustment passport for disabled staff
Unconscious bias	Compulsory training has been rolled out for all line managers.
Flexible working / carers	New guidance has been delivered on enabling part time working
Bullying and harassment	In 2013-14 the department ran an anti bullying and harassment campaign
Mental well-being	In February 2014, the Treasury signed the "Time to Change Pledge" on mental well-being. This coincided with the launch of a new Mental Well-being Network to promote greater understanding and awareness of mental health issues focussing on delivering practical new ways of providing support for staff and managers and considering wider ways to promote well-being in the department.
Ethnicity	Work with the National Mentoring Consortium has continued and this year 16 Treasury mentors have been trained and are taking part in this successful mentoring programme that provides support to Black and Asian undergraduates planning managerial and professional careers.
Outreach	The Treasury has further embedded its diversity outreach programme by participating in the Whitehall Internship Programme coordinated across the Civil Service by the Department for Work and Pensions. The programme was announced as part of the Social Mobility Strategy in April 2011 with the aim of providing internships in every Whitehall Department for people from under-represented groups. In summer 2013 the Treasury hosted 5 interns and 3 work experience students.
Development Programmes	In 2013/14 the Treasury continued to run its successful development programme for business support staff and to increase opportunities for staff two cohorts have been run during the year. This development programme has had good success in preparing business support staff for opportunities at the next level and in developing skills that are also valuable in current roles.
Cross-cutting issues	In addition, the Treasury is also participating in the "Positive Action Pathway" a civil service wide development programme for employees from under-represented groups.

Diversity as at 31 March 2014 (31 March 2013)

Range	Women (per cent)	People from minority ethnic backgrounds (per cent)	People with disabilities (per cent)
B[1]	61.1 (66.6)	30.0 (33.3)	6.7 (7.2)
C	66.7 (65.3)	34.1 (36.1)	8.3 (9.7)
D	44.4 (42.7)	20.8 (20.9)	6.6 (6.7)
E	41.1 (41.4)	5.5 (7.0)	4.7 (5.5)
E2[2]	41.3 (*)	3.2 (*)	6.3 (*)
F, G, H	42.7 (43.0)	4.5 (7.5)	4.5 (4.3)
Total	**46.9 (47.0)**	**16.8 (18.5)**	**5.9 (6.5)**

[1] Range B includes students

[2] The E2 grade was introduced during 2013 and therefore no previous data is available.

4.6 The Executive Management Board's main corporate priority for 2014-15 is to ensure the Treasury is seen as a great place to work for all our staff, whatever their grade, background or office location and that the culture of the department values diversity.

4.7 We know from the Treasury's staff survey results that people are proud to work in the department, in the main find their jobs stimulating and feel valued for their work. But we also know from the survey and other feedback that there are areas where we are less strong. Through our Building a great Treasury work we will look at incorporating the recommendations of the Diversity Board's excellent work into our overarching principles.

Our health, safety and well-being

4.8 The Treasury actively promotes the health, safety and well-being of its staff, aware this helps to boost morale, staff engagement and, in turn, excellent performance.

4.9 Sickness absence in the Treasury continues to be low compared with the average for government departments, and our primary cause of long term absence (mental and behavioural disorders, including stress, anxiety, depression and other clinical mental disorders) has declined over the course of 2013-14.

Average days lost

	Jan – Dec 2013	Jan – Dec 2012
Government departments	7.6	7.6
Treasury and its agencies	4.1	4.4
Core Treasury	3.9	4.2

Days lost (in Treasury) to mental and behavioural disorders

	Jan – Dec 2013	Jan – Dec 2012
Total days lost	980	1077
Long term absences days lost	800	864
Short term absences days lost	180	213

Staff with no sickness absence

	Jan – Dec 2013	Jan – Dec 2012
Treasury and its agencies	63%	64%
Core Treasury	65%	66%

4.10 The Treasury has signed up to 2 national health promotion campaigns. Through engaging with the Department of Health's Public Health Responsibility Deal (PHRD), the department has promoted health and physical activity, including the Cycle to Work scheme and Walk to Work week.

4.11 The department has also signed the Time to Change pledge[2] to demonstrate our commitment to end the stigma and discrimination associated with mental health conditions. Additionally we have an action plan to help train key personnel in mental health first aid and have set up a mental wellbeing network for staff.

4.12 Along with the use of reasonable adjustments as required, these initiatives should help to reduce the number of sickness days lost to mental and behavioural disorders and encourage an earlier return to work.

Employee assistance

4.13 The Treasury was one of the first departments to participate in the tendering exercise to harmonise cross-government Occupational Health / Employee Assistance Programmes.

4.14 Our new occupational health supplier was appointed in June 2013 and the contract meets the new occupational health standards Safe Effective Quality Occupational Health Service.[3] Meeting these standards is a requirement of our PHRD pledge.

4.15 A tendering exercise for our employee assistance programme also took place in 2013-14, with the new contract commencing in December 2013.

4.16 Over the course of the year the Treasury has also changed eye-care supplier and has joined up with the Department for Work and Pensions to use their contract.

Health and safety

4.17 Following our 2012 review of the Treasury's Health and Safety risk assessment process, the department carried out the first annual review to provide reassurance the relevant risk controls were in place. Additionally our Starburst emergency evacuation arrangements for 1 Horse Guard's Road were reviewed and changes implemented.

[2] http://www.time-to-change.org.uk/

[3] http://www.nhshealthatwork.co.uk/seqohs.asp

4.18 There were 7 Accident, Near Miss or Work Related Ill Health reports, compared to 12 for the previous year. 3 were allergic reactions caused by paint used in the redecoration of the building; 3 were for slips, trips or falls and 1 related to a falling object. None of these incidents met the criteria for reporting to the Health & Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

4.19 A campaign to engage new fire wardens and deputies also took place to ensure that adequate fire warden cover remains throughout the building during working hours should an emergency evacuation occur.

Reward and recognition

4.20 The department has a policy to recognise those staff who have performed exceptionally in their roles through the payment of non consolidated awards. Non consolidated awards are paid in two circumstances:

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

4.21 Due to the nature of the performance appraisal system, non consolidated awards are paid in the year following the one in which the individual's performance was assessed as exceptional.

HM Treasury – performance awards payments (£)

	2013-14	2012-13	2011-12
Performance awards	546,443	541,819	805,597
Special non-consolidated awards	165,202	168,812	164,467

Off Payroll Engagements

Off Payroll engagements as of 31 March 2014 (for more than £220 per day and lasting longer than 6 months)

	HM Treasury	DMO	OBR	UKFI
No. of existing engagements as of 31 March 2014	12	5	0	0
of which				
No. that have existed for less than one year at the time of reporting	11	3	0	0
No. that have existed for between one and two years at the time of reporting	1	1	0	0
No. that have existed for between two and three years at the time of reporting	0	1	0	0
No. that have existed for between three and four years at the time of reporting	0	0	0	0
No. that have existed for four years or more at the time of reporting.	0	0	0	0
Total	**12**	**5**	**0**	**0**

4.22 All existing off-payroll engagements outlined above have been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

New off-payroll engagements, or those that reached six months in duration (for more than £220 per day and last longer than 6 months)

	Treasury	DMO	OBR	UKFI
No. of new engagements, or those that reached six months duration, between 1 April 2013 and 31 March 2014	18	9	0	0
No. of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	18	9	0	0
No. for whom an assurance has been requested	18	7[1]	0	0
of which				
No. for whom assurance has been received	18	7	0	0
No. for whom assurance has not been received	0	0	0	0
No. that have been terminated as a result of assurance not being received	0	0	0	0
Total	18	9	0	0

[1] Assurance was not requested for 2 engagements lasting 7 months each. The specialist contractors were assessed to be low risk with regard to whether an assurance was required that the individual was paying the right amount of tax.

For any off-payroll engagements of board members and/or senior officials with significant

	HM Treasury	DMO	OBR	UKFI
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility during the year	0	0	0	0
No of individuals that have been deemed "board members and or senior officials with significant financial responsibility during the year	12	4	6	3

5 Overview of the Treasury's finances

Introduction

5.1 This chapter provides an overview of the finances of the Treasury and its agencies based around a set of common core tables which all departments produce on their budgetary controls. The chapter considers those controls by reference to Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). The data presented is consistent with HM Treasury's 2013-14 Annual Accounts, which are included in Chapter 9 of this document.

5.2 This chapter comments on the department's performance against its budgetary controls, and not on the entities within the wider Treasury Group. Further details on their financial performance can be found in their own annual reports and accounts.

5.3 The tables and narrative in this chapter distinguish between expenditure against DEL and AME. DELs are firm multi-year plans set in spending reviews. AME is more unpredictable, demand-led expenditure that cannot be reliably planned and is instead subject to review twice a year. Within DEL, the tables and narrative distinguish between administration costs and programme costs.

5.4 In recognition of the impact the department's financial stability work has on its performance data, this chapter provides a commentary on both ongoing 'business as usual' expenditure and the effect of financial stability interventions on the department's finances. The financial stability interventions give rise to a number of financial instruments, which adds to the complexity of the annual accounts. An overview of financial stability interventions and other significant financial transactions follows the core tables.

5.5 Table 5.A compares 2013-14 outturn figures against the original and final DEL budgetary control limits. Reasons for changes to the budgetary control limits and differences between budget and outturn are explained. Outturn against the administration costs limit best represents the Treasury's financial performance on its business as usual running costs. For 2013-14, HM Treasury has a net income figure for its programme control limit. This is because of a change the government made in 2012-13 to require financial services regulatory fines to be paid to the Treasury. At the time of finalising the supplementary estimate in January the Financial Conduct Authority (FCA) had received £318 million in fines which were payable to the Treasury.

5.6 Table 5.B summarises total expenditure by the department and its agencies, including both resource and capital expenditure, for the years 2009-10 to 2013-14 and planned expenditure for the years 2014-15 and 2015-16. Table 5.C provides a detailed breakdown of budgetary changes and outturn for 2013-14.

5.7 Table 5.D provides a more detailed analysis of administration costs included in Table 5.B by type of expenditure and by body.

5.8 Table 5.E analyses the capital employed by the Treasury and its agencies and reconciles to the Statement of Financial Position in the Annual Accounts. It also shows as a separate line the capital employed by the department's NDPBs to give total capital employed by the Treasury Group.

Treasury Finances

Outturn against budgetary control limits

5.9 Table 5.A below shows the 2013-14 DEL outturn against the original and final budgetary control limits.

Table 5.A DEL budgetary control limits 2013-14

£ million	Para ref	Original DEL budget	Final DEL budget	Outturn	Overspend/ (underspend)
Resource DEL	5.10	170	(170)	(253)	(83)
of which administration costs	5.11	141	138	127	(11)
Capital DEL	5.12	14	(5)	(6)	(1)

5.10 The original resource DEL budget was reduced by £340 million to a final figure of £170 million income. Of this reduction, £318 million related to a reduction in the programme budget to reflect fine income expected by the FCA and paid over to HM Treasury.

5.11 The department and its agencies under-spent by £83 million against the final resource DEL budget. Of this under-spend, £11 million related to administration costs, largely as a result of increased administration income, and £72 million to programme costs. The most significant variance was £68 million of additional FCA fine income from further fines imposed after the time of the Supplementary Estimate, bringing the total fines payable to HM Treasury to £386 million.

5.12 Capital DEL income was £1 million more than the final budget. This is partly due to loan repayments relating to the Infrastructure Finance Unit Ltd (IFUL) being more than expected.

Resource and capital expenditure

5.13 Tables 5.B, C and D below provide detail on actual and budgeted DEL and AME expenditure, split between resource and capital spending. Due to the unpredictability of AME expenditure in relation to financial stability interventions, resource AME expenditure on financial stability and capital AME on assistance to financial institutions are not forecast for future years.

5.14 Further analysis of the information contained in these tables follows in the rest of this chapter, cross-referenced and supported where appropriate by the Annual Accounts.

Table 5.B Total resource and capital spending for the Treasury Group

£ million	Para ref	2009-10	2010-11	2011-12	2012-13	Outturn 2013-14	2014-15	Budget 2015-16
Resource DEL								
Core Treasury	5.15	142	126	117	(232)	(282)	104	97
Debt Management Office	5.18	16	15	12	16	18	17	17
UK Financial Investments	5.21	4	3	5	2	2	3	3
Office for Budget Responsibility	5.20	-	-	2	2	2	2	2
Infrastructure Finance Unit Ltd		-	-	-	5	(4)	-	(4)
Asset Protection Agency (APA)		-	-	(1)	1	-	-	-
Non-voted: Banking & gilts registration services	5.22	12	11	11	11	11	11	10
Total Resource DEL		**174**	**155**	**146**	**(195)**	**(253)**	**137**	**125**
Resource AME								
Financial stability[1]	5.23	(22,376)	(13,825)	(16,138)	(17,699)	8,439	(1,202)	-
Credit easing	5.25	-	-	-	49	(68)	(73)	-
Help to Buy		-	-	-	-	2	-	-
Provisions[2]	5.32	-	1,493	(19)	38	107	(2)	-
Equitable Life administration	5.32	-	7	20	20	16	6	-
Investment in the Bank of England	5.37	(97)	(63)	(2,298)	(55)	(80)	(30)	(40)
Investment in the Royal Mint	5.17	-	(4)	(4)	(4)	(4)	(4)	(4)
Sovereign Grant[3]	5.39	-	-	-	33	36	38	38
Coinage metal costs	5.16	15	19	24	17	5	2	1
Coinage manufacturing	5.16	13	13	14	20	33	28	15
Core Treasury building impairment		(3)	-	-	7	-	-	-
MAS		-	-	-	(4)	-	-	-
FSCS		-	-	-	(405)	(736)	-	-
UKAR		-	-	-	(1,319)	(1,485)	-	-
Non-voted: Royal Household Pension Scheme[3]	5.39	3	3	3	3	3	3	3
Non-voted: Civil List[3]	5.39	8	8	8	-	-	-	-
Total Resource AME		**(22,437)**	**(12,349)**	**(18,390)**	**(19,299)**	**6,268**	**(1,234)**	**13**
Total Resource AME and DEL (income)/expenditure		**(22,263)**	**(12,194)**	**(18,244)**	**(19,494)**	**6,015**	**(1,097)**	**138**
Of which: depreciation		**8**	**8**	**7**	**8**	**6**	**-**	**-**

[1] 'Financial stability' comprises fair value movements in derivatives, changes to financial stability provisions, fees and interest income arising from financial stability interventions, impairments of financial instruments and, for 2013-14, proceeds from the sale of Lloyds shares.

[2] Provisions relate primarily to the Equitable Life Payment Scheme.

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

£ million	Para ref	2009-10	2010-11	2011-12	2012-13	Outturn 2013-14	2014-15	Budget 2015-16
Capital DEL								
Core Treasury		52	40	36	-	(3)	14	3
Debt Management Office		1	1	-	1	-	1	-
Infrastructure Finance Unit Ltd		-	-	-	17	(3)	-	-
Asset Protection Agency		3	2	-	-	-	-	-
Total Capital DEL		**56**	**43**	**36**	**18**	**(6)**	**15**	**3**
Capital AME								
Assistance to financial institutions		40,653	(2,241)	(4,571)	(461)	(4,937)	-	-
Credit easing	5.25				5	284	-	-
MAS		-	-	-	-	1	-	-
UKAR		-	-	-	(6,468)	(7,073)	(3,015)	-
Total Capital AME		**40,653**	**(2,241)**	**(4,571)**	**(6,924)**	**(11,725)**	**(3,015)**	**-**
Total Capital AME and DEL	5.42	**40,709**	**(2,198)**	**(4,535)**	**(6,906)**	**(11,731)**	**(3,000)**	**3**
Total departmental spending		**18,446**	**(14,392)**	**(22,779)**	**(26,400)**	**(5,716)**	**(4,097)**	**141**

Table 5.C Detailed breakdown of budgetary changes and outturn for 2013-14

£ million		2013-14 Original Plans Resource	2013-14 Original Plans Capital	2013-14 Final Plans Resource	2013-14 Final Plans Capital	2013-14 Outturn Resource	2013-14 Outturn Capital
Spending in Departmental Expenditure Limits (DEL)							
	Voted expenditure	**158**	**14**	**(181)**	**(5)**	**(264)**	**(6)**
Of which:	Core Treasury	119	1	(204)	(3)	(282)	(3)
	Debt Management Office	14	2	18	1	18	-
	United Kingdom Financial Investments Limited (Net)	3	-	3	-	2	-
	Office of Tax Simplification	-	-	-	-	-	-
	Infrastructure Finance Unit Limited (Net)	-	11	-	(3)	(4)	(3)
	Office for Budget Responsibility (Net)	2	-	2	-	2	-
	UK Coinage Manufacturing costs	14	-	-	-	-	-
	Departmental; Unallocated Provision	6	-	-	-	-	-
	Royal Mint Advisory Committee on the design of coins (Net)	-	-	-	-	-	-
	Non-voted expenditure	**12**	**-**	**12**	**-**	**11**	**-**
Of which:	Banking and gilts registration services	12	-	12	-	11	-
Total Spending in DEL		**170**	**14**	**(170)**	**(5)**	**(253)**	**(6)**
Spending in Annually Managed Expenditure (AME)							
	Voted expenditure	**(1,662)**	**1,488**	**10,602**	**(5,723)**	**6,265**	**(11,726)**
Of which:	UK Coinage metal costs	24	-	(5)	-	5	-
	Northern Rock	(275)	(1,633)	(267)	(2,633)	(21)	-
	Assistance to financial institutions	(870)	30	13,035	(870)	12,638	(955)
	Provisions	(12)	-	(12)	-	107	-
	Administration of the Equitable Life Payments Scheme	10	-	13	-	16	-
	Royal Mint dividend	(4)	-	(4)	-	(4)	-
	UK Coinage manufacturing costs	-	-	34	-	33	-
	Money Advice Service (Net)	-	-	-	-	-	1
	Financial Services Compensation Scheme (Net)	-	-	-	-	(736)	-
	Investment in the Bank of England	(30)	-	(30)	-	(80)	-
	Credit easing	(77)	380	(68)	380	(68)	284
	Sovereign Grant funding of the Royal Household (Net)	36	3	36	3	36	-
	Sale of shares	-	-	(1,691)	(2,085)	(4,102)	(4,790)
	Bradford & Bingley	(391)	(1,075)	(373)	(1,325)	-	-
	Loans to Ireland	(73)	807	(76)	807	(76)	807
	UK Asset Resolution Limited (Net)	-	-	-	-	(1,485)	(7,073)
	UKAR Corporate Services Limited (Net)	-	-	-	-	-	-
	Help to Buy (HMT) Limited (Net)	-	-	9	-	2	-
	Non-voted expenditure	**3**	**-**	**3**	**-**	**3**	**-**
Of which:	Royal Household Pensions	3	-	3	-	3	-
	Civil List	-	-	-	-	-	-
Total Spending in AME		**(1,659)**	**(1,488)**	**10,605**	**(5,723)**	**6,268**	**(11,725)**
Total		**(1,489)**	**(1,474)**	**10,435**	**(5,728)**	**6,015**	**(11,731)**
Of which:	Voted expenditure	(1,504)	(1,474)	10,420	(5,728)	6,001	(11,731)
	Non-voted expenditure	15	-	15	-	14	-

Table 5.D Analysis of administration costs

£ million	Para ref	2009-10	2010-11	2011-12	2012-13	Outturn 2013-14	2014-15	Budget 2015-16
Core Treasury	5.15	133	127	117	118	109	109	93
Debt Management Office	5.18	12	11	8	13	14	13	14
APA		-	-	(1)	1	-	-	-
OBR	5.20	-	-	2	2	2	2	2
UKFI	5.21	4	3	5	2	2	3	3
Total net administration costs		**149**	**141**	**131**	**135**	**127**	**127**	**112**
Of which:								
Staff costs		89	95	86	81	79		
Other expenditure		128	84	73	90	95		
Income		(68)	(38)	(28)	(36)	(47)		

Commentary on Tables 5.B to D

Resource spending

Core Treasury

2013-14: (£282m), 2012-13: (£232m)

5.15 Excluding FCA fine income of £386 million, underlying Core Treasury expenditure was £104 million, comprising net administration costs of £109 million (2012-13: £118 million) and net programme income of £4 million (2012-13:£3 million). Net administration costs decreased by £9 million from 2012-13, primarily due to an increase in administration income, but also by a decrease in staff costs.

Coinage and investment in the Royal Mint

2013-14: £34m, 2012-13: £33m

5.16 Coinage expenditure comprised £33 million manufacturing costs funded through AME (2012-13: £20 million through DEL) and £5 million metal costs funded through AME (2012-13: £17 million), less dividend income of £4 million (2012-13: £4 million). During 2013-14, issuances of coins increased by 40 per cent compared to the prior year. This was mainly due to the Royal Mint programme to remove old five and ten pence coins from circulation to recover their metal value and to replace them with new coins. The new five and ten pence coins cost more to manufacture than the old specification, but have lower metal costs. Consequently, manufacturing costs increased by £13 million and metal costs, after recovery of scrap metal income, decreased by £12 million compared to the previous year.

5.17 HM Treasury wholly owns the Public Dividend Capital of the Royal Mint. A dividend of £4 million is payable to the Treasury for the year 2013-14 (2012-13: £4 million).

Debt Management Office (DMO)

2013-14: £18m, 2012-13: £16m

5.18 The DMO's expenditure comprised net administration costs of £14 million (2012-13: £13 million) and net programme costs of £3 million (2012-13: £3 million). Net administration costs increased by £1 million between 2012-13 and 2013-14 as a result of: expenditure on specialised interim contract staff to assist in the delivery of key objectives, including support of the Government's Sukuk scheme; an increase in administration costs relating to an IT replacement programme; and a reduction of income arising from the administration of loans made by the Public Works Loan Board (PWLB) due to a fall in the volume of lending to local authorities.

5.19 Further details on the DMO's outturn are available in the DMO's Annual Report and Accounts 2013-14 which incorporate the accounts of the Debt Management Account[1].

Office for Budget Responsibility (OBR) funding costs

2013-14: £2m, 2012-13: £2m

5.20 The OBR's expenditure was unchanged from the prior year and was within its budget limit. Further details on the OBR's expenditure are included in the Annual accounts and in the OBR's Annual Report and Accounts 2013-14[2].

UK Financial Investments (UKFI) funding costs

2013-14: £2m, 2012-13: £2m

5.21 HM Treasury pays UKFI a management fee to fund its operations. Further details on UKFI's expenditure are included in the Annual Accounts and in UKFI's Annual Report and Accounts 2013-14[3].

Banking & Gilts registration services

2013-14: £11m, 2012-13: £11m

5.22 Banking and gilts registration costs comprised the fees paid to the Bank of England for the management of the UK's foreign currency reserves and fees for gilts registration services which are paid to Computershare. Fees have been broadly unchanged between 2012-13 and 2013-14.

Financial stability

2013-14: £8,439m, 2012-13: (£17,699m)

5.23 Financial stability expenditure within resource AME related to fair value movements in derivatives, income from financial stability interventions, impairment of financial instruments, and profit on the sale of Lloyds shares.

5.24 During 2013-14, the fair value of HM Treasury's derivatives decreased by £12,942 million. In addition, the department recognised income of £4,102 million from sale of Lloyds shares. Further details of all financial stability interventions are provided in paragraph 5.44 onwards, following Table 5.E.

National Loan Guarantee Scheme and Funding for Lending Scheme

2013-14: £68m net resource income, 2012-13:£49m net resource expenditure

5.25 The National Loan Guarantee Scheme (NLGS) was launched in March 2012 and helps businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. The NLGS uses government guarantees on unsecured borrowing by banks, enabling them to borrow at a cheaper rate. Under the scheme, participating banks can issue guaranteed debt for a discounted fee and the full discount is passed on to small and medium sized businesses.

[1] www.dmo.gov.uk

[2] http://budgetresponsibility.independent.gov.uk

[3] www.ukfi.co.uk

5.26 The Bank of England launched the Funding for Lending Scheme (FLS) in July 2012. The FLS allows banks and building societies to borrow at cheaper rates from the Bank of England for periods of up to four years. Changes in market conditions since the introduction of the NLGS means that it is now less economical for banks to raise unsecured funding. In practice, this means that banks who are currently offering NLGS loans are now choosing to deliver credit easing to the whole economy through the FLS and consequently it is unlikely that further guarantees will be made under the NLGS in the short term. Details of the FLS are provided in the Bank of England's Annual Report and Accounts and on their website[4].

5.27 The Treasury provided the first guarantees under the National Loan Guarantee Scheme in April 2012, totalling £2.9 billion, and in return HM Treasury receives fees of £213 million over the life of those guarantees. No further guarantees have been issued under the scheme. HM Treasury recognised an initial expense of £109 million to reflect the discount given in 2012-13 and also reimbursed bank expenses of £3 million. Income of £68 million (2012-13: £63 million) was recognised in relation to the scheme.

Business Finance Partnership

5.28 The Business Finance Partnership (BFP) aims to increase the supply of capital through non-bank lending channels and, in the longer term, to help to diversify the sources of finance available to businesses. It is committed to co-invest a total of £863 million through these channels, matched by at least equal private sector capital, to help create and support new sources of lending for small and mid-sized businesses in the UK.

5.29 Six fund managers have been appointed to make these investments. As at 31 March 2014, HM Treasury had made 33 investments of £284 million (2012-13: one investment of £5 million); further investments are planned over the course of 2014-15. The investments are made by IFUL, a company wholly-owned by HM Treasury.

5.30 On 30 June 2014, the BFP transferred to the British Business Investments Limited, a company whose ultimate controlling party is the Department for Business, Innovation and Skills.

UK Guarantees

5.31 The UK Guarantees scheme was announced by the government in July 2012 in response to constraints in the long-term debt markets. Up to £40 billion of guarantees can be offered in aggregate. As at 31 March 2014 total borrowing guaranteed stands at £83.3 million, with a further £257 million coming into effect on 1 April 2014. Further guarantees are expected to be offered in 2014-15.

Equitable Life Payment Scheme

2013-14: £107m provision expense, £16m administration, 2012-13: £38m provision expense, £20m administration

5.32 As part of the October 2010 Spending Review, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out over the first three years of the Spending Review period. The costs of the scheme comprise payments to policy holders and the cost of administering the scheme. In 2010-11, a provision of £1,493 million was made for payments over the life of the scheme, discounted based on the estimated payment profile. HM Treasury reassesses the level of provision required each year based on the expected phasing of payments and success in contacting policy holders.

[4] www.bankofengland.co.uk/markets

5.33 On 9 October 2013, the Government announced that the Scheme will stay open until mid-2015. The provision has been increased by £107 million during 2013-14 to reflect the profile of expected payments to policy holders.

5.34 The purpose of the Equitable Life Payment Scheme is to make payments to Equitable Life policyholders who suffered financial losses as a result of government maladministration which occurred in the regulation of Equitable Life. The scheme is expected to remain open until 2015 and after this date annuitants will continue to be paid for the duration of their annuity. As at 31 March 2014, the scheme has made payments totalling £901 million to 860,972 policyholders.

5.35 National Savings & Investments administers the scheme on the Treasury's behalf. The costs of running the scheme decreased by £4 million from the prior year reflecting the winding down of the original service provision. Further costs will be incurred during 2014-15 as a result of a new contract, yet to be issued, to make provision for administering the payments that arise out of the extension to the scheme.

5.36 In Budget 2013 the Government announced that it would make an ex-gratia payment of £5,000 to Equitable Life policyholders who bought an Equitable Life with-profit annuity before 1 September 1992, who were aged over 60 and were alive at the time of this announcement. An additional £5,000 was made available to those policyholders who met the above criteria and were in receipt of Pension Credit. For those policyholders who died after the announcement, payments were made to their estates. During 2013-14 payments of totalling £47.2 million were distributed.

Investment in the Bank of England

2013-14: (£80m), 2012-13: (£55m)

5.37 HM Treasury is the sole shareholder in the Bank of England. The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay the Treasury, in lieu of dividend on the Bank's capital, a sum equal to 50 per cent of the Banking Department's post-tax profit, or such other sum as the department and the Bank of England may agree. For 2013-14, the department and the Bank have agreed a payment of £80 million.

5.38 Details on the Bank of England's financial performance can be found in their 2013-14 Annual Report and Accounts[5].

The Sovereign Grant, Royal Household Pension Scheme and Civil List

2013-14: £36m, 2012-13: £33m

5.39 The Sovereign Grant Act 2011 which came into effect from 1 April 2012, consolidated the funding provided to support the official duties of The Queen and maintain the Occupied Royal Palaces that up until 31 March 2012 had been provided under the Civil List and the grants-in-aid for the Maintenance of the Occupied Royal Palaces, Royal Travel and Communications and Information. The Treasury's expenditure on the Civil List was previously a standing service of the Consolidated Fund.

5.40 Details on the Sovereign Grant and Sovereign Grant Reserve financial performance can be found in their 2013-14 Annual Report and Accounts[6].

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

[5] www.bankofengland.co.uk

[6] www.royal.gov.uk

Capital spending

2013-14: (£11,731m), 2012-13: (£6,906m)

5.42 Assistance to financial institutions for 2013-14 included the sale of Lloyds shares, loan repayments by Bradford & Bingley and Northern Rock Asset Management (through UK Asset Resolution) and disbursement of the Ireland loan. Lloyds shares were sold in September 2013 and March 2014 (none were sold in 2012-13). More details on these equity investments and transactions during the year are provided below. Capital spending also included the final disbursement of the Ireland loan which reduces the income.

Capital employed

5.43 Table 5.E sets out the capital employed by the Treasury and its agencies and by the Treasury group. Capital employed has shown a significant increase since the first interventions to support financial institutions took place in 2008-09 with a decrease for 2013-14 due to the change in value of the BEAPFF derivative. The following section provides further background detail on financial stability interventions, cross referenced as appropriate to relevant notes in the 2013-14 Annual Accounts.

Table 5.E Capital employed

£ millions						Outturn
	2008-09	2009-10	2010-11	Restated 2011-12[1]	Restated 2012-13[1]	2013-14
Assets and liabilities in the Statement of Financial Position at end of year:						
Assets						
Intangible assets	3	5	7	10	13	12
Property, plant and equipment	101	104	109	117	116	113
Trade and other payables due after more than one year	2,691	1,523	428	285	392	285
Other non-current financial assets[2]	70,128	122,993	118,903	96,625	97,662	96,782
Current assets	3,069	2,426	12,176	41,971	45,616	1,190
Liabilities						
Current liabilities	(2,792)	(725)	(864)	(680)	(697)	(173)
Non-current liabilities	(28,380)	(4,364)	(2,812)	(1,745)	(1,511)	(1,407)
Capital employed by the Treasury and its agencies	**44,820**	**121,962**	**127,947**	**136,583**	**141,591**	**96,802**
Net assets/(liabilities) of NDPBs	438	(350)	(213)	641	644	908
Total capital employed by the Treasury group	**45,258**	**121,612**	**127,734**	**137,224**	**142,235**	**97,710**

[1] Net assets of NDPBs have been restated for 2011-12 and 2012-13 to reflect the inclusion of UK Asset Resolution in the group boundary for the first time. For further details, see note 3 of the Annual accounts.
[2] Other non-current financial assets include Available-for-Sale assets loans and advances.

Financial stability interventions and quantitative easing

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

5.45 2013-14 has seen the scale of the financial stability interventions continue to reduce. NRAM and Bradford & Bingley (B&B) were able to repay £4.8 billion of loans. As direct investments have reduced, so too have contingent liabilities. Quantifiable contingent liabilities for interventions have fallen from £23.2 billion last year to £14.8 billion, driven largely by the removal of the Royal Bank of Scotland (RBS) contingent capital liability. Loans and contingent liabilities to NRAM and B&B are reflected in core Treasury and are eliminated at the group level as intra-group transactions.

5.46 The following sections provide information on outstanding financial support, developments during 2013-14, and details of how the Treasury has been compensated for the risk taken on in various interventions.

Equity investments

2013-14: £52,287m, 2012-13: £48,646m

5.47 HM Treasury holds ordinary and B-shares in RBS and ordinary shares in Lloyds Banking Group (LBG). In order to recapitalise the banks, HM Treasury purchased a total £66.3 billion of shares in a number of tranches during 2008 and 2009. The Treasury's shareholdings give it 80.9 per cent economic ownership of RBS and 24 per cent of LBG as at 31 March 2014. The shares are revalued annually based on their market price. Where it appears that there has been a permanent reduction in value the reduction is treated as an impairment and charged to the Statement of Comprehensive Net Expenditure (SCNE). Other more minor reductions and any increases in the valuations are adjusted through the Available for Sale reserve.

5.48 HM Treasury sold 4.3 million shares in September 2013 and a further 5.6 million in March 2014. This generated cash proceeds of £7.4 billion, resulting in a gain of £1.5 billion released from the reserves to the SCNE and a further £2.6 billion of income through the SCNE.

5.49 At 31 March 2014, the shares were valued at £41.5 billion, an increase of £3.1 billion from the previous year's value of £38.4 billion, even after the sale of the Lloyds shares. This reflects an increase in the LBG share price from 48.7 pence at 31 March 2013 to 74.7 pence at 31 March 2014 and an increase in the RBS share price from 275.5 to 311.0 pence over the same period.

Table 5.F RBS and LBG cumulative impairments

£ millions	Initial investment	Impairments	Disposals	Fair value movements	Value at 31 March 2014
RBS ordinary shares	20,300	(9,370)	-	1,400	12,330
RBS B-shares	25,500	(11,449)	-	1,810	15,861
LBG shares	20,544	(11,755)	(4,790)	9,267	13,266
Total	**66,344**	**(32,574)**	**(4,790)**	**12,477**	**41,457**

5.50 In addition to the ordinary and B-shares, HM Treasury holds a single Dividend Access Share (DAS) in RBS. The DAS provides the Treasury with rights to an enhanced dividend over and above the dividend entitlement of each ordinary and B share that must be paid if the RBS board decides to pay a dividend on ordinary shares. In April 2014, RBS announced that it had reached an agreement with HM Treasury for the future retirement of the DAS for an initial payment of £320 million in 2014, subject to the approval of RBS's independent shareholders, and further payment(s) of £1,180 million with flexibility over timing at RBS's discretion, giving a total DAS retirement payment of £1.5 billion. The value of the DAS is estimated by modelling these future cash flows based on an assumption as to when they materialise. For further details on the DAS please refer to note 2.4 of the financial statements. For further information on the valuation of RBS and LBG investments, see Note 18 to the Annual Accounts, and for a sensitivity analysis on the share prices, see note 27.3.2.

Derivatives

2013-14: £230m, 2012-13: £44,275m

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

5.52 HM Treasury fully indemnifies the Bank of England for any losses it makes in operating the BEAPFF and is also entitled to any profits generated by selling the assets back to the market or holding them to maturity. HM Treasury's exposure to the gains or losses that the BEAPFF makes is recorded as a derivative on the Statement of Financial Position. The fair value of the derivative is based on the difference between the fair value of the assets and liabilities of BEAPFF Ltd as at the 31 March 2014.

5.53 At 31 March 2014, the BEAPFF had made cumulative profits of £42.6 billion (2012-13: £55.5 billion). The decrease in profits during 2013-14 is recognised as a fair value loss in the derivative as it decreases the amount that would be due from the Bank of England to the Treasury if the scheme were to close.

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

5.55 Cash transfers commenced in January 2013 and totalled £31.1 billion for 2013-14. If there is a deficit of cash in any quarter, then a transfer is made in the opposite direction, from the Treasury to the BEAPFF Ltd. As and when the Bank of England's Monetary Policy Committee decides to exit quantitative easing, cash transfers are expected to reverse, consistent with the terms of the revised indemnity. For further details of quantitative easing, see the Bank of England's website[7].

5.56 Changes in the fair value of the BEAPFF derivative are recognised in the SCNE and, for 2013-14, the fair value change has had a significant effect on the Treasury's outturn position. The overall effect on the SCNE from the BEAPFF derivative is a loss of £12.9 billion (2012-13: gain of £17.1 billion).

Loans and receivables

2013-14: £44,495m, 2012-13: £49,046m

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

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

5.59 During 2013-14, repayments of £1.0 billion have been received relating to both levy payers and the administrators of the failed institutions (2012-13: £1.5 billion). Of this, £0.7 billion relates to the FSCS share of payments to depositors (2012-13: £0.7 billion) and £0.3 billion relates to HM Treasury's share (2012-13: £0.8 billion).

[7] www.bankofengland.co.uk/monetarypolicy

5.60 Following additions, repayments and transfers, the outstanding FSCS share of the loans at the reporting date is £16.6 billion (2012-13: £17.2 billion). The FSCS loan in respect of B&B is expected to be fully recoverable through payments from the B&B estate. The FSCS loans in respect of the Icelandic banks and London Scottish Bank are fully recoverable through a combination of administrator payments from the failed banks and industry levies. The FSCS loans are also interest bearing and, with effect from 1 April 2012, the interest rate has been increased in line with EU State Aid requirements and to guarantee that it does not fall below the government's cost of funding. Interest charged during 2013-14 was £445 million (2012-13: £429 million).

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

5.62 NRAM and B&B have exceeded loan repayments set out in their business plans. During 2013-14, NRAM made loan repayments of £3.0 billion (2012-13: £1.9 billion), resulting in an outstanding loan balance of £14.9 billion (2012-13: £17.9 billion). B&B made repayments of £1.8 billion (2012-13: £1.2 billion), with £5.0 billion outstanding at 31 March 2014 (2012-13: £6.8 billion). Both NRAM and B&B are on track to fully repay the loans from HM Treasury over the course of wind down of their businesses.

5.63 The NRAM loan and B&B working capital facility are both interest bearing. The interest rates on these loans were increased with effect from May 2012 and August 2011 respectively. Total interest charged during the year was £571 million (2012-13: £678 million).

5.64 During 2013-14, Ireland drew down the final £0.8 billion against its £3.2 billion facility.

5.65 In July 2011, following the Euro area's commitment to lower the interest rate on their loans to Ireland, the Chancellor committed in principle to lower the interest rate on the UK's bilateral loan to Ireland. On 4 October 2012 the bilateral loan agreement was revised, reducing the interest rate to the UK's cost of funding plus a service fee of 0.18 per cent. The new interest rate was applied retrospectively to all tranches previously disbursed. Following the reduction to the interest rate, the interest charge for 2013-14 was £76 million (2012-13: £46 million).

5.66 For further details on all loans and receivables balances, including movements during 2013-14, see note 16.

Contingent liabilities

2013-14: £14.8bn, 2012-13: £23.2bn

5.67 During 2013-14, the department's exposure to contingent liabilities across financial stability interventions continued to decrease. The majority of contingent liabilities are eliminated on consolidation of UKAR.

5.68 Although some of the individual contingent liabilities have fluctuated, the decrease largely results from the end of HM Treasury's commitment to making available £8 billion of contingent capital to RBS. The commitment was in place until 22 December 2014 but was ended early by the bank in 2013-14, with the consent of the FCA, and the contingent liability of £8 billion was therefore extinguished.

5.69 The £14.8 billion of contingent liabilities at the reporting date is comprised primarily of £9.7 billion for deposit guarantees (2012-13: £10.2 billion), £2.9 billion for the National Loan Guarantee Scheme (2012-13: £2.9 billion), £1.6 billion to ensure NRAM operates above minimum capital requirements (2012-13: £1.6 billion), £0.1 billion for Help to Buy and £0.1 billion for UK Guarantees (2012-13: nil billion). HM Treasury charges fees to the benefitting institution for each of these contingent liabilities. For 2013-14 these were £50 million for deposit guarantees (2012-13: £60 million), £43 million for the NLGS (2012-13: £32 million), and £2 million for UK Guarantees (2012-13: nil).

New schemes launched during 2013-14

Help to buy

5.70 The Help to Buy: mortgage guarantee scheme ('the scheme') was announced during the Budget 2013. The Government created the scheme to increase the availability of mortgages on new or existing properties for those with small deposits. The scheme will support potential home owners across the UK who can afford interest repayments on a high LTV mortgage, but are unable to save up for the large deposits currently required.

5.71 The scheme offers lenders the option to purchase a guarantee on mortgages, on both new build and existing homes, where a borrower has a deposit of between 5% and 20%. The guarantee compensates lenders for a portion of net losses suffered in the event of repossession.[8] The guarantee applies down to 80% of the purchase value of the guaranteed property covering 95% of these net losses. The lender therefore retains a 5% risk in the portion of losses covered by the guarantee.

5.72 The scheme has been providing guarantees from 2 January 2014, but lenders were able to start offering mortgages supported by the scheme three months earlier and place them into the scheme in January. The scheme will run for three calendar years. HM Treasury's contingent liability is capped at £12 billion and the current contingent liability is estimated at £94.6 million at 31 March 2014. The scheme will close to new mortgage lending ahead of time, in the event that the £12 billion threshold is reached.

5.73 During 2013-14, income relating to the scheme was £0.2 million with a guarantee liability of £9.0 million.

Nick Macpherson
Permanent Secretary
11 July 2014

[8] In the event that the lender recoups monies from the borrower after a claim has been made to HM Treasury on the guarantee, HM Treasury will be entitled to a share of such recovered amounts, in accordance with the scheme rules.

6

Ministers and senior managers' remuneration report

Remuneration policy

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

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

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

6.3 For the Permanent Secretary and Second Permanent Secretaries, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining executive members of HM Treasury Board and the Chief Executive of DMO, remuneration is determined by HM Treasury's Pay Committee in accordance with the rules set out in the Civil Service Management Code (Chapter 7.1, Annex A).

Service contracts

6.4 The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk. The Permanent Secretary and Second Permanent Secretaries are appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service. Other senior managers, including the Chief Executive of the DMO and Non Executive Members of HM Treasury Board, are appointed by the Permanent Secretary.

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

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

Salaries and pension entitlements of HM Treasury Ministers and senior management

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

Table 6.A Ministers – single total figure of remuneration

Name	2013-14				2012-13			
	Salary and full year equivalent (FYE[1]) (£)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)	Total (nearest £1,000)	Salary and full year equivalent (FYE) (£)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)	Total (nearest £1,000)
George Osborne Chancellor of the Exchequer	68,169	3,000[2]	25,000	96,000	68,827	6,900	26,000	102,000
Danny Alexander Chief Secretary to the Treasury	68,169	-	21,000	89,000	68,827	-	21,000	90,000
Greg Clark Financial Secretary to the Treasury (to 6/10/13)	18,867 (FYE 32,344)	-	6,000	25,000	18,884 (FYE 33,002)	-	5,000	24,000
David Gauke Exchequer Secretary to HM Treasury	23,039	-	8,000	31,000	23,697	-	9,000	33,000
Sajid Javid Economic Secretary to the Treasury (to 6/10/13) Financial Secretary to the Treasury (from 7/10/13)	27,541	-	11,000	39,000	13,560 (FYE 23,697)	-	5,000	19,000
Nicky Morgan Economic Secretary to the Treasury (from 7/10/13)	11,046 (FYE 23,039)	-	4,000	15,000	-	-	-	-
Lord Deighton Commercial Secretary to HM Treasury (from 01/01/13)	N/A	-	N/A	-	N/A	-	N/A	-

[1] FYE – Full Year Equivalent

[2] Relates to the full-year occupancy of the official Chancellor's residence and is capped at 10% of net pay, as agreed with HMRC. The reduction since 2012-13 reflects the fact that the cap in previous years has been based on gross pay. See paragraph 6.11.

Table 6.B Senior management – single total figure of remuneration[1]

Name	2013-14					2012-13				
	Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)[2]	Total (£'000)	Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)	Total (£'000)
Nick Macpherson Permanent Secretary	180 - 185	0 - 5[3]	-	20,000	200-205	175 - 180	0 - 5	-	13,000	185-190
Tom Scholar Second Permanent Secretary (to 31/10/2013)	85-90 (FYE 150 - 155)	0 - 5	-	8,000	95-100	150 - 155	0 - 5	-	64,000	215-220
John Kingman Second Permanent Secretary	155 – 160	0 - 5	-	35,000	190-195	75 - 80 (FYE155 – 160)	0 - 5	-	4,000	80-85
Sharon White Director General, Public Spending (to 03/11/2013) Second Permanent Secretary (from 04/11/2013)	135 - 140	10 – 15	-	33,000	185-190	125 - 130	0 - 5	-	72,000	205-210
Robert Stheeman Chief Executive DMO	140 – 145	10 – 15	-	35,000	190-195	140 - 145	10 – 15	-	53,000	205-210
Michael Ellam Director General, International Finance (to 06/09/2013)	70-75 (FYE 115 - 120)	0 - 5	-	10,000	80-85	105 - 110	0 - 5	-	41,000	150-155
Dave Ramsden Chief Economic Adviser & Head of the Government Economic Service	125 - 130	0 - 5	-	53,000	180-185	115 - 120	5 – 10	-	48,000	170-175
Mark Bowman Director General, International Finance (from 18/11/2013)	40 - 45 (FYE 120 - 125)	0 - 5	-	8,000	50 – 55	-	-	-	-	-
Indra Morris Director General, Tax and Welfare	125 - 130	0 - 5	-	66,000	190-195	50 – 55 (FYE 120 – 125)	0 - 5	-	10,000	60-65

Name	2013-14 Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)[2]	Total (£'000)	2012-13 Salary and full year equivalent (FYE) (£'000)	Performance related pay (£'000)	Benefits in kind (nearest £100)	Pension benefits (nearest £1,000)	Total (£'000)
Charles Roxburgh[4] Director General, Financial Services	140 - 145	0 - 5	-	N/A	140-145	20 - 25 (FYE140 – 145)	0 - 5	-	N/A	20-25
James Bowler Director, Strategy, Planning and Budget	95 - 100	0 - 5	-	18,000	115-120	90-95	10 – 15	-	13,000	115-120
Alison Cottrell Director, Financial Services and Corporate Services	90 - 95	10 - 15	-	27,000	130-135	85-90	5 - 10	-	36,000	125-130
Kirstin Baker[5] Group Director, Finance and Commercial	50 - 55	0 – 5	-	90,000	140-145	10-15 (FYE 45-50)	0 - 5	-	27,000	35-40

[1] Salaries and pensions relate to Treasury Executive Management Board and the CEO of DMO only. They do not include arms length bodies (UKFI, OBR, MAS, UKAR and FSCS).

[2] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

[3] Nick Macpherson waived any right to a bonus with respect to performance.

[4] Charles Roxburgh does not participate in the PCSPS Scheme

[5] Kirstin Baker works part-time at 0.6 FTE

	2013-14	2012-13
Band of Highest Paid Director's Total Remuneration (£'000)	180 - 185	175 - 180
Median Total	38,619	36,896
Remuneration ratio	4.7	4.8

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

- The remuneration ratio represents the difference between the median Full Time Equivalent (FTE) remuneration of all staff (excluding the highest paid director) and the highest paid director, expressed as a multiple. The median calculation does not include staff employed by arms length bodies, as this may distort the disclosure where pay arrangements are made independently of departmental control; and the boundary has thus been limited to the department and its agencies. In 2013-14, one (2012-13, eight) employee received remuneration in excess of the highest paid director. Remuneration ranged from £16,000 to £197,000 (2012-13: £16,000 - £245,000)

Salary

6.8 'Salary' includes gross salary; performance pay or bonuses paid during the year (as detailed in Table 6.B); overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which performance has been assessed. As performance pay is awarded in arrears, the amounts payable, for performances during the 2013-14 financial year are not yet known and will, therefore, be disclosed in the 2014-15 accounts. Where posts have been occupied for part of the year or the prior year, full year equivalent gross salaries for the post are also shown.

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

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

Benefits in kind

6.11 The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue & Customs as a taxable emolument. The benefits in kind disclosed in Table 6.A above for the Chancellor of the Exchequer relate to his heating, lighting and other expenses of his official residence at 11 Downing Street which are chargeable to tax under s163 of the Income and Corporation Taxes Act 1988. The benefit in kind for 2013-14 is capped at 10 per cent of his net salary, whereas in 2012-13 it was capped at his gross salary. This has been agreed by the HM Revenue & Customs. Those (if any) for the Permanent Secretary relate to the private use of an allocated car in the circumstances permitted by the Civil Service Management Code. In addition, Ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. HM Treasury has an agreement with HM Revenue & Customs to account for income tax on those benefits on an aggregate basis, so it is not practicable to disclose individual amounts.

Additional ministerial salaries borne by HM Treasury

6.12 HM Treasury also bears the following ministerial salaries:

Table 6.C Additional ministerial salaries

Official title	Name	2013-14 Salaries £000	2012-13 Salaries £000
Prime Minister	David Cameron	75-80	75-80
Chief Whip (Commons)	Sir George Young	30-35	10-15
	Andrew Mitchell (from Sept 2012 to Oct 2012)	-	5-10
	Patrick McLoughlin (from May 2010 to Sept 2012)	-	15-20
Deputy Chief Whips (Commons)	John Randall (to Oct 2013)	15-20	30-35
	Alistair Carmichael (to Oct 2013)	10-15	15-20
	Greg Hands (from Oct 2013)	15-20	-
	Don Foster (from Oct 2013)	5-10	-
Chief Whip (Lords)	Baroness Anelay of St John's	115-120	115-120
Deputy Chief Whip (Lords)	Lord Newby	70-75	70-75
	Lord Shutt of Greenland (from May 2010 to May 2012)	-	10-15
Lords in waiting (10 posts of which 4 unpaid. 8 posts are continuing, of which 3 are unpaid)		425-430	485-490
Government and Assistant Government Whips (20 posts of which 15 are continuing, 1 unpaid)		260-265	260-265

6.13 Lords in waiting continuing included: Lord Amhad of Wimbledon, Earl Atlee, Lord Gardiner of Kimble, Lord Wallace of Saltaire, Lord Bates, Lord Popat of Harrow, Baroness Jolly and Baroness Northover

6.14 Government and Assistant Government whips continuing included: Stephen Crabb MP, Sam Gyimah MP, David Evennett MP, Robert Goodwill MP, Mark Lancaster MP, Anne Milton MP, Desmond Swayne MP, Jo Johnson MP, Amber Rudd MP, Mark Hunter MP, Claire Perry MP, Jenny Willott MP, John Penrose MP, Harriet Baldwin MP and Gavin Barwell MP.

6.15 On 9 April 2014, a ministerial reshuffle resulted in Sajid Javid MP moving from Financial Secretary to become Secretary of State for Culture, Media and Sport. He was replaced by Nicky Morgan MP, who was replaced as Economic Secretary by Andrea Leadsom MP.

Pension benefits

Table 6.D Treasury Ministers' pension benefits

Name	Accrued pension at age 65 as at 31/3/14 £,000	Real increase in pension at age 65 £'000	CETV at 31/3/14 £'000	CETV at 31/3/13 £'000	Real increase in CETV £'000
George Osborne Chancellor of the Exchequer	5-10	0-2.5	41	61	9
Danny Alexander Chief Secretary to the Treasury	5-10	0-2.5	42	58	8
Greg Clark Financial Secretary to the Treasury (to 6/10/13)	0-5	0-2.5	30	36	3
David Gauke Exchequer Secretary to HM Treasury	0-5	0-2.5	20	27	3
Sajid Javid Economic Secretary to the Treasury (to 6/10/13) Financial Secretary to the Treasury (from 7/10/13)	0-5	0-2.5	4	12	4
Nicky Morgan Economic Secretary to the Treasury (from 7/10/13)	0-5	0-2.5	3	6	2
Lord Deighton Commercial Secretary to HM Treasury (from 01/01/13)	N/A	N/A	N/A	N/A	N/A

Ministerial pensions

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

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

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

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

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

Table 6.E Senior management pension benefits

Name	Accrued pension at pension age as at 31/3/14 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/14 £'000	CETV at 31/3/13 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (To the nearest £100)
Nick Macpherson Permanent Secretary	65-70 plus lump sum of 195-200	0-2.5 plus lump sum of 5-10	1,266	1,177	27	-
Tom Scholar Second Permanent Secretary (to 31/10/2013)	40-45 plus lump sum of 120-125	0-2.5 plus lump sum of 2.5-5	594[1]	570	10	-
John Kingman Second Permanent Secretary	35-40	0-2.5	484	431	17	-
Sharon White Director General, Public Spending (to 03/11/2013) Second Permanent Secretary (from 04/11/2013)	40-45 plus lump sum of 50-55	0-2.5 plus lump sum decrease of 0-2.5	632	571	18	-
Robert Stheeman Chief Executive DMO	25-30	0-2.5	437	377	27	-
Michael Ellam Director General, International Finance (to 06/09/2013)	25-30 plus lump sum of 80-85	0-2.5 plus lump sum of 2.5-5	408[2]	389	12	-
Dave Ramsden Chief Economic Adviser & Head of the Government Economic Service	40-45 plus lump sum of 125-130	2.5-5 plus lump sum of 5-10	740	656	38	-
Mark Bowman Director General, International Finance (from 18/11/2013)	30-35 plus lump sum of 90-95	0-2.5 plus lump sum of 0-2.5	428	417[3]	4	-
Indra Morris Director General, Tax and Welfare	20-25	2.5-5	240	191	29	-
Charles Roxburgh[4] Director General, Financial Services	N/A	N/A	N/A	N/A	N/A	N/A
James Bowler Director, Strategy, Planning and Budget	20-25 plus lump sum of 65-70	0-2.5 plus lump sum of 2.5-5	301	272	7	-
Alison Cottrell Director, Financial Services and Corporate Services	20-25	0-2.5	355	312	18	-
Kirstin Baker Group Director, Finance and Commercial	20-25 plus lump sum of 60-65	2.5-5 plus lump sum of 10-15	290	222	52	-

[1] Tom Scholar's CETV calculation is that at 31 October 2013 when he left HM Treasury, rather than 31 March 2014.

[2] Michael Ellam's CETV calculation is that at 6 September 2013 when he left HM Treasury, rather than 31 March 2014.

[3] Mark Bowman's CETV calculation is that at 18 November 2013 when he joined HM Treasury, rather than 31 March 2013.

[4] Charles Roxburgh does not participate in the PCSPS Scheme

Civil Service pensions

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

6.22 Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

6.26 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. For the senior management's pension entitlements from the Civil Service pension scheme, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's

Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. Similarly, for Ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

6.27 This reflects the increase in CETV effectively funded by the employer or Exchequer, in the case of Ministers. It does not include the increase in accrued pension due to inflation, contributions paid by the employee or Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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

Table 6.F Fees

Name	2013-14 Fee range (£000)	2013-14 Benefits in kind (rounded to nearest £100)	2012-13 Fee range (£000)	2012-13 Benefits in kind (rounded to nearest £100)
Non Executive Board Members:				
Michael O'Higgins	5-10	-	5-10	-
Dame Deirdre Hutton (to 30/9/13)	0-5	-	5-10	-
Baroness Hogg	10-15	-	10-15	-
Amelia Fawcett	5-10	-	0-5	-
Independent Members of Audit Committee:				
Michael O'Higgins (Chair)	0-5	-	0-5	-
Mike Ashley	5-10	-	5-10	-
Janet Baker (to 31/7/13)	0-5	-	5-10	-
Mary Hardy	5-10	-	0-5	-
Abhai Rajguru	5-10	-	0-5	-

6.28 In 2013-14 Baroness Hogg donated the fee for her role as Lead Non Executive Director to charity. Amelia Fawcett donated the fee she received for 2013-14 to charity. Since September 2013 Mike Ashley's fee has been paid directly to him. Prior to this the fee was paid to his then employer (KPMG).

Nick Macpherson
Permanent Secretary
11 July2014

7 Statement of Accounting Officer responsibilities

7.1 Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the department to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored agencies, non-departmental and other arms length public bodies designated by order made under the GRAA (Estimates and Accounts) Order 2013 (S.I. 2013/488) and Amendment Order (S.I. 2013/3187) (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note 1.2 to the accounts).

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

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

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

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

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

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

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

8

Certificate and report of the comptroller and audit general

The certificate of the comptroller and auditor general to the House of Commons

I certify that I have audited the financial statements of HM Treasury and of its Departmental Group for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2013. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2014 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in The Treasury Board and its Committees section of Chapter 3, Measuring our Success section of Chapter 2, Chapter 5 and Annex A for the financial year for which the financial statements are prepared is consistent with the financial statements .

Matters on which I report by exception

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

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

Report
Please see my report on pages 86 to 105

Sir Amyas C E Morse

Comptroller and Auditor General
14 July 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

Scope of this report

This is my fourth report on HM Treasury's Annual Report and Accounts. The purpose of my report is to provide an overview of the context in which I have carried out my audit of the Treasury's 2013-14 financial statements; and details of my assessment of audit risk arising from the Treasury's major financial stability and wider economic support schemes. This includes the approach I have taken to the risks which had the most impact on directing my audit effort.

Scope of financial audit

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of my opinion which reports whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. I also express an opinion on the regularity of the entity's income and expenditure (i.e. whether they accord with Parliamentary intention). Under the Government Resources and Accounts Act 2000, I am required to audit, certify and report on the financial statements of HM Treasury.

I applied the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach 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 or irregularity. A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. Annex 1 provides more detail on my approach to determining materiality and the materiality levels applied to my audit of the HM Treasury financial statements.

My audit approach is risk based, informed by my understanding of HM Treasury's activities and my assessment of the risks associated with the financial statements. This focusses my audit on the areas of highest risk, such as those affected by significant accounting estimates or management judgement. These areas are defined as significant risks. The risk solely relates to the risk of material misstatement in the presentation of the financial statements or risk of material irregularity, so a business or operational risk, on its own, is not sufficient to be considered a significant risk, although there may be overlap between the two.

My audit opinion on the financial statements considers the regularity of transactions but does not consider whether the activities of HM Treasury represent value for money. I have statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. In addition to the findings of my financial audit, this report draws on observations from my wider work on HM Treasury and reports to Parliament on my scrutiny of public spending.

Conclusions

I completed my audit in line with my planned audit approach and have issued clear opinions on HM Treasury's 2013-14 financial statements. In reaching these opinions I am satisfied that I have obtained sufficient appropriate evidence that the key risks I identified have not led to material misstatement in the financial statements. Further details of these risks can be found in the remainder of this report.

Part 1 – The context for my financial audit of the Treasury

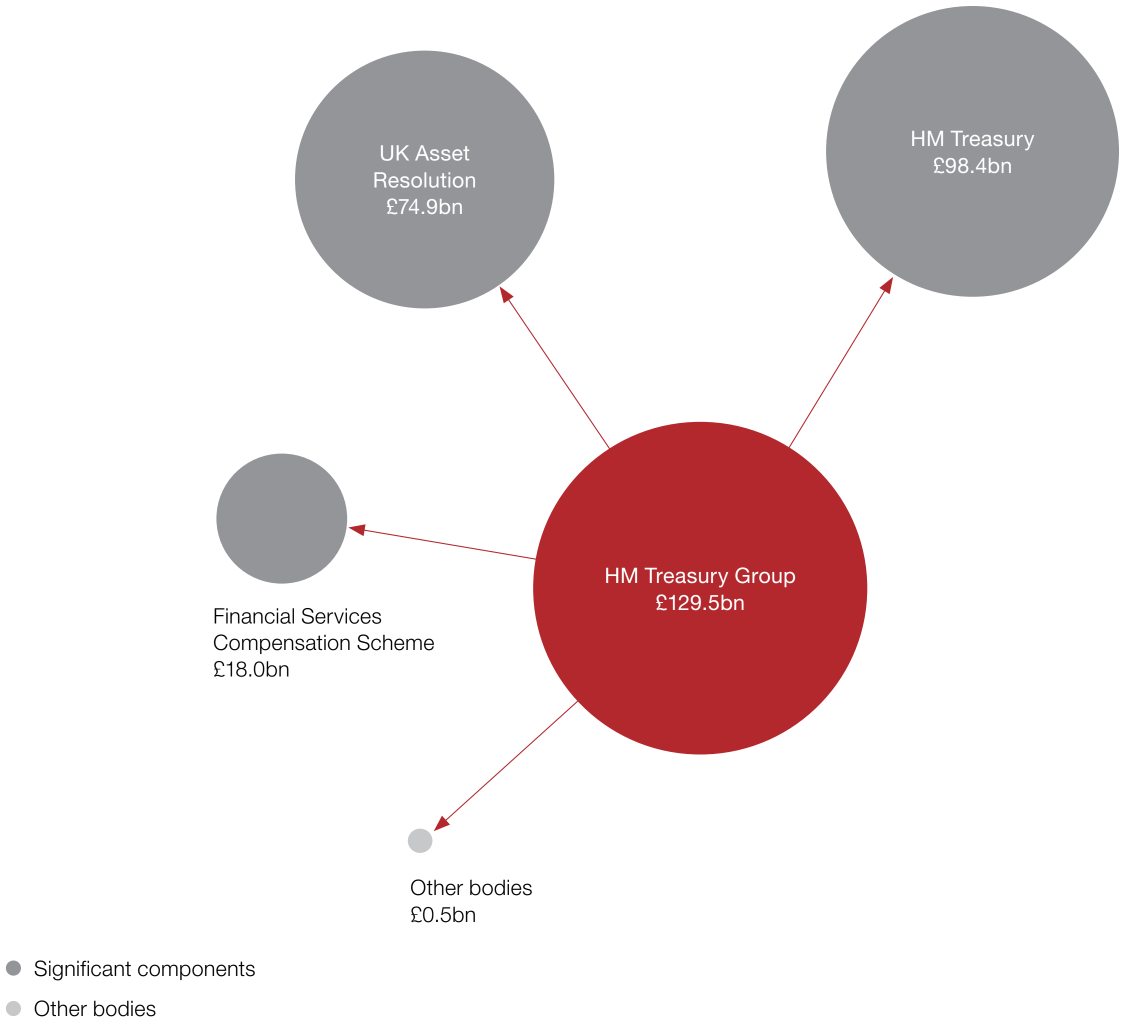
8.1 HM Treasury (the Treasury) is the UK's economics and finance ministry with overall responsibility for public spending. The Treasury's financial statements show the Statements of Comprehensive Income, Financial Position and Cashflows of the Treasury and the Debt Management Office (the parent) and all bodies within Treasury's departmental boundary (the group) [1], as defined by the Government Financial Reporting Manual.

8.2 From a Statement of Financial Position perspective, there are two bodies in the group, in addition to HM Treasury (**Figure 1**), that are significant to my audit: the Financial Service Compensation Scheme (FSCS); and the UK Asset Resolution group (UKAR).

- FSCS was established under the Financial Services and Markets Act 2000 to provide compensation to customers of authorised financial services firms that are unable, or likely to be unable, to pay claims against them. Compensation paid by FSCS is recovered from the administrators of the failed financial services firms or recovered from the financial services industry through an annual levy. In addition to accounting for levies and compensation, the most significant balances in the FSCS accounts are the loans received from HM Treasury to finance compensation paid during the financial crisis, totalling some £16.6 billion at 31 March 2014 and the related receivables to recover this compensation, of some £16.6 billion.
- UK Asset Resolution was established to facilitate the management of the closed mortgage books of the nationalised Northern Rock (Asset Management) and Bradford and Bingley banks. The most significant transactions in the UKAR accounts are mortgages and other loans to customers, totalling some £61.2 billion at 31 March 2014, and the interest and other income statement movements relating to these of £ 2.3 billion. Other significant transactions and balances relate to the debt securities totalling £25.9 billion relating to the securitisation process used by the banks to raise funds backed by their assets, primarily mortgages.

[1] The Office for Budget Responsibility, UK Financial Investments Ltd, Infrastructure Finance Unit Ltd, Financial Services Compensation Scheme, Money Advice Service, UK Asset Resolution Group (including the Bradford and Bingley and its subsidiaries, Northern Rock (Asset Management) and its subsidiaries and UK Asset Resolution Corporate Services Ltd)) and Help to Buy (HMT) Ltd.

Figure 1
HMT Group Balance Sheet – Bodies with the largest assets



Notes

1 Figures represent gross assets of individual components at 31 March 2014.

2 HM Treasury Group figure is net of intra-group eliminations.

Source: National Audit Office analysis of HM Treasury Annual Report and Accounts 2013-14

8.3 Since 2007, the Treasury's interventions to maintain financial stability and support wider economic growth have dominated its financial statements. As a result the costs associated with running the administrative functions of the Treasury are insignificant to the accounts in comparison.

Financial stability support

8.4 Between 2007 and 2010, the Treasury made a series of large financial interventions to support UK banks. Support (**Figure 2**) was provided in the form of:

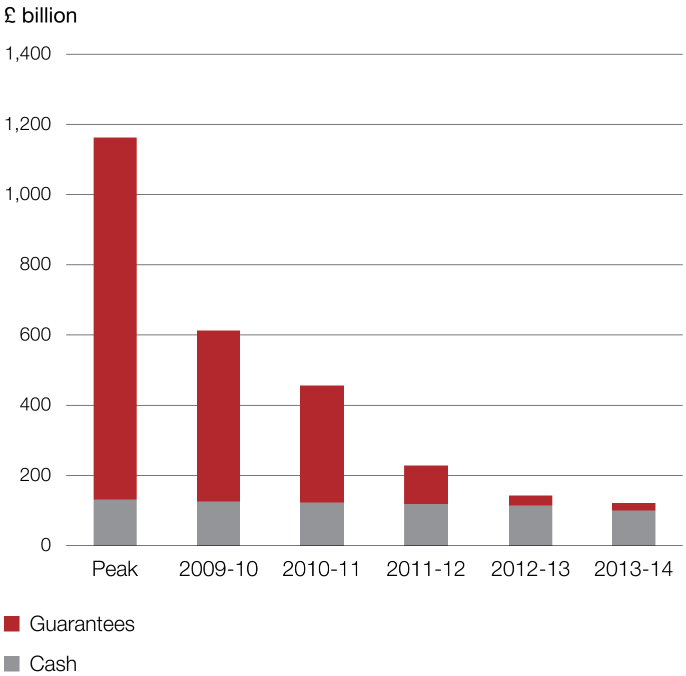
- Cash – direct cash support such as loans made to a range of financial institutions and the purchase of shares in two large banks, RBS and Lloyds Banking Group, are recognised as assets in the Statement of Financial Position.

- Guarantees – Guarantees do not involve direct cash support but expose HM Treasury to potential liabilities if the guarantees are called [2].

8.5 The Treasury's focus has shifted from financial stability to economic growth since 2009-10. The balances associated with these support mechanisms have steadily decreased as loans are repaid, shares are sold and guarantees are extinguished. This pattern is expected to continue in the coming years. I provide further comment on financial stability support in Part 2.

Figure 2

Financial stability support to banks



Notes

1 Cash support refers to the cash investment in shares and loans to banks.

2 Investment in shares includes losses on the basis of sales proceeds received to date.

3 Guarantees represent contingent liabilities and financial commitments to banks.

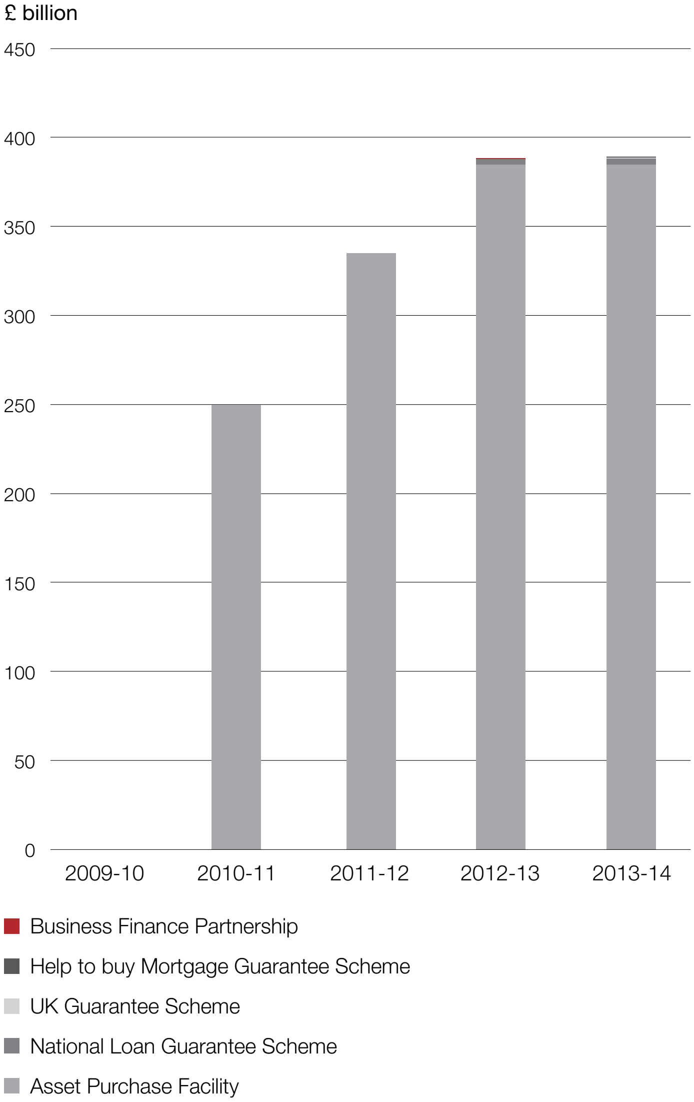
Source: National Audit Office analysis

Wider economic support

8.6 Following the end of the immediate financial crises, the Treasury has focussed on schemes to support the wider economy. Under the majority of these schemes the Treasury has provided guarantees or indemnities rather than direct cash support. This means that the support schemes' impact on the Statement of Financial Position is limited, at present, but the maximum liability to which the Treasury is exposed is increasing (**Figure 3**) and will over the coming years become the dominant feature in the Treasury's financial statements. Due to their nature, the likelihood of guarantees being called upon is closely linked to the economic position of the UK, which means that the Treasury's financial exposure will be directly linked to macroeconomic risk in the coming years. I provide further comment on the wider economic support initiatives in Part 3.

[2] Under accounting standards, the Statement of Financial Position only records the fair value of the guarantee liability (a representation of the risk to which HM Treasury is exposed which is usually equal to the fee received for provision of the guarantee). The maximum exposure to losses due to the guarantees is disclosed as a contingent liability

Figure 3
Wider economic support schemes



Notes

1 Figures represent maximum exposure through contingent liabilities for Help to Buy Mortgage Guarantee Scheme, UK Guarantee Scheme, National Loan Guarantee Scheme and Asset Purchase Facility.

2 UK Guarantee Scheme also includes commitments to provide loans.

3 Business Finance Partnership represents investment made and excludes future commitments to invest.

Source: National Audit Office analysis

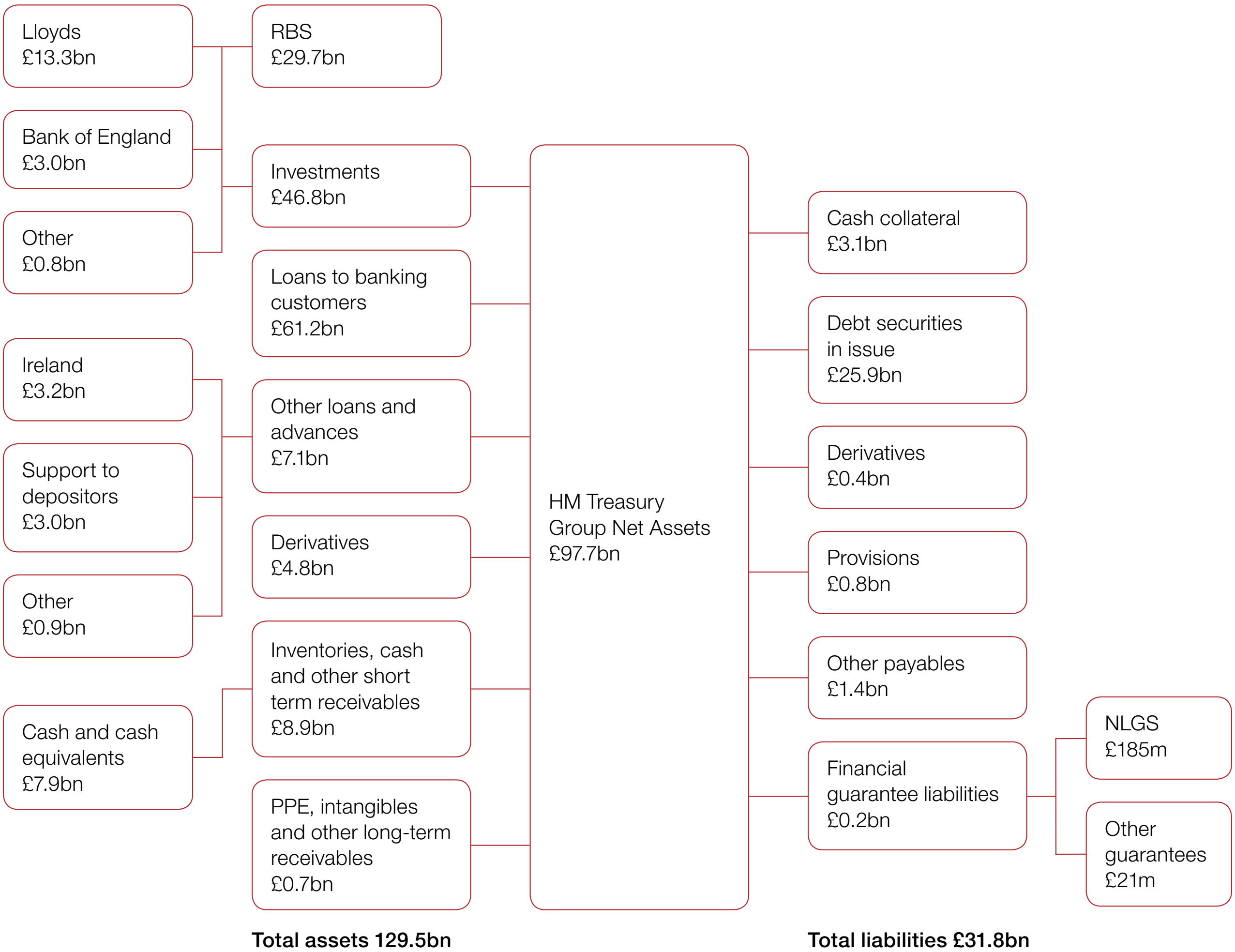
Statement of Financial Position focus

8.7 These interventions, together with the activities of FSCS and UKAR, illustrate that the main financial risks for HM Treasury are derived from the Statement of Financial Position (**Figure 4**) which has grown significantly since the financial crisis (**Figure 5**) rather than expenditure reported in the Statement of Comprehensive Net Expenditure. In addition, the size and significance of FSCS and UKAR, together with the operations of the majority of the financial stability and wider economic support interventions, the majority of which are run by external parties on behalf of the Treasury means that the core department needs to manage a range of diverse partners to control the Group's finances.

8.8 It is important that the Treasury's approach to financial management is able to address the financial risks that these items represent, particularly as the investments in banks; UKAR's mortgage book; the UK Guarantee Scheme; and the Help to Buy Guarantee Scheme are long term in nature and will be in place for many years to come.

Figure 4

HM Treasury Group Statement of Financial Position as at 31 March 2014



Notes

1 Other loans and advances are stated net of £41.1 billion of loans provided by HM Treasury and FSCS to Bradford and Bingley and NRAM eliminated on consolidation.

2 Investments are stated net of HM Treasury's £6.1 billion investment in UKAR eliminated on consolidation.

3 Deposit guarantees are stated net of £460 million provided by HM Treasury to Bradford and Bingley and NRAM eliminated on consolidation.

4 Contingent liabilities of £12.8 billion (£9.7 billion of which are eliminated on consolidation) relating to financial guarantees are disclosed in the accounts but not recognised in the Statement of Financial Position.

Source: National Audit Office Analysis of HM Treasury Annual Report and Accounts 2013-14

Figure 5
HM Treasury core gross assets

Note

1 Figures represent gross assets of Core HM Treasury.

Source: National Audit Office analysis of HM Treasury Annual Report and Accounts

Parliamentary control totals over resources

8.9 The impact of the Treasury's Statement of Financial Position is also shown in its Statement of Comprehensive Net Expenditure and outturn against its Parliamentary Supply Estimate [3]. The most significant items of income and expenditure in the accounts are derived from the financial interventions, for example interest on loans totalling some £2.9 billion, gains on disposal of shares of £4.1 billion and fair value movements on derivatives of £13.0 billion.

8.10 HM Treasury is in a unique position[4] among the main government departments whereby the income and cash received from the Financial Conduct Authority's fines exceeds its expenditure and therefore its Departmental Expenditure Limit control totals are negative. HM Treasury also has a negative capital Annually Managed Expenditure capital control total, due to the treatment of the capital payments on its loans and disposal of shares. Outturn against each of the voted Parliamentary control totals is reported in the Statement of Parliamentary Supply and is subject to my opinion on regularity every year. HM Treasury has not breached any of the control totals for this financial year.

[3] Supply Estimates provide income and expenditure, both capital and resource, on an accruals basis and cash requirements for each government department. The supply received is voted by Parliament and authorised under the Supply and Appropriation Act for the financial year. The amounts voted under the Supply and Appropriation Act are known as parliamentary control totals. These control totals can be amended during the year through the Supplementary Estimates but spending cannot be carried forward to the next financial year unless it is included in a subsequent Estimate

[4] Other Departments that generate significant revenue for Government, such as HM Revenue and Customs or the Department for Transport via the Drivers and Vehicle Licencing Agency, include their revenue within Trust Statements and it is paid directly to the Governments central Consolidated Fund.

Part 2 - Financial stability schemes

8.11 This Part of the Report provides an overview of my assessment of risk of material misstatement for my audit arising from the Treasury's significant financial stability schemes and the impact on my audit approach.

8.12 Following the closure of the Asset Protection Scheme[5] and Credit Guarantee Scheme[6], which exposed HM Treasury to contingent liabilities and other support of more than £1,000 billion at their peak[7], unwinding of the financial stability schemes has continued through 2013-14. The most significant changes are the further £5.7 billion repayment of loans and the sale of shares in Lloyds Banking Group which generated proceeds of £7.4 billion.

8.13 The main residual elements of the Treasury's financial stability interventions are the loans to Northern Rock Asset Management (NRAM) and Bradford and Bingley, which following the sale of Northern Rock plc[8] to Virgin Money in 2012 have been brought under the control of UK Asset Resolution (UKAR)[9], and the Treasury's holdings of shares in Lloyds and Royal Bank of Scotland.

Loans

8.14 During the financial crisis some financial institutions could no longer guarantee that they had sufficient funds to repay depositors, which meant that their customers' cash was at risk. To counter this and provide support and confidence in the UK banking sector, the Treasury provided loans to UK banks and the FSCS, which administered the Government backed compensation scheme for deposits that could not be repaid.

8.15 Northern Rock Asset Management (NRAM) and Bradford and Bingley are the two remaining financial institutions that continue to benefit from significant support in the form of loans from the Treasury. The Treasury also has outstanding loans relating to a range of other financial institutions, which are supported by FSCS's powers to impose levies on the wider banking industry.

8.16 Bradford and Bingley and NRAM continue to run-down their mortgage books, but are closed to new business. The loans provided to these banks, which total some £37.9 billion, are being recovered by the Treasury through the income and capital repayments generated by the winding down of the banks' residential mortgage books, as illustrated by **Figure 6**, which total some £61.2 billion. The loans used to pay compensation to depositors in other financial institutions, totalling some £3.0 billion, are being recovered by the Treasury and FSCS through the administrators of the failed institutions and levies imposed on industry to cover any shortfall.

[5] The Asset Protection Scheme was an insurance based scheme that provided coverage for banks that had significant exposure to bad loans during the financial crisis. The NAO reported on the Scheme in December 2010. http://www.nao.org.uk/report/hm-treasury-the-asset-protection-scheme/

[6] The Credit Guarantee Scheme was part of the Government's actions to support the banking sector in October 2008. The purpose of the scheme was to help restore confidence by making available, to eligible institutions, a government guarantee of new debt issuance.

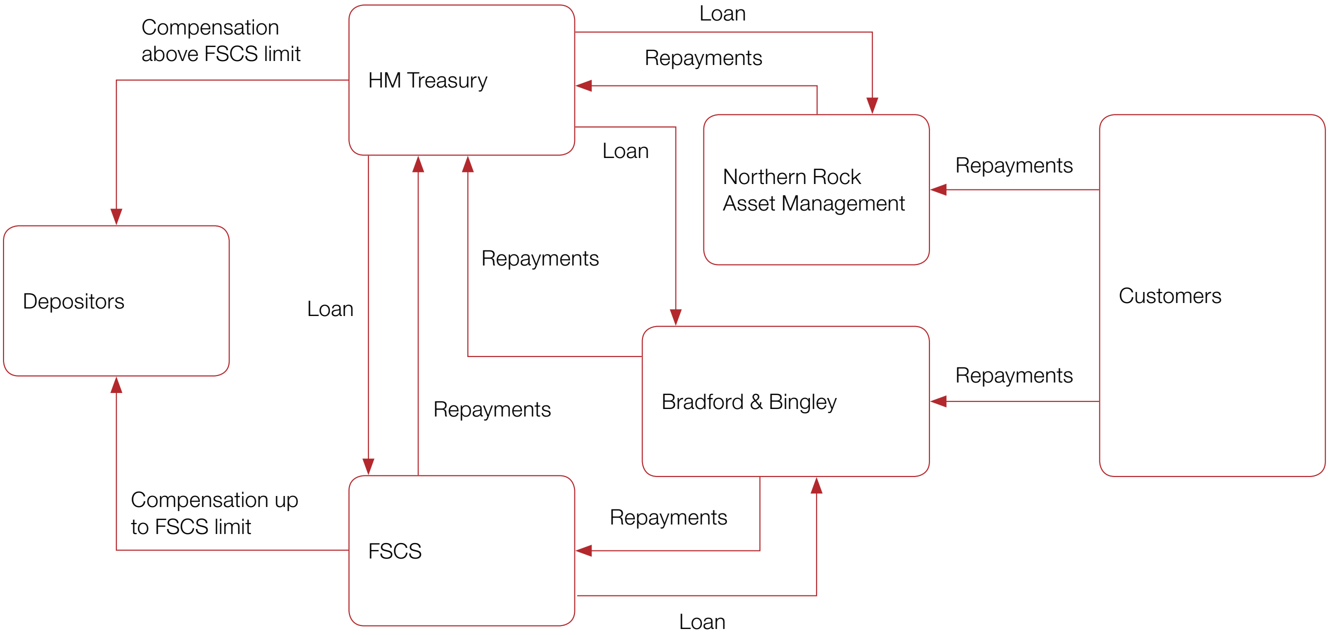
[7] Comptroller and Auditor General, HM Treasury Annual Report and Accounts 2011-12, HC 46, HM Treasury, July 2012, Chapter 8, **Figure 3**

[8] Northern Rock was split into two businesses in 2009: Northern Rock plc, a deposit-taking and mortgage-providing bank that could be returned to private sector ownership; and Northern Rock (Asset Management) plc (NRAM), to retain in public ownership the majority of the outstanding mortgages that would be wound down.

[9] UKARs 2013-14 results announcement, http://www.ukar.co.uk/~/media/Files/U/Ukar-V2/Attachments/press-releases/ukar-annual-report-and-accounts-2014-press-release.pdf, accessed 12 June 2014

Figure 6

Cash flows associated with loans to Bradford and Bingley and NRAM



Notes

1 HM Treasury has provided loans to NRAM and Bradford and Bingley and a working capital facility to Bradford and Bingley.

2 FSCS has provided Bradford and Bingley with a loan to pay compensation to depositors.

Source: National Audit Office

8.17 The total value of loans outstanding is recorded as an asset in the Treasury accounts. At the year end this totalled £44.5 billion, a reduction of £4.5 billion compared to the prior year.

Audit risk

8.18 The repayment of loans by UKAR will be made over the next 10 to 15 years, using the cash flows from interest payments and redemptions of residential mortgages held by Bradford and Bingley and NRAM. If the cash flows from these mortgages are insufficient to repay the loans from the Treasury, then this may indicate a need for the Treasury to reduce their carrying value. Where loans are recoverable directly from the administrators of failed institutions, there is uncertainty around the level of funds to be distributed from the winding down of their business and the repayment of loans by FSCS is dependent upon recoveries from administrators and its ability to levy the industry for any shortfall.

8.19 Due to these uncertainties. I assessed that the valuation of the loans represented a significant risk of material misstatement for my audit of the Treasury's individual financial statements and the consolidated group, due to the inherent uncertainty over their recoverability and the expected timing of repayments.

Audit approach

8.20 My audit approach addressed this significant risk through my review of the modelling techniques, assumptions and judgement made by management which underpin the valuation of the loans in the HM Treasury financial statements. This involved examining the evidence to support the recoverability of the loans, the assumptions made by management and the expected timing of cash flows. I have also taken assurance from the audit opinion provided by the auditors of UKAR and from my own audit of FSCS.

Investment in UKAR

8.21 As explained in paragraph 8.2, UKAR is the holding company for the nationalised NRAM and Bradford and Bingley banks. In September 2012, UKAR was designated for consolidation with the HM Treasury group accounts from 2013-14[10]. As a result, UKAR's financial statements have been fully consolidated into the Treasury's group accounts for the first time this year. To achieve this consolidation UKAR has produced financial statements with accounting policies and reporting periods that align with HM Treasury's.

8.22 The consolidation of UKAR means that the group accounts now recognise the substantial assets and liabilities of Bradford and Bingley and NRAM. The most significant assets are the residential mortgage books and other loans totalling £61.2 billion. The most significant liabilities, excluding UKAR's loans from HM Treasury which are eliminated on consolidation, are debt securities totalling £25.9 billion relating to the securitisation process used by the banks to raise funds backed by their assets, primarily mortgages.

Audit risk

8.23 I assessed that the first time consolidation of UKAR within the Treasury group represented a significant risk to my audit as the inclusion of the balances and transactions fundamentally changes the nature of the Treasury's consolidated accounts. In addition, UKAR's business, as a commercial bank, is very different to the Treasury's, which increased the complexity of the consolidation process and significantly increased the range of disclosures in the group accounts. This is mainly due to the financial instruments held by UKAR, but also the cash flows associated with them.

Audit approach

8.24 My approach to the audit of the significant risk was to focus on HM Treasury's work to align the accounting policies of UKAR with those of the group and the process it followed for consolidating the bodies to prepare group accounting. This included the preparation of restated comparatives, which comply with the disclosure requirements of the accounting framework and meet the needs of users of the financial statements. I used the work UKAR's auditors performed on the component information provided to HM Treasury by UKAR and tested the consolidation process including adjustments to the information submitted by UKAR made by HM Treasury.

8.25 The process of combining UKAR's figures with the other bodies in the Treasury's group has been difficult to implement and challenging to audit. One particular area of concern was my audit of the group's Statement of Cash Flows. The Treasury has struggled to combine UKAR's reconciliation of its Statement of Cash Flows with the remainder of the Group due to methodological differences in its presentation. To address this, the Treasury has included additional items relating to UKAR cash flows in the group Statement of Cash Flows and I have obtained assurance on the accuracy of UKAR's statement from the work performed by its auditors. Whilst it was resolved to my satisfaction for 2013-14, the Treasury is doing further work with UKAR to improve the presentation in future years.

[10] 2013 No. 3187, The Government Resources and Accounts Act 2000 (Estimates and Accounts) (Amendment) Order 2013

Investments in RBS and Lloyds

8.26 The Treasury injected capital of £66.3 billion in the form of shares in the Royal Bank of Scotland (RBS) and Lloyds Banking Group (Lloyds) during the financial crisis to ensure that they would have sufficient capital to continue trading. In addition to purchasing ordinary shares in both banks, the Treasury subscribed to 51 billion non-voting B shares in RBS and received one enhanced Dividend Access Share (DAS) as part of the arrangements for RBS's participation in the Asset Protection Scheme. The DAS was created to prevent any return of capital to shareholders or payment of dividends without first paying the Treasury a preferential dividend by conferring upon holders of B shares an additional dividend over that paid to ordinary share holders.

Figure 7
Shareholding in RBS and Lloyds at 31 March 2014

Type of share	Number of shares (m)	Share price (pence)	Value (£m)
Lloyds ordinary shares	17,771	74.65	13,266
RBS ordinary shares	3,964	311	12,330
RBS B shares	51,000	311	15,861
RBS Dividend Access Share	1	n/a	1,485[1]

Note

1 Valuation of RBS Dividend Access Share is based on the retirement agreement between RBS and HM Treasury.

Source: HM Treasury Annual Report and Accounts 2013-14

8.27 The Government is committed to returning the banks to private ownership and the first disposals of Lloyds shares were made during 2013-14 in two separate sales processes in September 2013 and March 2014[11]. It is widely considered that the first stage required in disposing of RBS shares will be to extinguish the DAS. In April 2014 RBS announced that it had reached agreement with the Treasury and the European Commission for the future retirement of the DAS for some £1.5 billion, which was approved by its independent shareholders on 25 June 2014.

8.28 As shown by **Figure 7**, the value of ordinary shares of £12.3 billion in RBS and £13.3 billion in Lloyds represents their market price at 31 March 2014. The RBS B shares are convertible to ordinary shares at a ratio of 10:1 and their value of £15.9 billion at 31 March 2014 is therefore based on the market price of ordinary shares on this date. Changes in the value of shares, other than significant reductions in value, are recognised directly in the Treasury's reserves and are only recognised as income or expenditure when the shares are sold. This means the Lloyds sale resulted in the recognition of an accounting profit of £4.1 billion despite the difference between the sale price and purchase price being a loss of £7.1 billion as previous falls in share price of £11.2 billion have already been recognised as expenditure in previous years (**Figure 8**).

[11] Comptroller and Auditor General, The first sale of shares in Lloyds Banking Group, Session 2013-14, HC 883, December 2013

Figure 8

Lloyds share sale calculation of accounting profit

Sale date	Shares sold (m)	Purchase price[1] (pence)	Sale price (pence)	Net gain /(loss) (£m)	Previous impairments (£m)	Profit on disposal recognised in 2013-14 Statement of Comprehensive Net Expenditure[2] (£m)
17 September 2013	4,282	174.46	75.0	(4,259)	6,032	1,774
26 March 2014	5,555	126.92	75.5	(2,857)	5,184	2,328
Total	**9,837**			**(7,116)**	**11,216**	**4,102**

Notes

1 HM Treasury account for share sales on a "first in, first out" basis. As shares sold in each transaction were bought at dfferent dates at different purchase prices, the purchase price shown above is the average price paid for those shares. The purchase price of 126.92 pence is adjusted to recognise the price of shares on completion of the transaction. HM Treasury purchased a tranche of shares under a forward contract, which meant that a gain of some £580 million was recognised on this contract.

2 Profit on disposal includes selling costs and rebates, which net to a gain of £1 million.

Source: National Audit Office summary of HM Treasury calculations for the purposes of the accounts

Audit risk

8.29 The ordinary shares have a market price so although they are a material balance in the accounts and have been the subject of significant public interest during 2013-14, their valuation and calculation of any profit or loss on disposal is not subject to management estimation or judgement and I do not consider there to be a significant risk of material misstatement for my audit. This also applies to the RBS B shares which are valued on the basis of the share price for ordinary shares.

8.30 In previous years, the valuation of the DAS has been based on a complex valuation model as the share has no quoted price. Following the announcement of the retirement agreement between RBS and the Treasury the level of estimation and judgement involved in this valuation has been reduced and while there remains some uncertainty around the timing of the dividend payments I did not consider this to represent a significant risk for my audit.

8.31 My report to Parliament, The first sale of shares in Lloyds Banking Group, in December 2013 considered the value for money obtained by HM Treasury in making the first sale of shares in Lloyds. Box 1 provides an update to this report considering the value for money obtained from the second share sale in March 2014.

Box 1

Sale of shares in Lloyds Banking Group

To maintain financial stability at the height of the financial crisis in late 2008, the government provided public support to the banking sector, including the purchase of £20 billion of shares in Lloyds Banking Group. United Kingdom Financial Investments, a company established by the Treasury to manage the government's stakes in banks, sold some of the shares in Lloyds in September 2013 and March 2014. The sales raised a total of £7.4 billion and reduced the taxpayers' shareholding from 39 per cent of the bank's entire share capital at 1 April 2013 to 25 per cent at 31 March 2014.

The first sale

In December 2013, the National Audit Office reported[1] to Parliament on the conduct of the first sale. In summary, the report found that the first sale represented value for money. The sale took place when the shares were trading close to a 12-month high and at the upper end of estimates for the fair value of Lloyds's business. UKFI conducted a thorough review of its options, chose a sale process that maintained flexibility and completed the transaction quickly. The shares were sold at a relatively low discount to their market price compared with discounts seen in similar sales, and the share price in the immediate after-market remained steady.

The second sale

The second sale was conducted using the same process as the first, but was the largest sale of its type on record (outside of the US). The second sale was completed at a higher discount to the market price of the shares than the first sale, although the discount was below the average seen in comparable transactions (**Figure 9**).

Figure 9

Comparisons of the two sales with other comparable sales

	First sale (September 2013)	Second sale (March 2014)	Averages for comparable sales[1]
Sale proceeds (£bn)	3.2	4.2	1.9
Discount to market price of shares ahead of the sale (%)	3.1	4.6	5.3
Proportion of total issued share capital sold (%)	6	7.8	10.8
Shares sold as a multiple of average daily trading volume	x18	x29	x26

Note

1 Largest 20 comparable share sales in European markets since 2008.

Source: JP Morgan analyses for first and second sales

In planning and executing the second sale, UKFI took action to implement a recommendation from the NAO that would help in the pricing and allocation of shares for the second and future sales. After the first sale, UKFI analysed the Lloyds shareholder register and trading records from investment banks, to assess whether or not the pricing and allocation of shares was appropriate.

The analysis, which covered some 80 per cent of the trading flows, supported UKFI's policy of ensuring a stable aftermarket by allocating shares to institutions regarded as longer-term rather than shorter- term investors. Trading flows in the three months following the first sale indicated that institutional investors who were seen as longer-term holders of the shares were in aggregate net buyers while those seen as shorter-term investors were net sellers. UKFI intends to build on this analysis for future sales.

Taxpayer gain or shortfall

In 2009, the first report on maintaining financial stability published by the National Audit Office concluded that the scale of the economic and social costs from the collapse of one or more major UK banks was difficult to envision and that the interventions to support the banks were justified.[2] The final cost to the taxpayer would not be known for a number of years, but its major determinant will be the prices obtained for the taxpayers' shareholdings in Lloyds and Royal Bank of Scotland.

The Government purchased shares in Lloyds at an average net cost of 72.2p a share. Lloyds has paid no dividends on its ordinary shares since the share purchases. A comparison of the average cost with the price obtained of 75p in the first sale gives a gain, in purely cash terms, of just under £120 million[3]. In the second sale, the gain amounted to £180 million. The combined gains of £300 million do not, however, take account of the cost of funding the purchases of the shares.

The money needed to buy the shares was provided by longer-term funding in the form of Gilts, at a cost of just under 3 per cent a year. If this cost of financing is taken into account, the first sale resulted in a shortfall of £230 million[4] and the second sale a shortfall of £300 million. The combined shortfall of £530 million should be seen as part of the cost of securing financial stability during the financial crisis.

NOTES

1. Comptroller and Auditor General, The first sale of shares in Lloyds Banking Group, Session 2013-14, HC 883, December 2013

2. Comptroller and Auditor General, HM Treasury: Maintaining financial stability across the United Kingdom's banking system, Session 2009-2010, HC 91, December 2009, paragraph 19

3. Comptroller and Auditor General, The first sale of shares in Lloyds Banking Group, Session 2013-14, HC 883, December 2013, paragraph 3.18

4. ibid, paragraph 3.19

Part 3 - Wider economic support

8.32 Since 2009, the Treasury has introduced a number of initiatives to support the wider economy. This Part of the report provides an overview of my assessment of the risk of material misstatement for my audit arising from three most significant direct support interventions that impact on the Treasury's financial statements and will be increasingly important to the Treasury's financial management in the coming years.[12] These are the Quantitative Easing programme; the Help to Buy Guarantee Scheme and the UK Guarantee Scheme.

[12] Defined as a financial instrument or other contract whose value changes in response to the change in a specified variable that requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and is settled at a future date.

Quantitative Easing

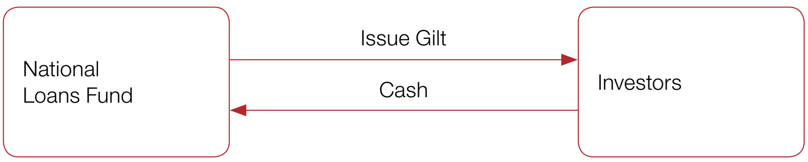
8.33 In early 2009, the Bank of England initiated a programme of asset purchases (often referred to as Quantitative Easing) to stimulate demand by boosting the money supply. The programme is run through a wholly owned subsidiary of the Bank of England, the Bank of England Asset Purchase Facility Fund Limited (BEAPFF). Under the programme, the Bank made a loan to BEAPFF, backed by a claim on the Bank's balance sheet. BEAPPF used this loan to purchase assets held by investors, mainly gilts, and effectively injected money directly into the economy (**Figure 10**).

8.34 The BEAPPF is indemnified by the Treasury against losses and the Treasury will receive any profits generated by selling the assets back to the market or holding them to maturity. This agreement is accounted for as a derivative contract and recognised as an asset for the Treasury. The balance represents the amount that would be due from BEAPFF should the scheme be unwound completely at the year-end, in effect the difference between the value of the assets and liabilities of BEAPPF at 31 March 2014. As the assets held by BEAPPF are gilts, the value on the derivative will change as gilt prices move and interest is accrued.

Figure 10
Quantitative Easing

1 Standard Gilt Issuance

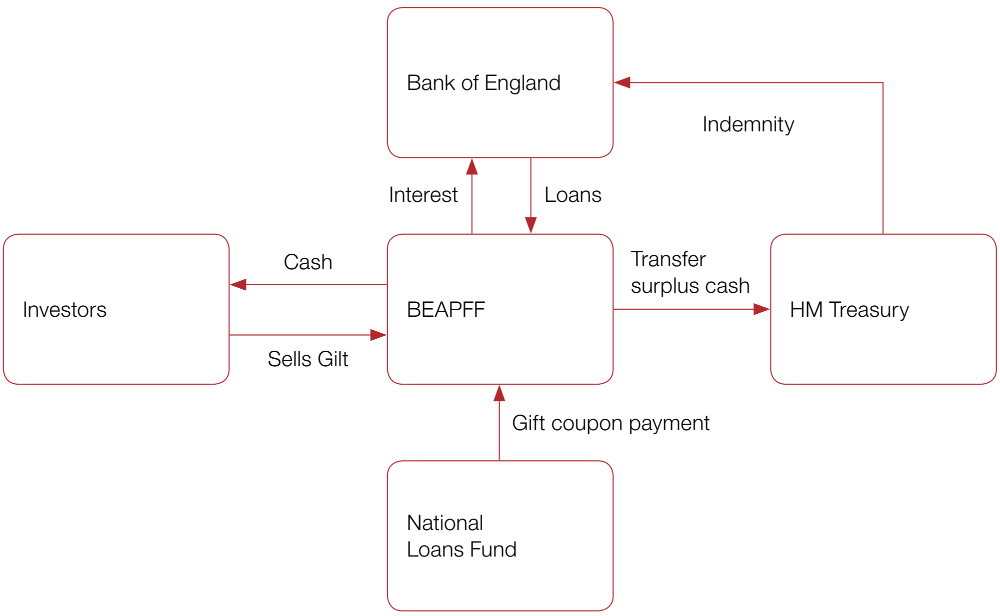
Gilts were liabilities of the National Loans Funds and held as assets by investors.



2 Quantitative Easing

The BEAPFF purchases gilts from investors using a loan from the Bank of England. The Gilts become assets for BEAPFF. They remain liabilities for the NLF.

Treasury indemnify any Bank of England losses and receive any gains. This results in a derivative in Treasury's account. The value of the derivative is reduced as gilt interest is transferred.



Source: National Audit Office analysis

8.35 Until January 2013, coupons (interest) paid on gilts held by the BEAPPF were held by BEAPFF. During 2012-13, HM Treasury and the Bank agreed to a revised indemnity to require excess cash to be transferred between BEAPFF and HM Treasury to enable more efficient cash management across government. £11.3 billion was transferred by 31 March 2013 and a further £31.1 billion during 2013-14 leading to a significant reduction in the value of the derivative.

8.36 The financial statement recognised a derivative asset of £230 million at 31 March 2014 and movements in value of £12.9 billion are recognised in the Statement of Comprehensive Net Expenditure relating to the value of the derivative, excluding cash transfers. It is not certain that the fair value gain recognised in HM Treasury's accounts will crystallise into a net cash gain for the Exchequer when the scheme closes. This is because there are a number of factors that may affect the price of the assets when they are sold.

Audit risk

8.37 Although the value of the derivative and its associated fair value movements are significant and the instrument is volatile, its valuation is based on quoted market prices and cash transactions with few management assumptions and is therefore not subject to significant estimates or judgements. As a result I concluded that there was no significant risk of material misstatement arising from the quantitative easing indemnity this year.

Help to Buy Mortgage Guarantee Scheme

Background

8.38 The Help to Buy Mortgage Guarantee Scheme aims to increase the availability of mortgages on new or existing properties for those with small deposits. It targets those who could afford interest repayments on a mortgage, but are unable to save the large deposits required.

8.39 The Scheme, which launched in January 2014 and will run until December 2016, allows lenders to purchase a guarantee where a borrower has a deposit of between 5% and 20%[13]. The guarantee lasts for seven years and will cover the loss suffered by the lender, net of recoveries, minus the first five per cent, in exchange for a fee (**Figure 11**). The Treasury's maximum exposure will be limited to £12bn on mortgage lending of up to £130bn over the three years of the scheme.

8.40 Mortgages guarantees under the Scheme must be:

- on a UK property with a purchase price of £600,000 or less;
- a residential and repayment mortgage; and
- for the buyer's only property and not for buy-to-let or commercial properties.

8.41 European Commission guidance on state aid requires the Treasury to charge a market oriented fee to lenders in return for issuing the guarantee. The Treasury has followed this guidance in setting the fees for Help to Buy, which requires the fees charged to cover the expected losses associated with granting the guarantee ; the administrative costs of the scheme; and an annual amount to cover the Treasury's exposure to the risk of default.

[13] The Mortgage Guarantee Scheme was announced at the same time as the Help to Buy Equity Loan Scheme, which is run by the Department for Communities and Local Government, in the 2013 Budget. I reported on the Help to Buy equity loan scheme in March 2014. http://www.nao.org.uk/report/help-buy-equity-loan-scheme/

Figure 11
Example Help to Buy Mortgage Guarantee Scheme calculation

Issue of guarantee

95 per cent loan to value mortgage taken out on property worth £100,000.

Purchaser provides 5 per cent deposit **£5,000**

Lender provides 95 per cent mortgage **£95,000**

HM Treasury provides 15 per cent guarantee **£15,000**

Purchaser defaults

The purchaser defaults on the mortgage and the lender raises **£65,000** through repossession of the property. Without a guarantee, the loss to the lender would be **£30,000**.

£15,000 guarantee

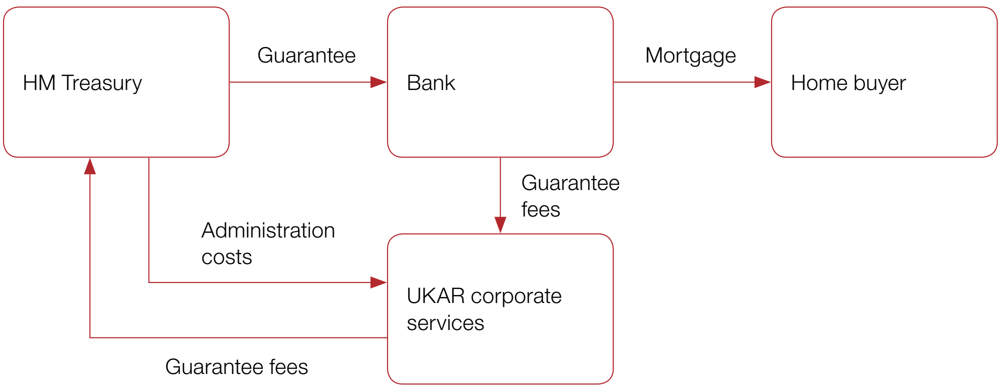
But lender takes first 5 per cent of loss **£750**

In total, the government has guaranteed **£14,250** or 14.25 per cent of the value of the property

Source: National Audit Office

8.42 The Scheme is administered by UK Asset Resolution Corporate Services (UKARcs) on behalf of the Treasury (**Figure 12**). UKARcs is required to undertake an annual audit of lenders on compliance with the eligibility criteria and Scheme rules. These audits will consider the annual assurance programme carried out by the internal auditors of each lender which are also a requirement of the scheme. The Bank of England's Financial Policy Committee will monitor the Scheme and can make recommendations on its size or the fees to be charged, but any changes are the Treasury's responsibility.

Figure 12
Administration of the Mortgage Guarantee Scheme



Source: National Audit Office

8.43 The Treasury has a liability for each guarantee that it signs which is equal to the fees payable. The maximum exposure to losses, based on the amount of lending guaranteed (subject to caps on some lenders maximum claim), is disclosed as a contingent liability. A total of 7,313 guarantees have been issued in 2013-14 covering mortgage lending of £1 billion. This has resulted in the recognition of a financial guarantee liability of £9 million and a contingent liability of £95 million at 31 March 2014. So far no claims in relation to the guarantees have been received.

Audit risk

8.44 The Treasury's announcement that it will provide up to £12 billion of guarantees under the Scheme means that this is a significant intervention in the housing market and will be significant to the accounts over the coming years. However, as only £145 million of lending had been guaranteed at 31 March 2014 I concluded that there is not a significant risk of material misstatement for my audit this year. Given the significant estimates and judgements required for the Scheme, particularly around the probability of a guarantee being called, I will revisit my risk assessment in 2014-15 when the Scheme is likely to be material to the accounts.

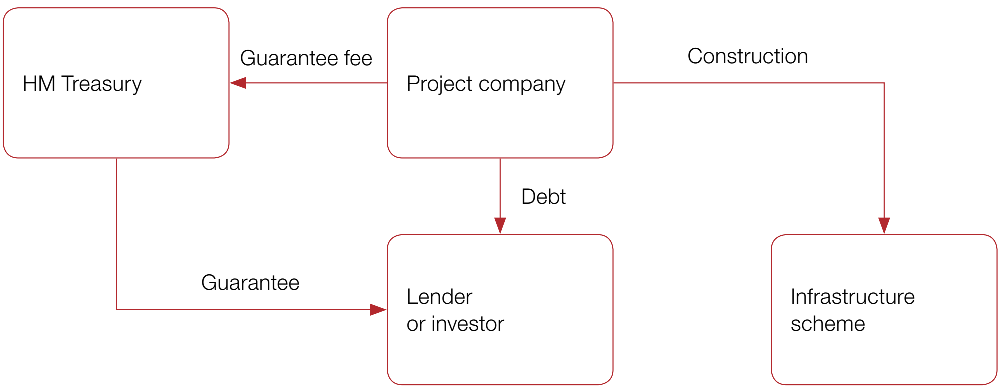
8.45 I plan to report to Parliament on the Value for Money of the Treasury's Help to Buy Mortgage Guarantee Scheme in 2015.

UK Guarantee Scheme

Background

8.46 The UK Guarantee Scheme (UKGS) aims to prevent infrastructure projects being delayed or cancelled by difficulties in obtaining debt financing. The scheme aims to meet its objective is by utilising the Government's credit rating to provide protection against default for the lenders to the projects. This is achieved through an irrevocable and unconditional guarantee from the Treasury to support a specified loan or bond issued by the project company delivering the particular infrastructure project. This means that lenders or bond investors are able to provide debt with confidence that the Treasury will compensate them in full for the guaranteed debt if the project company is unable to finance the interest and principal.

Figure 13
UK Guarantee Scheme Structure



Note

1 Diagram shows structure for a financial guarantee under the UK Guarantee Scheme.

Source: National Audit Office

8.47 In return for the guarantee, the Treasury is paid a fee by the project company (**Figure 13**). Under the Guarantee Scheme the Treasury assumes the full rights associated with being a lender, for example the power to take recovery action against the defaulter. Some £40 billion has been allocated to infrastructure projects to be guaranteed, provided applications are approved by the Treasury.

8.48 The Treasury has established five main criteria for determining eligibility which are that a project must be:

- Nationally significant;
- Ready to start construction;
- Financially credible;
- Dependent on a guarantee to start; and
- Good value to the tax payer.

8.49 EU State aid rules require the Treasury to charge fees at a market rate in return for issuing the guarantee. In the absence of a comparative market, the Treasury has benchmarked guarantee premiums against a database of comparable instruments. The Treasury has a liability for each guarantee that is signed equal to the value of the fees payable for the guarantees, offset by an equal asset for fees receivable. The maximum exposure to losses, based on the amount of debt guaranteed, is disclosed as a contingent liability.

8.50 A total of two guarantees have been issued under the Scheme in 2013-14 resulting in the recognition of a receivable for fees of £6.8 million and a financial guarantee liability of £7.1 million (based on undiscounted fees of £10.0 million) and a contingent liability of £83.8 million at 31 March 2014. In addition to the two financial guarantees, the Treasury have also provided a loan commitment, under the Scheme, of £750 million to the Greater London Authority in relation to the Northern Line extension to Battersea and a commitment to provide a financial guarantee of £257.2 million for the Mersey Gateway Bridge[14]. So far no claims in relation to the guarantees have been received and the Treasury has assessed that it is not probable that any guarantees will be called upon at 31 March 2014.

8.51 Around a further 40 projects have been declared as pre-qualified and therefore the Treasury's exposure is likely to increase substantially in future years[15]. The most significant project that is under consideration is the Hinkley Point C nuclear power station.

Audit risk

8.52 The Treasury's announcement that it will provide up to £40 billion of guarantees under the Scheme means that it will be material to the accounts in the future. However, as only £83.8 million of guaranteed debt had been issued at 31 March 2014 I concluded that there is no significant risk of material misstatement for the 2013-14 accounts arising from the UK Guarantee Scheme. Given the significant estimates and judgements required for the Scheme, particularly around the probability of a guarantee being called where the Treasury will need to put in place an ongoing process to monitor projects, I will revisit my risk assessment in future years.

8.53 I plan to report to Parliament on the value for money of the UK Guarantee Scheme in the coming year.

[14] The guarantee for the Mersey Gateway Bridge was signed on 30 March 2014 however the guaranteed debt was not issued until 2 April 2014.

[15] https://www.gov.uk/government/publications/uk-guarantees-scheme-prequalified-projects/uk-guarantees-scheme-table-of-prequalified-projects

Annex 1: Materiality

8.54 I applied the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach 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 or irregularity. A matter is 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, however the accounts will be of general interest to others, in particular the general public and media given the accounts contain disclosures on flagship financial stability interventions and wider economic support schemes.

8.55 In my professional judgement, the main source of interest in the financial statements of HM Treasury is the Statement of Financial Position (SoFP) as this is where the impact of HM Treasury's financial stability interventions and wider economic support schemes can be seen, whereas the most significant transactions in the Statement of Comprehensive Net Expenditure are derived from movements in the fair value of the schemes in the SoFP. As the vast majority of the SoFP balances are assets my professional judgement is that gross assets should be used as my materiality base.

8.56 The schemes and interventions contained within the financial statements have been subject to significant public interest. As a result I consider the HM Treasury account to be highly sensitive so apply, 0.5%, to give a lower materiality and therefore a lower tolerance for error. As a result the materiality for the financial statements as a whole was set at £647 million for the group and £492 million for the parent (HM Treasury and agencies).

8.57 As well as quantitative materiality there are certain matters that, by their very nature, would influence the decisions of users if not corrected. These included, for example, salary information of ministers and senior management disclosed in the Remuneration Report and any expenditure incurred without authority. Assessment of any such misstatements would take into account these qualitative aspects as well as the size of the misstatement.

8.58 I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity, and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

8.59 I agreed with the Treasury Corporate Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £250,000, as well as differences below that threshold that in my view, warranted reporting on qualitative grounds, including irregular transactions.

Sir Amyas C E Morse

Comptroller and Auditor General
14 July 2014

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

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Annual accounts

Statement of Comprehensive Net Expenditure

for the period ended 31 March 2014

	Note	2013-14 Core Treasury and Agencies £000	2013-14 Group £000	2012-13 (Restated) Core Treasury and Agencies £000	2012-13 (Restated) Group £000
Income from sale of goods and services	5	(22,166)	(22,166)	(8,957)	(8,957)
Other operating income	5	(826,437)	(1,522,817)	(883,353)	(1,302,752)
Total operating income	5	**(848,603)**	**(1,544,983)**	**(892,310)**	**(1,311,709)**
Staff costs	6	77,228	199,814	79,275	203,871
Purchase of goods & services	7	147,802	379,713	140,858	371,448
Depreciation & impairments	8	38,128	67,254	51,192	186,696
Provisions	22	107,494	222,649	40,139	507,831
Other operating expenditure	9	64,567	284,649	164,457	444,891
Total operating expenditure		**435,219**	**1,154,079**	**475,921**	**1,714,737**
Net operating (income)/expenditure before financing		**(413,384)**	**(390,904)**	**(416,389)**	**403,028**
Finance income	10.1	(1,346,182)	(2,991,769)	(1,434,949)	(3,227,144)
Finance expenditure	10.2	9,333	224,061	9,471	386,430
Revaluation of financial assets and liabilities	11	12,942,215	12,993,744	(17,101,807)	(17,078,018)
Net gain on disposal of assets	12	(4,103,902)	(4,095,566)	(16,158)	(143,688)
Net expenditure/(income) before tax		**7,088,080**	**5,739,566**	**(18,959,832)**	**(19,659,392)**
Taxation		-	243,391	-	133,368
Net expenditure/(income) after tax		**7,088,080**	**5,982,957**	**(18,959,832)**	**(19,526,024)**
Of which:					
Net administration (income)/expenditure		**125,396**	**126,700**	**132,132**	133,394
Net programme (income)/expenditure		**6,962,684**	**5,856,257**	**(19,091,964)**	(19,659,418)
		7,088,080	**5,982,957**	**(18,959,832)**	**(19,526,024)**
Other comprehensive net (income)/expenditure					
Net gain on investments recognised in reserves		(8,440,207)	(7,599,700)	(4,400,486)	(3,859,526)
Net gain on investments transferred from reserves and recognised as income in year		1,486,702	1,486,703	3,314	3,314
Actuarial loss on pension scheme liabilities		-	(1,781)	-	70,410
Net loss/(gain) on hedging reserve		-	27,203	599	(49,593)
Net (gain)/loss on other reserves		-	-	(8,963)	(9,673)
Net comprehensive expenditure/(income) for the year		**134,575**	**(104,618)**	**(23,365,368)**	**(23,371,092)**

Notes on pages 112 to 174 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2014

	Note	2013-14 Core Treasury and Agencies £000	2013-14 Group £000	2012-13 Core Treasury and Agencies £000	2012-13 (Restated) Group £000	2011-12 Core Treasury and Agencies £000	2011-12 (Restated) Group £000
Non-current assets							
Property, plant and equipment	13	112,480	147,746	116,286	157,227	116,778	180,737
Investment property		-	-	-	-	-	26,600
Intangible assets	14	11,717	55,845	12,655	60,976	10,295	53,805
Trade and other receivables due after more than one year	15	284,775	220,076	362,296	245,115	285,523	107,734
Loans and advances	16	44,495,114	7,047,645	49,046,130	7,705,901	52,332,079	8,417,553
Loans to banking customers	17	-	60,407,602	-	66,479,439	-	71,393,996
Loan hedging asset	17.2	-	296,818	-	469,811	-	311,004
Available-for-sale financial assets	18	52,287,404	46,760,225	48,646,006	43,885,326	44,292,263	40,505,930
Derivative financial assets expiring after more than one year	19.1	-	4,593,048	-	6,113,819	-	6,035,051
Total non-current assets		**97,191,490**	**119,529,005**	**98,183,373**	**125,117,614**	**97,036,938**	**127,032,410**
Current assets							
Cash and cash equivalents	20	994	7,862,334	9,284	9,059,000	10,714	8,174,247
Inventories		8,463	8,991	16,232	16,720	17,418	17,886
Trade & other receivables due within one year	15	950,021	964,843	1,315,802	886,641	3,338,804	2,982,789
Loans to banking customers	17	-	841,900	-	1,062,900	-	2,286,516
Loan hedging asset	17.2	-	12,000	-	5,463	-	180,987
Derivative financial assets expiring within one year	19.1	230,112	253,345	44,274,590	44,541,186	38,603,767	39,231,630
Total current assets		**1,189,590**	**9,943,413**	**45,615,908**	**55,571,910**	**41,970,703**	**52,874,055**
Total assets		**98,381,080**	**129,472,418**	**143,799,281**	**180,689,524**	**139,007,641**	**179,906,465**
Current liabilities							
Cash Collateral	19	-	(3,119,250)	-	(4,824,837)	-	(3,540,704)
Trade and other payables due within one year	21	(148,954)	(803,123)	(406,542)	(705,505)	(358,803)	(729,526)
Provisions due within one year	22	(23,609)	(147,392)	(290,569)	(443,339)	(312,444)	(380,326)
Debt securities in issue	23	-	(371,238)	-	(481,857)	-	(2,241,576)
Derivative financial liabilities expiring within one year	19.2	-	(28,445)	-	(58,909)	(8,471)	(98,620)
Total current liabilities		**(172,563)**	**(4,469,448)**	**(697,111)**	**(6,514,447)**	**(679,718)**	**(6,990,752)**
Non-current assets plus net current assets		**98,208,517**	**125,002,970**	**143,102,170**	**174,175,077**	**138,327,923**	**172,915,713**
Non-current liabilities							
Debt securities in issue	23	-	(25,514,802)	-	(29,795,153)	-	(33,460,568)
Trade and other payables due after one year	21	(162,469)	(308,400)	(168,820)	(338,572)	(172,005)	(252,706)
Provisions due after more than one year	22	(586,249)	(630,374)	(579,559)	(638,614)	(972,015)	(1,096,314)
Financial guarantees	24	(657,885)	(206,859)	(763,158)	(256,598)	(600,665)	(59,363)
Derivative financial liabilities expiring after one year	19.2	-	(417,596)	-	(705,054)	-	(619,062)
Other financial liabilities	25	-	(215,295)	-	(206,380)	-	(203,861)
Total non-current liabilities		**(1,406,603)**	**(27,293,326)**	**(1,511,537)**	**(31,940,371)**	**(1,744,685)**	**(35,691,874)**
Assets less liabilities		**96,801,914**	**97,709,644**	**141,590,633**	**142,234,706**	**136,583,238**	**137,223,839**
Equity							
General fund	SoCTE	76,926,180	82,549,757	128,668,403	133,176,029	128,066,547	132,067,372
Available-for-sale reserve	SoCTE	19,864,692	13,723,726	12,911,188	7,610,728	8,514,014	3,754,515
Revaluation reserve	SoCTE	11,042	11,042	11,042	11,042	2,078	2,078
Hedging reserve	SoCTE	-	193,959	-	221,162	599	171,569
Pension reserve	SoCTE	-	(88,104)	-	(89,354)	-	(20,013)
Merger Reserve	SoCTE	-	1,122,663	-	1,122,663	-	1,122,663
Non-shareholder's funds	SoCTE	**-**	**196,601**	**-**	**182,436**	**-**	**125,655**
Total equity		**96,801,914**	**97,709,644**	**141,590,633**	**142,234,706**	**136,583,238**	**137,223,839**

Nick Macpherson
Permanent Secretary
11 July 2014

Statement of Cash Flows

for the period ended 31 March 2014

	Note	2013-14 Core Treasury and Agencies £000	2013-14 Group £000	2012-13 (Restated) Core Treasury and Agencies £000	2012-13 (Restated) Group £000
Cash flows from operating activities					
Net operating (income)/ expenditure before financing	SCNE	(413,384)	(390,904)	(416,389)	403,028
Adjustment for non-cash transactions	20.1	(157,255)	557,875	(213,989)	(1,380,329)
Changes in working capital other than cash		(101,598)	332,783	(2,046,249)	(2,155,659)
Additions and repayments of loans from banking customers		-	(5,957,000)	-	(5,239,920)
Proceeds on sale of loans to banking customers		-	(308,700)	-	(466,672)
Use of provisions	22	367,764	526,836	454,470	902,521
UKAR derivative and other financial instrument cashflows		-	259,300	-	(1,622,000)
Income tax paid		-	158,370	-	161,434
Net cash flows from operating activities		**(304,473)**	**(4,821,440)**	**(2,222,157)**	**(9,397,597)**
Cash flows from investing activities					
Receipt of cash from HMT derivative financial instruments		(31,102,264)	(31,102,264)	(11,422,473)	(11,422,473)
Proceeds from sale of shares held in financial institutions	18	(7,411,061)	(7,411,061)	(5,853)	(5,792)
Proceeds from sale and redemption of investment securities and other financial assets		-	(750,203)	(11,411)	(1,066,811)
Proceeds from sale of non-financial assets		-	(10,000)	-	(40,800)
Purchase of non-financial assets		1,400	12,772	8,120	28,319
Net cash outflows from debt securities in issue		-	3,180,900	-	5,248,135
Receipt of interest, dividend and other finance income		(1,219,937)	(2,941,104)	(1,289,450)	(3,152,927)
Payments of interest and other finance expenditure		9,333	224,061	9,471	386,430
Additions to loans and available-for-sale assets	16,18	1,091,153	1,091,755	1,243,717	1,303,730
Repayments of loans and available-for-sale assets	16,18	(5,740,471)	(958,497)	(4,678,354)	(1,533,208)
Net excess of pension contributions over costs		-	118	-	572
Net cash inflow from investing		**(44,371,847)**	**(38,663,523)**	**(16,146,233)**	**(10,254,825)**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		(3,798)	(3,798)	(3,679)	(3,679)
Capital element of payments in respect of on-balance sheet PFI contracts		1,942	1,942	1,804	1,804
Sovereign Grant external funding		-	-	-	(52)
Repayments and purchase of own liabilities and equity		-	-	-	397,900
Net cash flows from financing		**(1,856)**	**(1,856)**	**(1,875)**	**395,973**
Net increase in cash and cash equivalents before adjustments		**44,678,176**	**43,486,819**	**18,370,265**	**19,256,449**
Payments of amounts due to the Consolidated Fund		(31,135,982)	(31,135,982)	(11,304,992)	(11,304,992)
Excess cash paid to the Consolidated Fund		(13,547,503)	(13,547,503)	(7,066,703)	(7,066,704)
Net (decrease)/ increase in cash and cash equivalents after adjustment	20	**(5,309)**	**(1,196,666)**	**(1,430)**	**884,753**
Cash and cash equivalents at the beginning of the period	SoFP	9,284	9,059,000	10,714	8,174,247
Cash movement from Core to Group in year		(2,981)	-	-	-
Cash and cash equivalents at the end of the period	20	**994**	**7,862,334**	**9,284**	**9,059,000**

[1] Cash and cash equivalents at the beginning of the period for Core Treasury and Agencies differs from the prior year closing balance as IFUL is consolidated at a group level in the current year and in Core Treasury In prior years.

Statement of Changes in Equity

for the period ended 31 March 2014

Core Treasury and Agencies

	General Fund[1]	Available-for- Sale Reserve[2]	Revaluation Reserve[4]	Hedging Reserve[3]	Pension Reserve[5]	Merger Reserve[6]	Non-shareholder capital	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013	**128,668,403**	**12,911,188**	**11,042**	**-**	**-**	**-**	**-**	**141,590,633**
Net expenditure after tax for the year	(7,088,080)	-	-	-	-	-	-	(7,088,080)
Other comprehensive income	-	6,953,505	-	-	-	-	-	6,953,505
Change in CFERs payable to the Consolidated Fund	1,611	-	-	-	-	-	-	1,611
CFERs payable to the Consolidated Fund	(31,135,982)	-	-	-	-	-	-	(31,135,982)
Excess cash payable to the Consolidated Fund	(994)							(994)
Excess cash paid to the Consolidated Fund	(13,534,258)	-	-	-	-	-	-	(13,534,258)
Consolidated Fund Standing Services	3,798	-	-	-	-	-	-	3,798
Other movements	11,682	(1)	-	-	-	-	-	11,681
Balance at 31 March 2014	**76,926,180**	**19,864,692**	**11,042**	**-**	**-**	**-**	**-**	**96,801,914**

Group

	General Fund[1]	Available-for- Sale Reserve[2]	Revaluation Reserve[4]	Hedging Reserve[3]	Pension Reserve[5]	Merger Reserve[6]	Non-shareholder capital	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013 (restated)	**133,176,029**	**7,610,728**	**11,042**	**221,162**	**(89,354)**	**1,122,663**	**182,436**	**142,234,706**
Net expenditure after tax for the year	(5,982,957)	-	-	-		-	-	(5,982,957)
Other comprehensive income	-	6,112,997	-	(27,203)	1,781	-	-	6,087,575
Change in CFERs payable to the Consolidated Fund	1,611	-	-	-	-	-	-	1,611
CFERs payable to the Consolidated Fund	(31,135,982)	-	-	-	-	-	-	(31,135,982)
Excess cash payable to the Consolidated Fund	(994)							(994)
Excess cash paid to the Consolidated Fund	(13,534,258)	-	-	-	-	-	-	(13,534,258)
Consolidated Fund Standing Services	3,798	-	-	-	-	-	-	3,798
Other movements	22,510	1	-	-	(531)	-	14,165	36,145
Balance at 31 March 2014	**82,549,757**	**13,723,726**	**11,042**	**193,959**	**(88,104)**	**1,122,663**	**196,601**	**97,709,644**

[1] The General Fund represents the total assets less liabilities to the extent that the total is not represented by other reserves and financing items. It includes retained earnings held by UKFI, UKAR, MAS, FSCS and the Sovereign Grant, and share capital reserve.

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

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

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

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

[6] The Merger Reserve represents the difference between the value attributed to the investment in Bradford & Bingley plc and NRAM plc and their capital and non-distributable reserves.

[7] Other movements include non-cash charges, non-supply banking and gilts registration, transfers between reserves, and consolidation adjustments.

Statement of Changes in Equity

for the year ended 31 March 2013

Core Treasury and Agencies

	General Fund	Available-for-Sale Reserve	Revaluation Reserve	Hedging Reserve	Pension Reserve	Merger reserve	Non-shareholder capital	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2012	**128,066,547**	**8,514,014**	**2,078**	**599**	**-**	**-**	**-**	**136,583,238**
Net income after tax for the year	18,959,832	-	-	-	-	-	-	18,959,832
Other comprehensive income/(expenditure)	-	4,397,172	8,963	(599)	-	-	-	4,405,536
Change in CFERs payable to the Consolidated Fund	337	-	-	-	-	-	-	337
CFERs payable to the Consolidated Fund	(11,304,992)	-	-	-	-	-	-	(11,304,992)
Excess cash payable to the Consolidated Fund	(13,245)	-	-	-	-	-	-	(13,245)
Excess cash paid to the Consolidated Fund	(7,055,662)	-	-	-	-	-	-	(7,055,662)
Consolidated Fund Standing Services	3,679	-	-	-	-	-	-	3,679
Other movements	11,907	2	1	-	-	-	-	11,910
Balance at 31 March 2013	**128,668,403**	**12,911,188**	**11,042**	**-**	**-**	**-**	**-**	**141,590,633**

Group

	General Fund	Available-for-Sale Reserve	Revaluation Reserve	Hedging Reserve	Pension Reserve	Merger Reserve	Non-shareholder capital	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012	**127,838,680**	**8,514,014**	**2,078**	**599**	**(7,022)**	**-**	**-**	**136,348,349**
Change in consolidation boundary	4,228,692	(4,759,499)	-	170,970	(12,991)	1,122,663	125,655	875,490
Balance at 1 April 2012	**132,067,372**	**3,754,515**	**2,078**	**171,569**	**(20,013)**	**1,122,663**	**125,655**	**137,223,839**
Net income after tax for the year	19,526,024	-	-		-	-	-	19,526,024
Other comprehensive income/(expenditure)	709	3,856,213	8,963	49,593	(70,410)	-	-	3,845,068
Change in CFERs payable to the Consolidated Fund	337	-	-	-	-	-	-	337
CFERs payable to the Consolidated Fund	(11,304,992)	-	-	-	-	-	-	(11,304,992)
Excess cash payable to the Consolidated Fund	(13,245)	-	-	-	-	-	-	(13,245)
Excess cash paid to the Consolidated Fund	(7,055,662)	-	-	-	-	-	-	(7,055,662)
Consolidated Fund Standing Services	3,679	-	-	-	-	-	-	3,679
Other movements	(48,193)	-	1	-	1,069	-	56,781	9,658
Balance at 31 March 2013	**133,176,029**	**7,610,728**	**11,042**	**221,162**	**(89,354)**	**1,122,663**	**182,436**	**142,234,706**

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM)[1]. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

IFRSs in issue but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2013, that are adopted by the FReM with an effective date of application of 1 April 2013, or earlier. The disclosures below detail the effect that new accounting standards are expected to have on HM Treasury's Resource Accounts.

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

IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities (both effective from 1 January 2013) have been endorsed by the EU and adopted by the FReM from 2014-15 with adaptions for the public sector. IFRS 10 introduces a new definition of control which may result in consolidating additional entities, and IFRS 12 requires more disclosures of the financial effects on, and risks to, the consolidating entity. However, the IFRS boundary considerations are adapted by the FReM to be based instead on Office for National Statistics (ONS) control criteria. Therefore if the current adaptations continue, the only impact on HM Treasury will be increased disclosures under IFRS 12.

IFRS 13 Fair Value Measurement (effective from 1 January 2013) has been endorsed by the EU and will be adopted by the FReM from 1 April 2015. IFRS 13 defines fair value and provides guidance on fair value measurement techniques and disclosure requirements. It is not expected to have a material impact on the financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2015) has not been adopted by the EU. However, it will be applicable if it is adopted at a later date by the EU and the FReM. 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 Statement of Financial Position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes

[1] https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

in other comprehensive income. In the event that IFRS 9 is adopted by the EU, HM Treasury may obtain an accounts direction to continue to measure interests in public bodies at net asset value where observable market data is not available and to measure Public Dividend Capital at historical cost. In these situations, IFRS 9 would not be applied in full.

1.1 Accounting convention

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

1.2 Basis of consolidation

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

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

- Core department (HM Treasury) which comprises the non-agency parts of HM Treasury, Infrastructure UK (IUK) and the Office of Tax Simplification (OTS).
- Agencies of HM Treasury which comprises the UK Debt Management Office (DMO). It also comprised the Asset Protection Agency (APA) in 2012-13.
- NDPBs and other bodies sponsored by HM Treasury which comprise the Sovereign Grant and Sovereign Grant Reserve, the Office for Budget Responsibility (OBR), the Money Advice Service (MAS), the Financial Services Compensation Scheme (FSCS), UK Financial Investments (UKFI), UK Asset Resolution Limited (UKAR) (which consolidates its subsidiaries including Bradford & Bingley plc (B&B), NRAM plc and their subsidiaries), Infrastructure Finance Unit Limited (IFUL), and Help to Buy (HMT) Limited (HTB).

'Core Treasury and Agencies' includes HM Treasury plus DMO and is disclosed net of transactions between them. In 2012-13 it also included APA. 'Core Treasury' is not separately disclosed in addition to 'Core Treasury and Agencies' as the differences between the two are immaterial and due to one agency which publishes its own accounts[2].

'Group' includes all the bodies listed above and is disclosed net of all intra-group transactions.

Transactions between entities included in the reporting boundary are eliminated on consolidation.

The agencies and other bodies listed above also produce and publish their own accounts.

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

- Bank of England
- Partnership UK plc
- Local Partnerships LLP
- Royal Mint Trading Fund (and its subsidiary company)
- Lloyds Banking Group plc
- Royal Bank of Scotland Group plc

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[2] DMO's accounts are available on the following web page: http://www.dmo.gov.uk/index.aspx?page=publications/annual_reports

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

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

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

1.3 Revenue recognition

All income is accounted for in line with IAS 18 Revenue Recognition

Operating income relates directly to the operating activities of HM Treasury. It includes recharges at full cost for services provided and costs recoverable from other bodies.

Finance income relates to interest and dividend income from investments and loans. Dividends on available-for-sale equity instruments are recognised in the SCNE when HM Treasury's right to receive payment is established. Interest is recognised in the SCNE on an effective interest rate (EIR) method for all interest-bearing financial instruments except derivatives.

The EIR method calculates the amortised cost of a financial asset or financial liability and spreads the resulting interest income or interest expense on a level yield basis over the expected life of the instrument, or an appropriate shorter period. In respect of loans to customers, the period used is the period to which the product reprices to a Standard or Product Variable Rate. The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the appropriate period to the initial carrying amount. When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example prepayment options), but potential future credit losses are not considered. The calculation includes all directly attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest

Interest on derivatives is included in interest income where the derivative is hedging interest income, and interest expense where the derivative is hedging interest expense.

When a financial asset or a group of similar financial assets is written down as a result of an impairment loss, interest income continues to be recognised by applying the applicable EIR to the reduced balance.

1.4 Expenditure

Where the Department's net expenditure is analysed between administration and programme income and expenditure, the classification as administration or as programme follows the definition of costs covered by administration budgets set out in Consolidated Budgeting Guidance 2013-14. Net administration costs reflect the costs of running HM Treasury, and exclude costs associated with service delivery. Programme costs reflect non-administration costs, including disbursements by HM Treasury in support of financial stability interventions.

1.5 Tax

1.5.1 Value Added Tax

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

1.5.2 Current tax

The charge for taxation is based on UKAR's result for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

1.5.3 Deferred tax

Deferred tax is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which these temporary differences can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment; revaluation of certain financial assets and liabilities including derivative contracts; provisions for pensions and other post-retirement benefits; tax losses carried forward; and changes in accounting basis on adoption of IFRS. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income, and subsequently in the SCNE together with the associated gain or loss.

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

1.6.1 Recognition and valuation

Property, plant and equipment and intangible non-current assets are initially recognised at cost. The threshold used by HM Treasury for capitalising non-current assets is £5,000 except for antiques where no threshold is set.

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

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

Land and buildings are subsequently measured at fair value, as interpreted by the FReM, on the basis of professional valuations. Freehold land is not depreciated. A full valuation is carried out every five years and an interim desk valuation at year three. The last full valuation of the Department's land and buildings was carried out by the Valuation Office Agency (VOA) in March 2010 and an interim desk valuation was carried out in February 2013 by the VOA.

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

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

Heritage assets maintained by the Sovereign Grant are not shown on the Treasury's Statement of Financial Position. These assets are held by The Queen in trust for the nation. The cost of associated major repairs to these assets is reported in the SCNE in the year in which it is incurred. Where improvements are made to the buildings that are deemed to be capital in nature, the associated costs are capitalised as buildings. For further details, see the Sovereign Grant and Sovereign Grant Reserve Annual Report and Accounts 2013-14.

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

1.6.2 Depreciation and amortisation

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

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

1.7 Impairment of non-current assets

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

1.8 Cash and cash equivalents

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

1.9 Pensions

The Group operates a number of retirement benefit plans for its employees, including defined benefit plans, defined contribution plans, and post-retirement healthcare benefits. The costs of these plans are recognised in accordance with IAS 19 'Employee Benefits' and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

Defined benefit schemes

A defined benefit plan is a pension arrangement that defines an amount of pension benefit that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and salary.

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

The FSCS, UKAR Group (including B&B and NRAM), and the Royal Household also operate defined benefit schemes.

For these schemes, liabilities are discounted using rates equivalent to the market yields at the SoFP date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The resulting net surplus or deficit is included in the SoFP. Surpluses are only recognised in the SoFP to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The costs for the defined benefit schemes are recognised in the SCNE to the extent that they relate to current or past service costs, settlements or curtailments, the net expected return on the pension assets, net of administration costs, and the interest cost on the scheme's liabilities. Actuarial gains and losses are recognised in other comprehensive expenditure and charged to retained earnings in full in the period in which they occur.

A full actuarial valuation of UKAR's defined benefit sections of the existing schemes is undertaken every three years with interim reviews in the intervening years; these valuations are updated at each published reporting year end date by qualified independent actuaries. For the purpose of these updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. As at 31 March 2014, the B&B defined benefit scheme was in deficit, while the NRAM defined benefit scheme was in surplus on an accounting basis, but in deficit on a trustees funding basis. As these are separate schemes, a surplus on one scheme cannot be used to offset a deficit on the other.

Defined contribution schemes

A defined contribution plan is a pension arrangement where the employer pays fixed contributions into a separate fund. The costs for the defined contribution schemes are recognised as an expense in the SCNE as incurred. Contributions are charged to the SCNE when employees have rendered the related services, which is generally in the year of contribution. For defined contribution plans, the employer has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The FSCS, MAS, UKFI, UKAR and the Royal Household operate defined contribution pension schemes. HM Treasury also operates a defined contribution scheme for staff who transferred from Partnerships UK to Infrastructure UK. Contributions payable by HM Treasury are recognised as an expense in the year in which they are incurred.

One of the Royal Household's pension schemes, managed by the Government, is not a funded scheme. The Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis and therefore, as permitted by IAS 19 Employee Benefits, this scheme is treated as a defined contribution scheme.

1.10 Private Finance Initiative (PFI) transactions

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

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

Assets acquired through PFI are valued at market value, consistent with the requirements of FReM. The associated payable for the asset is paid off during the life of the PFI contract through attribution of part of the unitary payments. The balances of the unitary payments are recorded as other administrative costs, analysed between interest and service charges. Where the service charge includes an annual indexation adjustment, this is charged to the SCNE as it is incurred.

1.11 Provisions, contingent liabilities and contingent assets

Provisions are carried in respect of certain known or forecast future expenditure. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. In calculating provisions, future payments may be subject to discount rates depending on the expected timing of cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

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

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

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

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

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

1.12 Financial instruments

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

1.12.1 Categories of financial instruments

In accordance with IAS 39 Financial Instruments Recognition and Measurement, financial instruments are classified at initial recognition into the following categories:

(i) financial assets at fair value through profit or loss;

(ii) available-for-sale financial assets;

(iii) loans and receivables;

(iv) held-to-maturity financial assets;

(v) financial liabilities at fair value through profit or loss; and

(vi) financial liabilities at amortised cost.

Measurement of financial instruments is either at amortised cost (categories (iii), (iv) and (vi) above) or at fair value (categories (i), (ii) and (v) above),depending on the category of financial instrument.

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method at the rate applicable at the date of recognition. Amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market is considered to exist, fair values are based on quoted prices or lead manager prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments. Movements in fair value are recognised in the SCNE, except in the case of instruments categorised as 'available-for-sale', in which case the fair value movements are taken to the 'available-for-sale' reserve. On sale or derecognition of an available-for-sale instrument the accumulated fair value movements are transferred from the 'available-for-sale' reserve to the SCNE.

Financial assets and liabilities are offset and the net amount reported in the SoFP only where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. For loans on which interest is received and full recovery is anticipated, the calculation of amortised cost equals the outstanding principal. For loans which are interest free, future cash flows are discounted at the Treasury discount rate applicable at the inception of the loan agreement in accordance with the FReM. The result is that on initial recognition an impairment is recognised for the irrecoverability of future interest.

(c) Available-for-sale financial assets

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

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

(d) Financial guarantee liabilities at amortised cost

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

(e) Financial liabilities at amortised cost

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

1.12.2 Reclassification of financial assets

Where it is considered appropriate to do so, financial assets have been reclassified out of the 'available-for-sale' category to 'loans and receivables' in accordance with the revisions to IAS 39 issued by the IASB in October 2008. Such reclassifications are permitted only under certain restricted circumstances, including that there is no active market for the asset. **Investment securities** held include some that have been classified as 'available for sale' and some which have been reclassified to 'loans and receivables' on the basis that there is no active market for them.

The asset is reclassified using its fair value at the point of transfer, and from that point on is accounted for on an EIR basis. The difference between the carrying value at the point of reclassification and the expected value at the redemption date is recognised in profit or loss on an EIR basis over the expected life of the asset, and the asset's carrying value accretes to the redemption amount over that period, except where the asset has become impaired. The balance in the available-for-sale reserve which related to the asset is amortised to profit or loss over the expected life of the asset; in the SCNE the amortisation of the difference between value at reclassification and at redemption and the amortisation out of the available-for-sale reserve exactly offset each other.

1.12.3 Measurement of financial instruments

Purchases and sales of financial assets are generally accounted for on the date of commitment to buy or sell (the 'trade date'). Purchases and sales of **mortgage portfolios** are accounted for on the completion date.

Loans and receivables are carried at amortised cost at the rate applicable at the date of recognition, less any impairment, with any impairment being charged to the SCNE.

Loans from HMT predominantly comprise loans made to financial institutions at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. Therefore comparison with market terms and market prices was not possible in determining fair value and, consequently, these loans were recognised initially at amortised cost at the rate applicable at the date of recognition as determined by the FReM. **Statutory debts**, which are interest free loans, are amortised using the Treasury discount rate applicable at the inception of the debt, in accordance with the FReM, and the cash flows are assessed using administrators' estimates as to both the amount and timing of recoveries.

Available-for-sale financial assets are recognised initially at fair value. At initial recognition, the best evidence of fair value in an arm's length transaction is cash received or paid, unless there is evidence to the contrary. The fair value on recognition also includes any directly attributable transaction costs. Available-for-sale financial assets (other than Public Dividend Capital) are subsequently carried at fair value, with movements in fair value, excluding impairment provisions, being taken to the available-for-sale reserve.

In the absence of observable market data for **investments in public bodies** outside the departmental boundary, net asset value per recent audited accounts is used as a measure for determining fair value, taking into consideration HM Treasury's assessment of impairment or material changes to fair value for bodies with non-coterminous reporting dates. This applies to HM Treasury's investments in the Bank of England, Partnerships UK, and Local Partnerships. It also applies to HM Treasury's investments in UKAR and IFUL although these are eliminated out at the group level. Fair value changes reflect the change in value of net assets held by these bodies.

In accordance with the FReM, **Public Dividend Capital** is carried at historical cost less any impairment recognised. This applies to HM Treasury's investment in the Royal Mint.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the available-for-sale reserve is recognised in the SCNE.

Derivatives are recognised at fair value. Derivatives are measured at fair value on the date a derivative contract is entered into. At initial recognition, the best evidence of fair value in an arm's length transaction is cash received or paid, unless there is evidence to the contrary. The fair value includes any interest accrued on that derivative. All transaction costs are expensed in the SCNE. Fair values are subsequently obtained from quoted market prices, or using valuation techniques including discounted cash flow models and option pricing models. The gain or loss on subsequent measurement is taken to the SCNE except where the derivative is a designated hedging instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial guarantee liabilities and associated receivables are initially recognised in the financial statements at fair value on the date the guarantee was given. The maximum period over which the receivables and the associated liabilities have been recognised is over the length of these guarantees. All guarantee arrangements are re-assessed at every subsequent reporting date and estimates for the assets and liabilities relating to the guarantee are adjusted if necessary.

The fair value of financial guarantee liabilities at initial recognition are estimated as the fair value of the guarantee fee income where appropriate, assuming the fee has been set at a commercial market rate. In cases where the fee has not been set at a commercial rate, the fair value of financial guarantee liabilities is equal to the probability weighted expected loss over the duration of the guarantee. Subsequent measurement of liabilities under financial guarantees is measured at the higher of: the initial measurement, less amortised fee income recognised in the SCNE as the service is provided; and the best estimate of the probable expenditure required to settle any financial obligation arising at the reporting date, in line with the definitions of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Any increase in the liability relating to guarantees is taken to the SCNE.

1.12.4 Impairment of financial assets

Financial assets carried at amortised cost and available for sale are reviewed for indications of possible impairment throughout the year and at each published reporting date. Generally, an impairment loss is recognised if, and only if, there is objective evidence that a loss event (or events) has occurred after initial recognition and before the reporting date and has a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets. Impairment of loans to customers is detailed below. Losses that are incurred as a result of events occurring after the reporting date are not recognised.

(a) Assets carried at amortised cost

For **loans and advances** (other than loans to banking customers), the following criteria are used to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions; and
- deterioration in the value of collateral.

The amount of loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. The carrying amount of the asset is reduced in the SoFP and the loss is recognised in the SCNE. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the counterparty's credit rating), the previously recognised impairment loss is reversed.

For **loans to banking customers**, an assessment is made as to whether an impairment provision should be made on either an individual or a collective basis. Loans where an individual assessment is made include all loans in possession or held for sale with a Law of Property Act ('LPA') receiver and others which management consider to be individually impaired, for example where a fraud has been uncovered. The carrying value of the loan at the reporting date is reduced, by applying an impairment allowance, to the net present value of the expected future cash flows associated with the loan, calculated at the loan's original EIR. These cash flows include, where appropriate, estimated amounts recoverable by possession and sale of the secured property taking into account a discount on property value to reflect a forced sale.

All loans that have been assessed as having no individual impairment are then assessed collectively, grouped by loans with similar characteristics. Assessment is made of impairment arising due to events which are believed to have occurred by the reporting date but have not yet been reported, taking into account the economic climate in the market. This collective impairment is reflected by reducing the carrying value of total loans by applying an impairment allowance.

For impaired loans, interest is accrued for accounting purposes on the loan amount after any impairment adjustments, in accordance with IAS 39, using the original EIR of the loan. However, for the purposes of the amount legally due from the borrower, interest continues to accrue on the full outstanding balance, and it is this full balance plus full interest which is pursued for collection.

A loan is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed, or in respect of unsecured loans where the collections process indicates a loan is not recoverable. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the SCNE.

Where a property has been taken into possession, or an LPA receiver has been appointed to collect rental income on the property, the loan continues to be carried within 'loans to customers'.

(b) Assets classified as available-for-sale

Impairment losses – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the SCNE – are removed from equity and recognised in the SCNE. Impairment losses recognised in the SCNE are not subsequently reversed until the related financial asset is de-recognised.

Generally, for investments in this classification, an impairment review is carried out at the reporting date. Indicators of impairment for these other investments include net cash outflows or operating losses, a reduction in net assets, and other factors influencing recoverable amount.

In the case of **equity investments** classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether an asset is impaired. This assessment is performed on a tranche by tranche basis where multiple lots of the same security have been purchased at different price levels.

Investment securities classified as available-for-sale are carried at fair value which appropriately reflects any impairment. Impairment is recognised when the investment security exhibits objective evidence of impairment or is uncollectible. Such evidence may include:

- Significant financial difficulty;
- Payment defaults;
- Renegotiation of terms due to borrower difficulty;
- Sustained fall in credit rating or creditworthiness;
- Significant restructuring;
- Disappearance of an active market;
- Significant and sustained fall in market price; or
- Observable data indicating measurable decrease in the estimated future cash flows from a group of financial assets, although the decrease cannot yet be identified within individual assets in the group.

Movements in the fair value which are a reflection of impairment of the long term value of the investment security are recognised in the SCNE. Investment impairment losses recognised against investment securities are reversed through the SCNE if the improvement relates to an event occurring after the initial impairment was recognised. If there is a sustained increase in the fair value of an investment security where an impairment loss has previously been recognised, but no improvement can be attributed to a subsequent credit event, then the increase in value may be treated as a revaluation and recognised through other comprehensive income in the available-for-sale reserve.

1.12.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where HM Treasury has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognised when they are extinguished. That is, when the obligation is discharged, cancelled or expires.

1.13 Debt and equity securities in issue

Issued securities, including capital instruments, are classified as liabilities where the contractual arrangements result in the issuing company having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the company. Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the company's assets on the holder of the securities. Issued securities include ordinary and preference share capital. Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary.

On initial recognition, debt issued is measured at its fair value net of directly attributable issue and transaction costs. Subsequent measurement is at amortised cost using the EIR method to amortise attributable issue and transaction costs, premia and discounts over the life of the instrument. These costs are charged along with interest on the debt to 'interest expense and similar charges'. Unamortised amounts are added to or deducted from the carrying value of the instrument.

Equity instruments (including share capital) are initially recognised at net proceeds, after deducting transaction costs and any related income tax.

1.14 Derivative financial instruments and hedging activities

Derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions.

Each derivative is carried at fair value in the SoFP and changes in the fair value of derivatives are charged to the SCNE. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives which are used to hedge particular risks can either be mitigated in the SCNE (fair value hedge accounting) or recognised in other comprehensive income (cash flow hedge accounting). The Group has adopted cash flow hedge accounting and fair value hedge accounting.

The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to.

At the inception of each hedging arrangement, the relationship between the hedging instruments and the hedged items must be documented, as well as the risk management objective and strategy. Also documented is an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging arrangement are 'highly effective' in offsetting changes in fair values or cash flows of the hedged items. Under IAS 39 a hedge is deemed to be 'highly effective' if effectiveness is forecast to fall, and is actually found to fall, within the 80% to 125% range. Any hedge relationship falling outside these limits is deemed to be ineffective and hedge accounting is discontinued.

Where a hedge relationship is terminated or deemed not to be highly effective (other than as a result of the hedged item being derecognised from the SoFP due to sale or other reason), the adjustment relating to the terminated hedge relationship is amortised to the SCNE over the period that the hedged item affects profit and loss.

1.14.1 Cash flow hedge accounting

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in equity as other comprehensive income, and recycled to the SCNE in the periods when the hedged item will affect profit and loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the SCNE.

1.14.2 Fair value hedge accounting

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the SCNE, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Fair value hedge accounting is used on one-to-one relationship and portfolio hedging bases, as described below.

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective', the associated hedged item is carried on the SoFP at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the SCNE, mitigating the fair value movements on the associated derivative financial instruments. The SCNE immediately recognises any hedge accounting 'ineffectiveness', that is any difference between the fair value movement on the hedging instrument and that on the hedged item.

Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as 'highly effective', the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the carrying value of the hedged items is not adjusted; instead the difference between the carrying value and the fair value in respect of the hedged risk is carried on the SoFP.

1.14.3 Embedded derivatives

Certain financial instruments have derivative features embedded within them. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host instrument, and where changes in value in the host instrument are not reflected in the SCNE, the embedded derivative is separated from the host and carried on the SoFP at fair value, with gains and losses on the embedded derivative being recognised in the SCNE. In accordance with IFRIC 9 'Reassessment of Embedded Derivatives' the decision as to whether to separate and value an embedded derivative is reassessed when and only when the terms of the host contract are significantly modified.

1.15 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') continue to be reported as they were originally classified within the SoFP, as the risks and rewards associated with that asset remain. The counterparty liability and securities purchased under agreements to resell ('reverse repos') are recorded in the SoFP. The difference between sale and repurchase price is treated as interest in the SCNE and accrued over the life of the agreements using the EIR method.

1.16 Off-Balance Sheet loan commitments

Off-Balance Sheet loan commitments are disclosed in Note 31 'Other Financial Commitments'. They comprise commitments to advance cash sums, and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of lifetime mortgages which involved the advance of a lump sum on which interest continues to accrue but is not payable until the loan is redeemed, the commitment reflects an estimate of the interest expected to roll up until redemption. In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

1.17 Foreign currencies

The presentational and functional currency of the Group is pounds sterling. Transactions which are not denominated in pounds sterling are translated at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated at the closing rate of exchange on the reporting year end date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the SCNE.

2. Critical accounting estimates and judgements

2.1 Impairment losses on loans and advances

HM Treasury's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.12.4. The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date. Evidence used in assessing losses includes estimates from administrators on the level and timings of repayments from the estates of KSF, Heritable, Icesave, London Scottish and Dunfermline.

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. The estimated repayment levels for individual loans range from 50 to 100 per cent. A sensitivity analysis of capital recoveries for these loans is included in note 27.2.

In addition to assessing the amount of repayment, timing is also considered for interest free loans. HM Treasury has provided Bradford & Bingley, KSF, Heritable, Icesave, London Scottish and Dunfermline with interest free loans to fund repayment of retail deposits.

Impairments are recognised to reflect the cost of all interest free loans. The impairment loss equals the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the Treasury discount rate. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses. These assumptions are reviewed at each reporting date.

2.2 Impairment losses on loans to banking customers

In respect of loans to banking customers, loan impairments are reviewed on a monthly basis and individual impairment losses are assessed by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans are calculated using a statistical model. The key assumptions used in this model are: the probability of any balance entering into default as a result of an event that had occurred prior to the reporting date; the probability of this default resulting in possession or write-off; and the estimated subsequent loss incurred. These key assumptions are based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance would be an estimated £108.7 million lower (2012: £174.3 million) or £115.5 million higher (2012: £184.1 million) respectively.

2.3 Impairment of available-for-sale financial assets

HM Treasury's accounting policy for losses arising on available-for-sale financial assets is described in note 1.12.4. In determining whether an impairment loss has been incurred in respect of RBS and LBG shares, HM Treasury assesses whether there has been a significant or sustained decline in its fair value below original cost price. The result of performing the assessment on individual tranches of shares is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

As at 31 March 2014, available-for-sale assets totalled £46.7 billion (2012-13: £43.9 billion). The fair values of available-for-sale assets are detailed in note 18. A sensitivity analysis for changes in equity prices is included in note 27.3.2.

2.4 RBS Dividend Access Share

In addition to the ordinary and B-shares, HM Treasury holds a single Dividend Access Share (DAS) in RBS. The DAS confers Treasury with the right to an enhanced dividend over and above the dividend entitlement of each ordinary and B share if the RBS board decides to pay a dividend on ordinary shares. In April 2014, RBS announced that it had reached an agreement with HMT for the future retirement of the DAS for an initial payment of £320 million in 2014, subject to the approval of RBS's independent shareholders, and further payment(s) of £1,180 million with flexibility over timing at RBS's discretion, giving a total DAS retirement payment of £1.5 billion.

At 31 March 2014 the DAS was estimated to have a value of £1,485 million (2012-13: £1,474 million). The fair value is included in Note 18 'Available-for-sale assets'.

The value of the DAS was previously estimated using an option based valuation model explained in the 2012-13 Annual Report and accounts (Note 2.3). Following the agreement reached with RBS to provide for the future retirement of the DAS, accounting standards allow its value to be estimated by modelling future cash flows, reflecting the price RBS is prepared to pay to retire the DAS and removing a considerable uncertainty from the previous approach. The value of the DAS is therefore estimated by modelling these future cash flows based on an assumption as to when they materialise.

Once RBS has completed the initial payment of £320 million in 2014, there is some judgment involved when modelling the timing of future payment(s) of the remaining £1,180 million DAS retirement payment. The timing will depend on RBS's ability to repay, the evolution of its earnings prospects and its capital position and ultimately the discretion of the RBS board. The model uses assumptions based on capital guidance RBS has provided publically and the market's view of the future capitalisation levels of RBS. The Treasury discount rate of 2.2 per cent, in accordance with the FReM, has been applied to determine the present value of these cash flows. These assumptions and data inputs into the DAS will be revisited at each reporting date.

2.5 Provisions

Provisions are carried in respect of certain known or forecast future expenditure, as described in Note 22. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

3. Prior Period Adjustments

With effect from 1 April 2013 UK Asset Resolution Ltd (UKAR) was designated to HM Treasury's group and was required to be consolidated in this account. UKAR includes Bradford & Bingley plc, NRAM plc and subsidiaries. Prior year figures for the Treasury group have been restated as if the wider accounting boundary included UKAR. There were no prior period adjustments to figures for Core Treasury and Agencies.

The effect of the consolidation of UKAR on the primary statements is shown below. Restatements include the transactions and balances of UKAR except intra-group transactions and balances between UKAR and the rest of the Treasury group.

Consolidated Statement of Comprehensive Net Expenditure 2012-13

			2012-13
	Group	Restatements	Group (restated)
	£000	£000	£000
Total operating income	(1,312,830)	1,121	(1,311,709)
Total operating expenditure	919,368	795,369	1,714,737
Total finance income	(1,435,337)	(1,791,807)	(3,227,144)
Total finance expenditure	9,471	376,959	386,430
Revaluation of financial assets and liabilities	(17,101,807)	23,789	(17,078,018)
Net (gain) / loss on disposal of assets	(15,644)	(128,044)	(143,688)
Net (income)/ expenditure before tax	**(18,936,779)**	**(722,613)**	**(19,659,392)**
Taxation	(5)	133,373	133,368
Net (income)/expenditure after tax	**(18,936,784)**	**(589,240)**	**(19,526,024)**
Net comprehensive (income)/expenditure for the year	**(23,341,186)**	**(29,906)**	**(23,371,092)**

Consolidated Statement of Financial Position 2012-13

			2012-13
	Group	Restatements	Group (restated)
	£000	£000	£000
Non-current assets	98,199,206	26,918,408	125,117,614
Cash and cash equivalents	192,143	8,866,857	9,059,000
Other current assets	45,228,997	1,283,913	46,512,910
Current liabilities	(766,440)	(5,748,007)	(6,514,447)
Non-current liabilities	(1,523,704)	(30,416,667)	(31,940,371)
Assets less liabilities	**141,330,202**	**904,504**	**142,234,706**
Total equity	**141,330,202**	**904,504**	**142,234,706**

Consolidated Statement of Financial Position 2011-12

			2011-12
	Group	Restatements	Group (restated)
	£000	£000	£000
Non-current assets	97,046,198	29,986,212	127,032,410
Cash and cash equivalents	177,256	7,996,991	8,174,247
Other current assets	41,660,979	3,038,829	44,699,808
Current liabilities	(782,239)	(6,208,513)	(6,990,752)
Non-current liabilities	(1,753,845)	(33,938,029)	(35,691,874)
Assets less liabilities	**136,348,349**	**875,490**	**137,223,839**
Total equity	**136,348,349**	**875,490**	**137,223,839**

Statement of Cash Flows 2012-13

			2012-13
	Group	Restatements	Group (restated)
	£000	£000	£000
Net cash inflow from operating activities	(3,544,198)	(5,853,399)	(9,397,597)
Net cash inflow from investing	(14,844,462)	4,589,637	(10,254,825)
Net financing	(1,927)	397,900	395,973
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	**18,390,587**	**865,862**	**19,256,449**
Receipts and payments to the Consolidated Fund	(18,371,695)	(1)	(18,371,696)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	**18,892**	**865,861**	**884,753**
Cash and cash equivalents at the beginning of the period	171,838	8,002,409	8,174,247
Cash and cash equivalents at the end of the period	**190,730**	**8,868,270**	**9,059,000**

4. Segment reporting

The operating segment analysis is reported in a manner consistent with the internal reporting provided to HM Treasury's Executive Management Board (EMB). The EMB is responsible for allocating resources across the Treasury group and for assessing the performance of the operating segments based on each segment's outturn against budget. It has been identified as the chief operating decision maker for the purposes of this segmental analysis. Transactions between segments are carried out at arm's length and any material intra-group transactions and balances are eliminated on consolidation.

Analysis of net expenditure by reported operating segment

			2013-14			2012-13 (Restated)
Reported operating segment	**Gross Expenditure**	**Income**	**Net Expenditure/ (Income)**	**Gross Expenditure**	**Income**	**Net Expenditure/ (Income)**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administration	150,229	(44,653)	105,576	143,978	(29,662)	114,316
Equitable Life	16,246	-	16,246	19,791	-	19,791
Royal Household Pension Scheme & Civil List	4,757	(959)	3,798	4,601	(923)	3,678
Office of Tax Simplification	288	-	288	374	-	374
Infrastructure UK	8,429	(5,048)	3,381	5,859	(1,028)	4,831
Financial Interventions	12,974,119	(5,362,523)	7,611,596	36,798	(18,492,508)	(18,455,710)
Other Programme	213,858	(881,056)	(667,198)	251,414	(914,719)	(663,305)
Core Treasury	**13,367,926**	**(6,294,239)**	**7,073,687**	**462,815**	**(19,438,840)**	**(18,976,025)**
Debt Management Office	20,376	(2,768)	17,608	19,513	(3,277)	16,236
Asset Protection Agency	-	-	-	3,267	(3,267)	-
Core Treasury and Agencies	**13,388,302**	**(6,297,007)**	**7,091,295**	**485,595**	**(19,445,384)**	**(18,959,789)**
Eliminations	(1,535)	(1,680)	(3,215)	(2,875)	2,833	(42)
Core Treasury and Agencies per SNCE	**13,386,767**	**(6,298,687)**	**7,088,080**	**482,720**	**(19,442,551)**	**(18,959,831)**
Infrastructure Finance Ltd	7,392	(7,392)	-	-	-	-
UK Financial Investments	2,756	(2,756)	-	2,176	(2,176)	-
Office for Budget Responsibility	1,737	(1)	1,736	1,732	(7)	1,725
Total reported segments	**13,398,652**	**(6,308,836)**	**7,089,816**	**486,628**	**(19,444,734)**	**(18,958,106)**
Reconciliation to SCNE:	-	-	-			
UK Asset Resolution	1,472,178	(2,341,846)	(869,668)	2,095,842	(2,680,026)	(584,184)
Financial Services Compensation Scheme	730,515	(1,043,586)	(313,071)	851,385	(756,806)	94,579
Sovereign Grant	49,537	(13,805)	35,732	44,864	(11,595)	33,269
Money Advice Service	78,604	(79,088)	(484)	77,346	(81,295)	(3,949)
Help to Buy Ltd	6,406	(219)	6,187	-	-	-
Eliminations between reported segments	(11,389)	9,869	(1,520)	(3,886)	2,313	(1,573)
Eliminations with non-reported segments	(1,109,228)	1,145,193	35,965	(1,320,562)	1,214,502	(106,060)
Group total per SCNE	**14,615,275**	**(8,632,318)**	**5,982,957**	**2,231,617**	**(21,757,641)**	**(19,526,024)**

Analysis of net assets by reported operating segment

Reported operating segment	2013-14 Total Assets £000	2013-14 Net Assets £000	2012-13 (Restated) Total Assets £000	2012-13 (Restated) Net Assets £000
Core Treasury	98,377,287	96,800,371	143,795,301	141,588,717
Debt Management Office	3,833	1,543	3,980	1,871
Core Treasury and Agencies	**98,381,120**	**96,801,914**	**143,799,281**	**141,590,588**
Eliminations	(40)	-	-	45
Core Treasury and Agencies per SoFP	**98,381,080**	**96,801,914**	**143,799,281**	**141,590,633**
Infrastructure Finance Unit Ltd	411,365	6,825	-	-
UK Financial Investments	941	-	331	-
Office for Budget Responsibility	56	(184)	271	32
Total reported segments	**98,793,442**	**96,808,555**	**143,799,883**	**141,590,665**
Reconciliation to SoFP:	-	-		
UK Asset Resolution	74,939,697	6,341,006	85,271,545	5,450,907
Financial Services Compensation Scheme	17,421,479	(534,371)	17,460,058	(856,658)
Money Advice Service	17,792	9,996	13,768	9,511
Sovereign Grant	23,550	13,594	22,411	14,244
Help to Buy Ltd	10,821	(6,187)	-	-
Eliminations between reported segments	(401,492)	-	(67)	-
Eliminations with non-reported segments	(61,332,871)	(4,922,949)	(65,878,074)	(3,973,963)
Group total per SoFP	**129,472,418**	**97,709,644**	**180,689,524**	**142,234,706**

5 Operating income

	2013-14 Core Treasury and Agencies £000	2013-14 Group £000	2012-13 (Restated) Core Treasury and Agencies £000	2012-13 (Restated) Group £000
Sales of goods and services	22,166	22,166	8,957	8,957
Other operating income comprises:				
Fees, levies and charges	363,691	832,663	471,932	794,381
FCA fine income	386,054	386,054	341,624	341,624
Recoveries and recharges	26,309	213,294	22,004	61,413
Pool Re insurance premiums	32,108	32,108	32,188	32,188
Rental income	13,401	16,649	10,895	13,891
Miscellaneous income	4,874	42,049	4,710	59,255
Total other operating income	**826,437**	**1,522,817**	**883,353**	**1,302,752**
Total operating income	**848,603**	**1,544,983**	**892,310**	**1,311,709**

'Sale of goods and services' comprises sale of coinage scrap metal and consultancy income.

'Fees, levies and charges' mainly comprise levies charged by FSCS and MAS to its levy payers and fees charged by Treasury in relation to financial guarantees and contingent capital.

The majority of 'Recoveries and recharges' are recoveries received by FSCS.

6. Staff numbers and costs

An analysis of staff costs and staff numbers are provided below. Further details of salaries and pensions is disclosed in the remuneration report in Chapter 6 of the Annual Report, and details about Treasury's Ministers are also provided in the Annual Report section 'Managing the Treasury'.

6.1 Analysis of staff costs

	Ministers	Special Advisers	Permanent staff	Others	2013-14 Total	2012-13 (Restated) Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	1,260	594	144,699	18,574	**165,127**	**168,751**
Social Security costs	118	65	14,240	107	**14,530**	**15,079**
Staff pension costs	2	126	19,891	138	**20,157**	**20,041**
Staff costs	**1,380**	**785**	**178,830**	**18,819**	**199,814**	**203,871**
Less recoveries in respect of outward secondments	-	-	(2,219)	-	(2,219)	(2,919)
Staff costs net of recoveries	**1,380**	**785**	**176,611**	**18,819**	**197,595**	**200,952**
Core Treasury and Agencies	1,380	785	71,409	3,654	77,228	79,275
NDPBs and other bodies	-	-	107,421	15,165	122,586	124,596
Staff costs	**1,380**	**785**	**178,830**	**18,819**	**199,814**	**203,871**

'Others' includes agency staff, contractor staff, temporary staff and staff seconded in from other bodies.

6.2 Average number of persons employed

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

	Ministers	Special Advisers	Permanent staff	Others	2013-14 number Total	2012-13 (restated) number Total
Core Treasury and agencies	6	9	1,174	35	**1,224**	**1,319**
NDPBs and other bodies	-	-	2,808	320	**3,128**	**3,336**
Total persons employed	**6**	**9**	**3,982**	**355**	**4,352**	**4,655**

6.3 Staff pension costs

Staff pension costs £20.2 million, (2012-13: £20.0 million) are primarily employer contributions, including £10.8 million (2012-13: £10.3 million) payable to the Principal Civil Service Pension Scheme, £6.4 million (2012-13: £4.9 million) payable to defined contribution schemes and £2.7 million (2012-13: £4.2 million) payable to UKAR pension schemes.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefit scheme with multi-employers so HM Treasury is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon & Woodrow) valued the scheme as at 31 March 2013. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation[3].

Employers' contributions were payable to the PCSPS at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands, set to meet the cost of the benefits accruing during 2013-14 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. In addition, employer contributions of £10,300 (2012-13: £15,000), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.1 million (2012-13: £0.1 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/274258/0048.pdf

contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

The FSCS, MAS, UKFI and the Royal Household operate defined contribution schemes. The Royal Household also operates an unfunded defined benefit scheme which is accounted for as a defined contribution scheme as the Royal Household is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis. The FSCS and Royal Household additionally operate defined benefit schemes, which are accounted for as such. The amount recognised in the Statement of Financial Position is a net liability of £8.6 million (2012-13: net liability of £7.1 million).

UKAR operates a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, defined contribution pension plans and post-retirement healthcare benefits. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual. The amount recognised in the Statement of Financial Position relating to B&B's defined benefit scheme is a net liability of £20.3 million (2012-13: £71.3 million) and the amount recognised relating to NRAM's defined benefit scheme is a net asset of £65.3 million (2012-13: £77.8 million).

Details of the UKAR, FSCS, MAS, UKFI and Royal Household pension schemes, including valuation assumptions for the defined benefit schemes, are included in their respective annual accounts.

6.4 Exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where HM Treasury has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table below.

Figures shown relate to Core Treasury and Agencies

			2013-14			2012-13
			Core Treasury and Agencies			Core Treasury and Agencies
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
<£10,000	-	5	5	-	5	5
£10,000 – £25,000	-	5	5	4	11	15
£25,001 – £50,000	-	4	4	4	5	9
£50,001 – £100,000	-	6	6	-	12	12
£100,001 – £150,000	-	1	1	-	5	5
£150,001 – £200,000	-	-	-	-	4	4
£200,001>	-	-	-	-	-	-
Total number of exit packages	**-**	**21**	**21**	**8**	**42**	**50**
Total Resource Cost (£'000)	**-**	**838**	**838**	**210**	**2,507**	**2,717**

In addition, HM Treasury and DMO have both agreed one compromise agreement outside of the CSCS. Royal Household agreed four exit packages during 2013-14, all of which were less than £25,000, with a total of £44,000. FSCS agreed two exit packages (including one severance package), both of which were less than £10,000, with a total of £14,000. UKAR was not required to provide these disclosures in its accounts, and other Treasury Group bodies did not incur expenditure in relation to exit packages.

7. Expenditure on purchases of goods and services

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Office services	32,987	97,236	28,657	121,875
Professional services	23,246	87,889	18,615	70,482
UK coinage: metal and manufacturing costs	54,461	54,461	46,212	46,211
Staff related costs, including training and travel	4,750	36,029	4,243	21,212
Accommodation costs	8,726	28,390	9,417	25,138
MAS debt advice services	-	33,456	-	30,145
Equitable Life administration	12,726	12,726	19,791	19,791
FSCS claims outsourcing costs	-	12,579	-	17,368
Other expenditure	10,906	16,947	13,923	19,226
Total	**147,802**	**379,713**	**140,858**	**371,448**

Auditor's remuneration of £753,000 (2012-13: £526,000), excluding VAT was incurred with the NAO. The increase is due to FSCS being audited by the NAO for the first time in 2013-14. No payments (2012-13: nil) were made to the NAO in respect of non-audit services. Payments of £1,000,000 (2012-13: £1,122,000) were made to other firms for audit services. No payments were made to auditors for non-audit services in 2013-14 (2012-13: £154,000).

8. Depreciation and impairments

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Depreciation and amortisation	6,223	24,692	7,758	33,920
Impairments and impairment reversals of financial assets	31,905	42,562	36,798	146,140
Impairments and revaluations of non-financial assets	-	-	6,636	6,636
Total	**38,128**	**67,254**	**51,192**	**186,696**

Impairments and impairment reversals of financial assets primarily related to projected loan recoveries on loans and advances detailed in Note 16 and value of shares detailed in Note 18.

9. Other operating expenditure

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
FSCS compensation costs	-	247,091	-	283,441
Non-voted banking and gilts registration services	11,280	11,280	11,490	11,490
Initial expense of NLGS guarantees entered into in-year	-	-	108,911	108,911
Contingent rent on PFI contract	6,485	6,485	5,756	5,756
Non-voted Royal Household pension costs	4,398	5,047	4,242	3,745
Grant-in-aid funding to Treasury bodies	37,620	-	32,615	-
Other programme expenditure	4,784	14,746	1,443	31,548
Total	**64,567**	**284,649**	**164,457**	**444,891**

Grant in aid funding to Treasury bodies comprises funding to the Office of Budget Responsibility and that relating to the Sovereign Grant.

10. Finance income and expenditure

10.1. Finance income

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Treasury Group	Core Treasury and Agencies	Treasury Group
	£000	£000	£000	£000
Interest and fee income from loans	1,132,375	2,853,782	1,229,042	3,092,520
Dividend income	87,561	87,322	60,407	60,407
Amortisation of loans	126,246	50,665	145,500	74,217
Total	**1,346,182**	**2,991,769**	**1,434,949**	**3,227,144**

Amortisation of loans in 'Core Treasury and Agencies' includes amortisation on loans between Treasury Group bodies which eliminates out in the consolidated 'Treasury Group' balance.

10.2 Finance expenditure

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Treasury Group	Core Treasury and Agencies	Treasury Group
	£000	£000	£000	£000
Interest expense	-	214,728	-	376,959
Interest element of on-balance sheet PFI contract	9,333	9,333	9,471	9,471
Total	**9,333**	**224,061**	**9,471**	**386,430**

11. Revaluations on financial assets and liabilities

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Fair value (gain)/loss on the BEAPFF derivative	12,942,215	12,942,215	(17,103,300)	(17,103,300)
Fair value (gain)/loss on UKAR financial assets	-	33,329	-	(4,711)
Hedge ineffectiveness	-	18,200	1,493	29,993
Total	**12,942,215**	**12,993,744**	**(17,101,807)**	**(17,078,018)**

To effect what is known as quantative easing, the Bank of England Asset Purchase Facility Fund (BEAPFF) was set up to carry out purchases financed by the creation of central bank reserves and through the issue of gilts, and the value of its assets and liabilities are sensitive to fluctuations in market interest rates. HM Treasury is exposed to the BEAPFF's fair value gains and losses as it has indemnified the Bank of England for any losses in operating the BEAPFF and is entitled to its profits. More details about the scheme are provided in Notes 27 and 32.

12. Net (gain)/loss on disposal of assets

		2013-14		2012-13 (Restated)	
	Note	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
		£000	£000	£000	£000
Net gain on disposal of financial assets	18	(4,103,902)	(4,103,902)	(16,158)	(162,582)
Net loss on disposal of non-financial assets		-	8,336	-	18,894
Total		**(4,103,902)**	**(4,095,566)**	**(16,158)**	**(143,688)**

Net gains on disposal of financial assets included a profit of £4.1 billion arising on disposal of Treasury's holding of Lloyds Banking Group ordinary shares. More details about the shares are shown in Note 18 'Available-for-sale assets'.

13. Property, plant and equipment

	Land	Buildings	Property Improvement	IT Equipment	Other	2013-14 Total
	£000	£000	£000	£000	£000	£000
Net book value 1 April 2013 (Restated)	33,775	80,063	15,803	19,688	7,898	**157,227**
Net book value 31 March 2014	**33,775**	**77,716**	**13,393**	**15,823**	**7,039**	**147,746**
Of which:						
Core Treasury and Agencies	33,775	61,232	12,071	1,624	3,778	**112,480**
NDPBs and other bodies	-	16,484	1,322	14,199	3,261	**35,266**
Group	**33,775**	**77,716**	**13,393**	**15,823**	**7,039**	**147,746**

'Other' includes plant & machinery and furniture & equipment.

All property, plant and equipment is owned, except the property 1 Horse Guards Road, which is leased under a private finance initiative (PFI) and has a net book value of £61.2 million (2012-13: £62.7 million). More details regarding this PFI contract is provided in Note 30 'Commitments under leases'.

	Land	Buildings	Property Improvement	IT Equipment	Other	2012-13 (Restated) Total
	£000	£000	£000	£000	£000	£000
Net book value 1 April 2012	24,812	93,949	16,003	24,855	21,118	**180,737**
Net book value 31 March 2013	**33,775**	**80,063**	**15,803**	**19,688**	**7,898**	**157,227**
Of which:						
Core Treasury and Agencies	33,775	62,725	12,236	3,391	4,159	**116,286**
NDPBs and other bodies	-	17,338	3,567	16,297	3,739	**40,941**
Group	**33,775**	**80,063**	**15,803**	**19,688**	**7,898**	**157,227**

14. Intangible assets

			2013-14			2012-13 (Restated)
	Externally generated software	Other	Total	Externally generated software	Other	Total
	£000	£000	£000	£000	£000	£000
Net book value 1 April	52,043	8,933	60,976	43,916	9,889	**53,805**
Net book value 31 March	**49,672**	**6,173**	**55,845**	**52,043**	**8,933**	**60,976**
Of which:						
Core Treasury and Agencies	6,997	4,720	**11,717**	6,190	6,465	**12,655**
NDPBs and other bodies	42,675	1,453	**44,128**	45,853	2,468	**48,321**
Group	**49,672**	**6,173**	**55,845**	**52,043**	**8,933**	**60,976**

'Other' includes internally generated software, software licences, goodwill and assets under construction.

15. Trade and other receivables

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Amounts falling due within one year				
Accrued interest and dividend income	689,558	645,346	632,609	148,331
Prepayments and other accrued income	42,126	56,649	36,177	53,597
FCA accrued fine income and interest	67,759	67,759	341,624	341,624
Fees receivable for financial guarantees	81,953	44,229	83,698	42,561
Pool Re accrued income	33,429	33,429	33,895	33,895
NS&I receivable	19,605	19,605	173,552	173,552
Trade receivables	8,298	19,359	13,096	15,268
Other levies receivable	-	989	-	39,579
Other receivables	7,293	77,478	1,151	38,234
Total due within one year	**950,021**	**964,843**	**1,315,802**	**886,641**
Amounts falling due after one year				
Fees receivable for financial guarantees	245,407	93,889	321,794	126,823
Pension asset	-	65,300	-	77,790
Pool Re accrued income	39,331	39,331	40,477	40,477
Other receivables	37	21,556	25	25
Total due after one year	**284,775**	**220,076**	**362,296**	**245,115**
Total trade receivables	**1,234,796**	**1,184,919**	**1,678,098**	**1,131,756**

Included in accrued interest are amounts which have been recognised in 2013-14 as a result of FSCS's first time adoption of IFRS. Prior year figures have not been restated as the adjustments are not material to the Treasury Group's accounts.

Balances with other government bodies

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14	2012-13 (Restated)	2013-14	2012-13 (Restated)
	£000	£000	£000	£000
Balances with other central government bodies	128,399	307,564	-	-
Balances with local authorities	491	7,266	-	-
Balances with NHS Trusts, public corporations and trading funds	3,618	5,669	-	-
Subtotal: intra government balances	**132,508**	**320,499**	**-**	**-**
Balances with bodies external to government	832,335	566,142	220,076	245,115
Total trade receivables	**964,843**	**886,641**	**220,076**	**245,115**

16. Loans and advances

	At 1 April 2013 (Restated) £000	Additions £000	Loan repayments £000	Discount unwind £000	Impairments & reversals £000	Transfers £000	Foreign exchange movements £000	At 31 March 2014 £000
Bradford & Bingley: working capital facility, FSCS and statutory debt	**24,722,215**	-	(1,775,000)	75,580	(26,542)	-	-	**22,996,253**
NRAM: loan	**17,924,090**	-	(3,008,026)	-	-	-	-	**14,916,064**
Bilateral loan to Ireland	**2,420,220**	806,740	-	-	-	-	-	**3,226,960**
Icesave: FSCS and statutory debt	**2,171,631**	-	(414,194)	48,007	(13,009)	-	-	**1,792,435**
Dunfermline: statutory debt	**779,488**	-	(100,000)	-	-	-	-	**679,488**
KSF: FSCS and statutory debt	**641,015**	-	(296,115)	1,043	527	-	-	**346,470**
London Scottish Bank: FSCS and statutory debt	**162,547**	-	(45,235)	398	1,598	-	-	**119,308**
Heritable Bank: FSCS and statutory debt	**113,597**	-	(99,095)	1,216	5,522	-	-	**21,240**
Loan to Infrastructure Finance Unit Limited[1]	**-**	284,413	(2,806)	-	-	115,289	-	**396,896**
Loans provided by Infrastructure Finance Unit Limited[1]	**111,327**	-	-	-	-	(111,327)	-	**-**
Total Core Treasury and Agencies	**49,046,130**	**1,091,153**	**(5,740,471)**	**126,244**	**(31,904)**	**3,962**	**-**	**44,495,114**
Intra-Group loans eliminated on consolidation	**(42,646,405)**	(284,413)	4,785,885	(75,580)	26,542	(115,289)	-	**(38,309,260)**
Investment securities held as loans by UKAR	**1,306,176**	(48,200)	(510,541)	33	(2,421)	-	8,731	**753,778**
Loans provided by Infrastructure Finance Unit Limited[1]	**-**	-	(3,314)	-	-	111,327	-	**108,013**
Total Group loans and advances	**7,705,901**	**758,540**	**(1,468,441)**	**50,697**	**(7,783)**	**-**	**8,731**	**7,047,645**

[1] Infrastructure Finance Unit Limited (IFUL) is included at the Group Level in the current year and in Core Treasury in prior years.

FSCS and statutory debt comprise loans that HM Treasury made to the Financial Services Compensation Scheme (FSCS) to enable it to pay eligible depositors of failed banks for amounts up to the FSCS guarantee limit. The 'FSCS debt' represents claims in the administration of the failed banks up to the guarantee limit, while the statutory debt represents amounts over that limit. The loans are recoverable through the administration, or, in the case of Bradford & Bingley, wind-down of the business. Any shortfall against the FSCS element will be met by the FSCS levying the financial services industry.

	At 1 April 2012 (Restated)	Additions	Loan repayments	Discount unwind	Impairments & reversals	Transfers	Foreign exchange movements	At 31 March 2013
	£000	£000	£000	£000	£000	£000	£000	£000
Bradford & Bingley: working capital facility, FSCS and statutory debt	**25,931,221**	-	(1,225,000)	71,284	(55,290)	-	-	**24,722,215**
NRAM: loan	**19,838,339**	-	(1,914,249)	-	-	-	-	**17,924,090**
Bilateral loan to Ireland	**1,210,110**	1,210,110	-	-	-	-	-	**2,420,220**
Icesave: FSCS and statutory debt	**1,516,457**	-	(436,516)	25,577	49,794	1,016,319	-	**2,171,631**
Depositors' and Investors' Guarantee Fund	**1,416,573**	-	(443,794)	43,540	-	(1,016,319)	-	**-**
Dunfermline: statutory debt	**922,203**	-	(142,715)	-	-	-	-	**779,488**
KSF: FSCS and statutory debt	**1,043,700**	-	(420,182)	4,210	13,287	-	-	**641,015**
London Scottish Bank: FSCS and statutory debt	**192,657**	8,924	(39,935)	406	495	-	-	**162,547**
Heritable Bank: FSCS and statutory debt	**165,623**	-	(52,628)	484	118	-	-	**113,597**
Loan provided by Infrastructure Finance Unit Limited	**94,821**	19,466	(2,960)	-	-	-	-	**111,327**
Local Partnerships Loan	**375**	-	(375)	-	-	-	-	**-**
Total Core Treasury and Agencies	**52,332,079**	1,238,500	(4,678,354)	145,501	8,404	-	-	**49,046,130**
Intra-Group loans eliminated on consolidation	**(45,775,487)**	(76)	3,145,150	(71,284)	55,292	-	-	**(42,646,405)**
UKAR Investment securities held as loans	**1,860,961**	-	(613,170)	8,725	39,687	-	9,973	**1,306,176**
Total Group loans and advances	**8,417,553**	1,238,424	(2,146,374)	82,942	103,383	-	9,973	**7,705,901**

17. Loans to banking customers

	At 1 April 2013 (Restated) £000	Additions £000	Loan repayments £000	Impairments & reversals £000	At 31 March 2014 £000
Residential mortgages	64,959,718	87,846	(5,626,996)	(75,906)	**59,344,662**
Commercial loans	773,385	-	(138,835)	(11,593)	**622,957**
Unsecured loans	1,809,236	941	(652,829)	124,535	**1,281,883**
Total loans to banking customers	**67,542,339**	**88,787**	**(6,418,660)**	**37,036**	**61,249,502**
Loans to customers less than one year	1,062,900				841,900
Loans to customers more than one year	66,479,439				60,407,602
Total	**67,542,339**	**88,787**	**(6,418,660)**	**37,036**	**61,249,502**

	At 1 April 2012 (Restated) £000	Additions £000	Loan repayments £000	Impairments & reversals £000	At 31 March 2013 (Restated) £000
Residential mortgages	70,447,283	129,515	(4,936,836)	(680,244)	**64,959,718**
Commercial loans	841,832	-	(68,447)	-	**773,385**
Unsecured loans	2,391,397	1,008	(539,136)	(44,033)	**1,809,236**
Total loans to banking customers	**73,680,512**	**130,523**	**(5,544,419)**	**(724,277)**	**67,542,339**
Loans to customers less than one year	2,286,516				1,062,900
Loans to customers more than one year	71,393,996				66,479,439
Total	**73,680,512**	**130,523**	**(5,544,419)**	**(724,277)**	**67,542,339**

Advances comprise further lending to existing customers, arising mainly from drawdowns. There are no advances to new customers as UKAR is closed to new business. Redemptions and repayments include full or partial redemptions of loans, repayments of capital and disposals. Balances include accounting adjustments in respect of impairment allowances disclosed below.

17.1 Loans to banking customers: impairment allowances

The values of loans to banking customers shown above are recognised net of impairment allowances.

Impairment allowances in respect of:	At 1 April 2013 (Restated) £000	Sale of assets £000	Impairments £000	Write-offs £000	At 31 March 2014 £000
Residential mortgages	1,364,010	-	70,000	(282,200)	**1,151,810**
Commercial loans	85,255	-	11,300	(5,700)	**90,855**
Unsecured loans	400,144	(148,300)	23,700	(60,800)	**214,744**
Total impairment allowances	**1,849,409**	**(148,300)**	**105,000**	**(348,700)**	**1,457,409**

Impairment allowances in respect of:	At 1 April 2012 (Restated) £000	Impairments £000	Write-offs £000	At 31 March 2013 (Restated) £000
Residential mortgages	1,589,581	211,065	(436,636)	**1,364,010**
Commercial loans	105,498	7,913	(28,156)	**85,255**
Unsecured loans	498,477	41,043	(139,376)	**400,144**
Total impairment allowances	**2,193,556**	**260,021**	**(604,168)**	**1,849,409**

	2013-14	2012-13 (Restated)
	£m	£m
Individually assessed impairments	281.3	456.2
Collectively assessed impairments	1,176.1	1,393.2
Total impairment allowances	**1,457.4**	**1,849.4**

17.2 Loan hedging asset

UKAR engages in hedge accounting to manage interest rate risk on fixed rate loans to banking customers, and therefore recognises a hedging asset in relation to those loans.

	2013-14	2012-13 (Restated)
	£000	£000
Current hedging asset	12,000	5,463
Non-current hedging asset	296,818	469,811
Total hedging asset	**308,818**	**475,274**

Further details about how UKAR manages risk with hedging are available in Note 28.1.

18. Available-for-sale assets

	At 1 April 2013 (restated)	Additions, disposals & transfers	Fair value adjustment	Impairments	Foreign exchange gain/(loss)	At 31 March 2014
	£000	£000	£000	£000	£000	£000
Lloyds Banking Group ordinary shares	13,442,608	(4,789,852)	4,613,384	-	-	13,266,140
RBS ordinary shares	10,922,152	-	1,407,392	-	-	12,329,544
RBS B shares	14,050,500	-	1,810,500	-	-	15,861,000
RBS Dividend Access Share	1,473,918	-	10,780	-	-	1,484,698
Bank of England share capital	3,352,000	-	(305,000)	-	-	3,047,000
Virgin Money perpetual capital notes	123,000	-	23,000	-	-	146,000
Royal Mint Public Dividend Capital	5,500	-	-	-	-	5,500
Partnerships UK ordinary shares	4,459	(4,010)	-	-	-	449
Local Partnerships ordinary shares	1,820	-	848	-	-	2,668
Business Finance Partnership[1]	4,949	(4,949)	-	-	-	-
UK Asset Resolution shares	5,265,100	-	879,305	-	-	6,144,405
Total Core Treasury and Agencies	**48,646,006**	**(4,798,811)**	**8,440,209**	**-**	**-**	**52,287,404**
Intra-group investments eliminated on consolidation	(5,265,101)	-	(879,304)	-	-	(6,144,405)
UKAR investment securities	504,421	(191,422)	(5,078)	13,247	(358)	320,810
Business Finance Partnership	-	289,362	6,814	240	-	296,416
Total	**43,885,326**	**(4,700,871)**	**7,562,641**	**13,487**	**(358)**	**46,760,225**

[1] IFUL is consolidated at group level in 2013-14 and in Core Treasury in prior years. As a result, on the Statement of Financial Position, the Business Finance Partnership is recognised within Core Treasury and Agencies in 2012-13 and in Group figures in 2013-14.

During 2013-14, HM Treasury disposed of 9.8 billion of its Lloyds Banking Group ordinary shares in September 2013 and March 2014, yielding £7.4 billion in cash proceeds. The total purchase cost of these shares was £14.5 billion[4] and therefore it realised an overall £7.1 billion cash loss. However, Treasury realised an accounting gain of £4.1 billion in 2013-14, as shown in Note 12, as the sale price (75 pence in September 2013 and 75.5 pence in March 2014) was higher than the value of the shares measured at the last financial year end (48.7 pence at 31 March 2013), in accordance with accounting standards. The original purchase price of these shares was higher but devalued over time, with the reduction in value being recognised in each year, totalling

[4] HM Treasury accounts for share sales on a "first in, first out" basis, and so included the purchase cost of the first shares acquired in 2008 and 2009.

£11.2 billion in accumulated impairment losses recognised in previous years since October 2008. The Treasury's remaining holding in Lloyds comprises 17.8 billion ordinary shares, of which 15.8 billion had an original purchase price of 37.0 pence per share. The share price of 74.65 pence as at 31st March 2014 implied a market value of £13.3 billion of Treasury's total shareholding in Lloyds.

HM Treasury's remaining ordinary shares in the Lloyds Banking Group and its ordinary shares and B shares in RBS that it held at the reporting date have been revalued based on the closing share price at that date. Shares have been assessed on a tranche-by-tranche basis for impairments and fair value adjustments to reflect the different acquisition costs over time.

The table below summarises the fair value adjustments, disposals and impairment charges for each tranche of shares in Lloyds and RBS:

	Original no. of shares	Original purchase price	At 1 April 2013	Fair value adjustment	Disposals	At 31 March 2014
	bn	£	£000	£000	£000	£000
Royal Bank of Scotland (ordinary shares)						
Purchase of shares in October 2008	22.9	0.65	6,296,221	811,311	-	7,107,532
Participation in rights issue in April 2009	16.8	0.29	4,625,931	596,081	-	5,222,012
Total for Royal Bank of Scotland			**10,922,152**	**1,407,392**	**-**	**12,329,544**
Lloyds Banking Group (ordinary shares)						
Purchase of shares in October 2008	2.6	1.69	1,289,393	-	(1,289,393)	-
Conversion of HBOS shares into Lloyds ordinary shares in January 2009	4.6	1.83	2,253,893	-	(2,253,893)	-
Participation in rights issue in June 2009	4.5	0.61	2,201,434	509,106	(1,246,566)	**1,463,974**
Participation in rights issue in December 2009	15.8	0.37	7,697,888	4,104,278	-	**11,802,166**
Total for Lloyds Banking Group			**13,442,608**	**4,613,384**	**(4,789,852)**	**13,266,140**

19. Derivative financial instruments

The most significant derivative financial instrument in the Treasury Group is the BEAPFF derivative. This derivative relates to the quantative easing vehicle, called the Bank of England Asset Purchase Facility Fund (BEAPFF), which was set up to carry out purchases financed by the creation of central bank reserves and through the issue of gilts. The derivative consists of an indemnity HM Treasury provides to the Bank of England for any losses in operating the BEAPFF and under which it is entitled to its profits. More details about the scheme are provided in notes 27 and 32.

Derivative financial instruments are also held by UKAR and consist of hedges used to reduce the risk of loss arising from changes in interest rates and exchange rates. Each derivative is carried at fair value in the SoFP; as an asset when the fair value is positive and as a liability when the fair value is negative. More information about how UKAR uses hedges to manage risk is provided in Note 28.1.

The fair value methodology for derivatives is detailed in Note 26.2.

UKAR holds cash collateral received in respect of its derivatives of £3,119,250,000 (2012-13: £4,824,837,000), and has provided collateral pledges of £414,800,000. The liability to repay the collateral is recognised as a liability on the Statement of Financial Position.

19.1 Derivative financial assets

	At 1 April 2013 (Restated) £000	Movements in year £000	At 31 March 2014 £000
BEAPFF derivative	44,274,590	(44,044,479)	230,111
Derivative financial assets held by UKAR	6,380,415	(1,764,133)	4,616,282
Total	**50,655,005**	(45,808,612)	**4,846,393**
Current derivative financial assets	44,541,186		253,345
Non-current derivative financial assets	6,113,819		4,593,048
Total	**50,655,005**		**4,846,393**

19.2 Derivative financial liabilities

	At 1 April 2013 (Restated) £000	Movements in year £000	At 31 March 2014 £000
Derivatives financial liabilities held by UKAR	(763,963)	317,922	(446,041)
Total	**(763,963)**	**317,922**	**(446,041)**
Current derivative financial liabilities	(58,909)		(28,445)
Non-current derivative financial liabilities	(705,054)		(417,596)
Total	**(763,963)**		**(446,041)**

20. Cash and cash equivalents

		2013-14		2012-13 (Restated)
	Core Treasury and Agencies £000	Group £000	Core Treasury and Agencies £000	Group £000
Balance at 1 April (Restated)	9,284	9,059,000	10,714	8,174,247
Cash movement from Core to Group in year[1]	(2,981)	-	-	-
Net change in cash balances	(5,309)	(1,196,666)	(1,430)	884,753
Balance at 31 March 2014	**994**	**7,862,334**	**9,284**	**9,059,000**
The following balances were held at 31 March:				
Government Banking Service	994	8,680	5,054	8,767
Bank of England	-	5,322,628	-	5,797,216
Commercial banks and cash in hand	-	2,531,026	4,230	3,253,017
Balance at 31 March 2014	**994**	**7,862,334**	**9,284**	**9,059,000**

[1] IFUL is consolidated at a group level in the current year and in Core Treasury in prior years.

Balances in commercial banks and cash in hand do not include bank overdrafts; these are included in trade and other payables and shown in Note 21.

20.1 Non-cash transactions

The 'Net change in cash balances' shown in the table above is analysed into cashflows in the SCF. That analysis of cashflows starts with net expenditure adjusted for non-cash transactions. The table below provides a breakdown of those adjustments for non-cash transactions.

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Adjustments for non-cash transactions				
Provision provided in year	107,495	222,650	40,139	507,831
Impairment of financial assets	31,905	42,562	36,798	146,140
Depreciation and amortisation	6,223	24,692	7,758	33,920
Profit on sale of unsecured loans to banking customers	-	21,200	-	-
Non-voted - Banking and gilts registration services	11,280	11,280	11,490	11,490
Gain on repurchase of UKAR liabilities	-	-	-	146,400
Net expense on NLGS guarantees	-	-	108,911	108,911
Other non-cash adjustments relating to UKAR	-	(892,264)	-	197,823
Other non cash adjustments	352	12,005	8,893	227,814
	157,255	**(557,875)**	**213,989**	**1,380,329**

Additional non-cash adjustments relating to UKAR are due to the difference between the Treasury's indirect methodology for preparing the SCF and UKAR's methodology of preparing its cash flow statement on a direct method. They mainly relate to movements in derivatives and other financial instruments included in net operating (income)/expenditure.

21. Trade and other payables

	Note	2013-14 Core Treasury and Agencies £000	2013-14 Group £000	2012-13 (Restated) Core Treasury and Agencies £000	2012-13 (Restated) Group £000
Amounts falling due within one year					
Net amounts due to FSCS levy payers		-	301,371	-	-
FSCS advances for compensation payments not dispersed		-	46,285	-	44,927
Corporation tax		-	183,492	-	120,706
Equitable Life payables	22.1	66,252	66,252	67,677	67,677
Consolidated Fund payable for:					
Consolidated Fund payable for operating income outside the scope of the Estimate		33,430	33,430	33,895	33,895
Excess cash to be surrendered		994	994	13,245	13,245
EU Solidarity Fund repayment		16,010	16,010	16,010	16,010
Trade payables		2,099	10,215	(367)	2,596
Other taxation and social security		1,578	7,349	1,606	15,406
PFI contract	30.2	2,091	2,091	1,942	1,942
Bank overdraft		-	962	-	1,413
Deferred contingent capital fee income		-	-	240,000	240,000
Other accruals and deferred income		25,308	48,549	31,391	105,143
Other payables		1,192	86,123	1,143	42,545
Total falling due within one year		**148,954**	**803,123**	**406,542**	**705,505**
Amounts due falling after one year					
PFI contract		123,138	123,138	125,229	125,229
Deferred tax liability		-	50,768	-	47,892
Pension liability		-	28,937	-	78,362
Consolidated Fund payable for operating income outside the scope of the Estimate		39,331	39,331	40,477	40,477
Deferred income		-	3,077	3,114	3,165
Other payables		-	63,149	-	43,447
Total falling due after one year		**162,469**	**308,400**	**168,820**	**338,572**
Total trade payables		**311,423**	**1,111,523**	**575,362**	**1,044,077**

Net amounts due to FSCS levy payers have been recognised in 2013-14 as a result of first time adoption of IFRS by FSCS. Prior year figures have not been restated as the adjustments are not material to the Treasury Group's accounts.

Balances with other government bodies

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14	2012-13 (Restated)	2013-14	2012-13 (Restated)
	£000	£000	£000	£000
Balances with other central government bodies	235,893	182,334	90,105	88,369
Balances with local authorities	350	237	-	-
Balances with public corporations and trading funds	830	-	-	-
Subtotal: intra government balances	**237,073**	**182,571**	**90,105**	**88,369**
Balances with bodies external to government	566,050	522,934	218,295	250,203
Total trade payables	**803,123**	**705,505**	**308,400**	**338,572**

22. Provisions for liabilities and charges

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
Balance at 1 April	870,128	1,081,953	1,284,459	1,476,643
Provided in the year	75,881	196,754	59,949	528,481
Provision utilised in year	(367,764)	(526,836)	(454,470)	(902,521)
Provision not required written back	(35)	(5,753)	(589)	(1,429)
Unwinding of discount	31,648	31,648	(19,221)	(19,221)
Balance at 31 March 2014	**609,858**	**777,766**	**870,128**	**1,081,953**
Of which timing of discounted flows expected:				
Within one year	23,609	147,392	290,569	443,339
Between one and five years	196,521	238,807	269,043	322,401
Later than five years	389,728	391,567	310,516	316,213
Balance at 31 March 2014	**609,858**	**777,766**	**870,128**	**1,081,953**

Analysis by provision

				2013-14
	Equitable Life	Customer Redress	Other	Total
	£000	£000	£000	£000
Expected timing of discounted flows:				
Within one year	23,385	115,438	8,569	**147,392**
Between one and five years	196,433	41,235	1,139	**238,807**
Later than five years	389,666	-	1,901	**391,567**
Balance at 31 March 2014	**609,484**	**156,673**	**11,609**	**777,766**

				2012-13 (Restated)
	Equitable Life	Customer Redress	Other	Total
	£000	£000	£000	£000
Expected timing of discounted flows:				
Within one year	290,086	111,395	41,858	443,339
Between one and five years	268,955	42,305	11,141	322,401
Later than five years	310,450	3,526	2,237	316,213
Balance at 31 March 2013	**869,491**	**157,226**	**55,236**	**1,081,953**

22.1 Equitable Life

As part of the Spending Review on 20 October 2010, the Government announced that in the region of £1.5 billion would be made available for an Equitable Life Payments Scheme, £1 billion of which will be paid out upfront over the first three years of the Spending Review period. Further details on the scheme are available on the Equitable Life Payment Scheme website.[5]

Payments of £324.0 million were made during the year (2012-13: £409.4 million). Of the £324.0 million of payments, warrants of £32.9 million had not been cashed (2012-13: £13.5 million). At the reporting date, letters had been sent to policyholders confirming future payments of £66.3 million (2012-13: £67.7 million). As the timing and amount of these payments are certain, they are included as payables in note 21, and the provision has been reduced accordingly.

National Savings and Investments (NS&I) administers payments under the scheme on behalf of HM Treasury. HM Treasury advances funding to NS&I to allow it to make payments and at the reporting date the amount advanced but not yet disbursed is a receivable from NS&I of £19.6 million (2012-13: £173.6 million). The costs of administering the scheme are met by HM Treasury and for the year 2013-14 were £12.7 million at 31 March 2014 (2012-13: £20.1 million).

During 2012-13 the Government announced that additional ex-gratia payments will be made to those eligible policyholders who bought an Equitable Life 'With Profit' Annuity prior to 1 September 1992. One-off payments made during 2013-14 totalled £47.2 million, of which £45 million was covered by the provision.

22.2 Customer redress and restructuring provisions

UKAR has recognised a provision for customer redress, being an estimate of expected customer compensation claims, primarily relating to PPI (Payment Protection Insurance) and Consumer Credit Act non-compliance. Further details regarding this provision are available in UKAR's Annual Report and Accounts[6].

22.3 Other provisions

Other provisions mainly comprise restructuring, early departures, onerous contracts and dilapidations. The restructuring provision relates primarily to UKAR's change in its primary IT service provider. UKAR also holds a provision in respect of an onerous contract it holds relating to now vacant leasehold premises that are no longer used by the business, yet subject to a lease agreement. Under this agreement rental payments are expected to be made until 2025.

23. Debt securities in issue

	2013-14 £000	2012-13 £000
Current	371,238	481,857
Non-current	25,514,802	29,795,153
Total	**25,886,040**	**30,277,010**

Debt securities in issue include securitised notes and covered bonds issued by B&B and NRAM. The B&B and NRAM Groups issued debt securities to securitise loans to customers and also raised unsecured medium term funding. These have been reducing year on year as UKAR buys back these securities. Further details of debt securities in issue are provided in the Annual Report and Accounts of B&B and NRAM, copies of which are available on the corporate website of each of these companies[7].

[5] http://equitablelifepaymentscheme.independent.gov.uk

[6] http://www.nram.co.uk/corporate/investor-relations/corporate-reports/

[7] http://www.bbg.co.uk/corporate/media-centre/latest-news/2013 and http://www.nram.co.uk/corporate/media/latest-news/2013

24. Financial guarantees

	2013-14		2012-13	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
	£000	£000	£000	£000
National Loan Guarantee Scheme (NLGS)	185,395	185,395	246,014	246,014
Deposit guarantees	465,343	5,297	517,144	10,584
Other guarantees	7,147	16,167	-	-
Total	**657,885**	**206,859**	**763,158**	**256,598**

Financial guarantees have been provided by HM Treasury; further details are provided in Note 32 'Contingent liabilities'. HM Treasury provides guarantees to other bodies consolidated in these accounts, primarily B&B and NRAM, which eliminate as intra-group transactions in the group totals. Other guarantees include guarantees under the UK Guarantees scheme and the Help to Buy mortgage guarantee scheme.

25. Other financial liabilities

	2013-14	2012-13
	£000	£000
Capital instruments	215,295	206,380
Total	**215,295**	**206,380**

Capital instruments include subordinated notes issued by B&B and NRAM. These notes have a range of interest rates, and their maturities vary or are undated. Some notes are also subject to constraints. For example, the European Commission has set various conditions on the B&B Group receiving State Aid, one of which was that the B&B Group should not make payments of principal or interest on its capital instruments until it repays in full the Statutory Debt it owes to HM Treasury. Further details of capital instruments are provided in the Annual Reports and Accounts of B&B and NRAM, copies of which are available on the corporate website of each of these companies[8].

26. Financial instruments

26.1 Financial instruments: categories and fair values

This section shows the value of financial assets and liabilities, both as recognised in the Statement of Financial Position and at their fair value, and explains how they are valued.

[8] http://www.bbg.co.uk/corporate/media-centre/latest-news/2013 and http://www.nram.co.uk/corporate/media/latest-news/2013

At 31 March 2014

Group	Note	Financial assets at amortised cost	Financial liabilities & guarantees at amortised cost	Available-for-sale assets	Fair value through SCNE	2013-14 Total carrying value	2013-14 Total fair value
		£000	£000	£000	£000	£000	£000
Financial Assets							
Loans to banking customers	17	61,249,502	-	-	-	**61,249,502**	**57,354,600**
Available-for-sale financial assets	18	-	-	46,760,225	-	**46,760,225**	**46,760,225**
Cash and cash equivalents	20	7,862,334	-	-	-	**7,862,334**	**7,862,334**
Loans and advances	16	7,047,645	-	-	-	**7,047,645**	**7,283,500**
Derivative financial assets	19.1		-	-	4,846,393	**4,846,393**	**4,846,393**
Loan hedging asset	17.2	308,818		-	-	**308,818**	**-**
Trade and other receivables		1,170,643	-	-	-	**1,170,643**	**1,170,643**
Total financial assets		**77,638,942**	**-**	**46,760,225**	**4,846,393**	**129,245,560**	**125,277,695**
Financial Liabilities							
Debt securities in issue	23		(25,886,040)			**(25,886,040)**	**(27,063,400)**
Cash collateral due to banks	19	-	(3,119,250)	-	-	**(3,119,250)**	**(3,119,250)**
Derivative financial liabilities	19.2	-	-	-	(446,041)	**(446,041)**	**(446,041)**
Financial guarantees	24	-	(206,859)	-	-	**(206,859)**	**(90,659)**
Trade and other payables		-	(866,729)	-	-	**(866,729)**	**(866,729)**
Other financial liabilities	25	-	(215,295)	-	-	**(215,295)**	**(215,295)**
Total financial liabilities		**-**	**(30,294,173)**	**-**	**(446,041)**	**(30,740,214)**	**(31,801,374)**
Total net financial assets		**77,638,942**	**(30,294,173)**	**46,760,225**	**4,400,352**	**98,505,346**	**93,476,321**

At 31 March 2013

Group	Notes	Financial assets at amortised cost	Financial liabilities & guarantees at amortised cost	Available-for-sale assets	Fair value through SCNE	2012-13 (restated) Total	2012-13 (restated) Fair value
		£000	£000	£000	£000	£000	£000
Financial Assets							
Loans to banking customers	17	67,542,339	-	-	-	67,542,339	**63,180,513**
Available-for-sale financial assets	18	-	-	43,885,326	-	43,885,326	**43,885,326**
Derivative financial assets	19.1	-	-	-	50,655,005	50,655,005	**50,655,005**
Cash and cash equivalents	20	9,059,000				9,059,000	**9,059,000**
Loans and advances	16	7,705,901	-	-	-	7,705,901	**8,056,800**
Loan hedging asset	17.2	475,274	-	-	-	475,274	**-**
Trade and other receivables		1,110,329	-	-	-	1,110,329	**1,110,329**
Total financial assets		**85,892,843**	**-**	**43,885,326**	**50,655,005**	**180,433,174**	**175,946,973**
Financial Liabilities							
Trade and other payables		-	(856,299)	-	-	(856,299)	**(856,299)**
Cash collateral due to banks	19	-	(4,824,837)	-	-	(4,824,837)	**(4,824,837)**
Financial guarantees	24	-	(256,598)	-	-	(256,598)	**(198,598)**
Derivative financial liabilities	19.2	-	-	-	(763,963)	(763,963)	**(763,963)**
Debt securities in issue	23		(30,277,010)			(30,277,010)	**(30,727,900)**
Other financial liabilities	25	-	(206,380)	-	-	(206,380)	**(206,380)**
Total financial liabilities		**-**	**(36,421,124)**	**-**	**(763,963)**	**(37,185,087)**	**(37,577,977)**
Total net financial assets		**85, 892,843**	**(36, 421,124)**	**43,885,326**	**49,891,042**	**143,248,087**	**138,368,996**

26.1.1 Loans to banking customers

Loans to banking customers are carried at amortised cost at the reporting date, as set out in note 1.12.3. Their fair values are estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value; however, as the fixed rate loans are hedged in respect of interest rate risk, there is no material exposure to this difference in fair value.

26.1.2 Available-for-sale assets

Available-for sale assets include:

- ordinary and B shares in RBS, and ordinary shares in Lloyds Banking Group;
- a single RBS dividend access share (DAS);
- share capital of public bodies, including the Bank of England and Public Dividend Capital of the Royal Mint;
- Virgin Money perpetual capital notes received as part of the sale proceeds of Northern Rock plc; and
- Business Finance Partnership stake in investment partnerships.

The fair value of HM Treasury's investments in the ordinary shares of RBS and Lloyds Banking Group is determined by using the published share prices as at the reporting date. While RBS B shares are not listed on a stock exchange, they can be converted into ordinary shares at the option of HM Treasury at any time. Therefore, it is assumed they are worth the market value of the underlying ordinary shares and are valued using the closing price of RBS ordinary shares. Details of the data and assumptions used to value the DAS are included in Note 2.4.

Investments in public bodies, excluding Public Dividend Capital, are carried at fair value. As there is no observable market data for shares in these bodies, HM Treasury's share of net asset value is used as a measure of fair value. In accordance with the FReM, investments in Public Dividend Capital are carried at historical cost less any impairment recognised. This applies to HM Treasury's investment in the Royal Mint.

The value of the Virgin Money perpetual capital notes has been estimated using a valuation model. The perpetual capital notes have a par value of £150 million and receive discretionary interest at a rate of 10.5 per cent per annum from 2013. They can be converted into shares on a successful sale or listing of Virgin Money or if its capital ratio were to fall below a fixed level. The valuation approach adopted uses market data to estimate a value for a Lower Tier 2 security and to then estimate the premium for a Tier 1 over a Lower Tier 2 security; the approach does not ascribe any value to the conversion feature.

Details of the most significant shareholdings are shown below:

		2013-14		2012-13
	Stake %	Net Assets, or Attributable capital & reserves (£m)	Stake %	Net Assets, or Attributable capital & reserves (£m)
Bank of England	100%	3,047	100%	3,352
Royal Bank of Scotland Group plc (ordinary shares, B Shares, Dividend Access Share)	64%,100%,100%	59,215	64%,100%,100%	70,448
Lloyds Banking Group plc	25%	39,336	39%	44,684

26.1.3 Loans and advances

Loans and advances include **investment securities** held as loans and receivables and carried at amortised cost at the reporting date, as set out in note 1.12.3. Their fair values are based on quoted prices or lead manager prices where available or by using discounted cash flows applying independently sourced market parameters including interest rates and currency rates. The fair value of unsecured investment loans is based on prices supplied by third parties.

Loans and advances also include **loans made to financial institutions** which were made at a time when they could not obtain loans from the financial markets and loans provided to make payments to deposit holders in failed institutions. It is not possible to provide a reliable estimate of the current fair values of these loans. For the statutory and FSCS loans, the counterparties are failed financial institutions which are in administration or wind-up. Therefore, there are no current market prices for loans to these bodies. Although fair values are not available, the table below provides an indication of the cost to HM Treasury of providing the loans, at current rates of interest, by discounting future cash flows receivable at HM Treasury's cost of borrowing, as approximated by UK gilt prices of a comparable maturity.

		2013-14		2012-13
	Amortised cost	Discounted at cost of borrowing	Amortised cost	Discounted at cost of borrowing
	£m	£m	£m	£m
Ireland loan	3,227.0	3,377.5	2,420.2	2,516.5
Dunfermline statutory debt	679.5	677.8	779.5	946.1
Icesave statutory debt	1,321.6	1,377.3	1,443.8	1,487.7
Icesave FSCS debt	470.8	480.6	727.8	728.8
KSF FSCS debt	331.9	338.3	601.9	616.7
KSF statutory debt	14.5	14.9	39.2	41.1
London Scottish FSCS debt	113.2	122.4	157.7	174.8
London Scottish statutory debt	6.1	6.2	4.7	5.0
Heritable FSCS debt	21.1	20.6	104.3	106.9
Heritable statutory debt	0.1	-	9.3	9.6
Loans given by IFUL	108.0	114.1	111.3	117.4
Investment securities held as loans by UKAR	753.8	753.8	1,306.2	1,306.2
Total	**7,047.6**	**7,283.5**	**7,705.9**	**8,056.8**

26.1.4 Debt securities in issue

Debt securities in issue are measured at amortised cost, as described in note 1.13. Their fair values are based on quoted prices or lead manager prices where available, or by using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

26.1.5 Financial guarantees

Financial guarantees primarily relate to guarantees provided under the National Loan Guarantee Scheme (NLGS), deposit guarantees, and other guarantees under the UK Guarantee and Help to Buy schemes. HM Treasury assesses the probability of default within the guarantee schemes at each reporting date and increases the carrying value of the liability above its amortised cost if necessary. As in prior years, default is not considered probable against any of the guarantees. For the guarantees other than NLGS guarantees, HM Treasury believes amortised cost to be materially the same as fair value.

Two banks participating in the National Loan Guarantee Scheme have issued guaranteed debt. Although default is not considered probable, we can calculate the expected loss on debt as implied by credit default swap rates in order to approximate the fair value of the guarantees, as shown below.

Financial guarantees	Carrying value	2013-14 Calculated expected loss on debt	Carrying value	2012-3 Calculated expected loss on debt
	£m	£m	£m	£m
Barclays	69.8	38.1	93.0	92.0
Lloyds Banking Group	115.6	31.1	153.0	96.0
Total	**185.4**	**69.2**	**246.0**	**188.0**

26.1.6 Other financial assets and liabilities

Other financial assets and liabilities are short term in nature, and HM Treasury considers carrying value to approximate fair value.

26.2 Financial instruments: fair value hierarchy

This section considers the information used to determine the fair value of financial assets and liabilities and categories them according to the source of information.

Level 1 fair values are measured using unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 fair values are measured using inputs other than quoted prices that are either directly or indirectly observable. Level 3 fair values are measured using at least one unobservable input which could have a significant effect on the instrument's valuation. There were no transfers between any levels during the year.

	Notes	Level 1 £m	Level 2 £m	Level 3 £m	Other[1] £m	Total £m
Available-for-sale financial assets	18	**25,702**	**20,906**	**146**	**6**	**46,760**
Of which:						
RBS and Lloyds ordinary shares		25,596				**25,596**
RBS B shares			15,861			**15,861**
Shares in public bodies[2]			3,049			**3,049**
BFP investments			296			**296**
RBS Dividend Access Share			1,485			**1,485**
Virgin Money perpetual capital notes				146		**146**
Royal Mint pubic dividend capital					6	**6**
Investment securities held by UKAR		106	215			**321**
BEAPFF derivative financial asset	19.1		**230**			**230**
Derivative financial assets held by UKAR	19.1	**-**	**4,616**	**-**	**-**	**4,616**
Derivative financial liabilities held by UKAR	19.2	**-**	**(446)**	**-**	**-**	**(446)**
Total		**25,702**	**25,306**	**146**	**6**	**51,160**

[1] This column comprises available-for-sale assets which are held at historical cost in accordance with the FReM. These assets cannot be classified within the fair value hierarchy.

[2] Shares in public bodies comprise investments in the Bank of England, Partnerships UK and Local Partnerships where net asset value is used as a proxy for fair value.

The RBS Dividend Access Share has been transferred from Level 3 in 2012-13 to Level 2 in 2013-14. This is because an agreement was reached with RBS to provide for the future retirement of the DAS at a value of £1.5 billion, meaning that a more accurate figure for the DAS can be calculated using the discounted cash flow method. For further information, please see note 2.4 of the accounts.

26.3 Risks arising from these financial instruments

These financial assets and liabilities expose the Treasury Group to the following material risks:

- Credit risk arising from the financial interventions
- Market risk or price risk arising from the financial interventions
- Credit risk arising from the mortgage business

The following sections look at the nature and extent of material risks arising from financial instruments, and how these risks are managed.

27. Financial risks arising from the Treasury Group's financial interventions

This section looks at the nature and extent of credit risk and market risk arising from the Treasury Group's financial interventions, and how Treasury manages these risks.

27.1 Managing risk at the Treasury

HM Treasury has accepted financial risks through its financial services interventions on the basis that the costs of inaction would have been far greater for the economy as a whole. The financial services interventions expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The HM Treasury board is ultimately responsible for managing these risks and HM Treasury's overall risk management programme. The risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on HM Treasury's financial performance. Financial risks are continually monitored and evaluated through normal management processes and form a core part of day-to-day operations for HM Treasury's policy teams and sub-committees.

Integral to HM Treasury's approach to financial risk management has been the design of the interventions and the terms and conditions imposed. Through the design of the interventions and their subsequent management, HM Treasury seeks to minimise the overall fiscal risk to the public sector while maximising taxpayer value within the confines of this mandate.

27.2 Credit risk arising from financial interventions

HM Treasury is exposed to credit risk through schemes entered into by the Government. The Treasury's credit risk arises as a result of Government interventions in providing loans and financial guarantees.

The final disbursement of the Treasury's £3.2 billion bilateral loan to Ireland was made on 26 September 2013. Repayments of the principal will commence in 2019 and conclude in 2021. Interest payments are made every six months until full repayment of the principal is made. HM Treasury continues to monitor risks to the repayment of the loan.

HM Treasury has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the administrators. A sensitivity analysis of the level of capital recovery for statutory debt loans from administrators is shown below.

		As at 31 March 2014		As at 31 March 2013	
Impairments as at 31 March	Total amount lent	Current/(forecast) recovery	SCNE impact of change in forecast recovery by+5%/-5%	Current/(forecast) recovery	SCNE impact of change in forecast recovery by+5%/-5%
	£m	%	£m	%	£m
KSF	494	82 (85)	24/(14)	77 (85)	23/(23)
London Scottish	31	36 (56)	2/(1)	34 (50)	1/(1)
Heritable	92	94 (94)	4/(1)	78 (88)	4/(4)
Icesave[1]	3,073	55 (100)	-/(40)	49 (100)	-/ (153)
Dunfermline[2]	1,540	56 (100)	-/-	49(100)	-/-
Total	**5,230**		**30/(56)**		**28/(181)**

[1] Following the ruling of the EFTA Court, the loan to the Depositors' and Investors' Guarantee Fund is not recoverable from the Icelandic authorities and is recoverable from the administration of the Icesave estate

[2] For the Dunfermline statutory debt, HM Treasury can recover its shortfall in the administration from levy payers, subject to a cap. Therefore the change in forecast recovery has no impact on the SCNE for the range considered reasonably possible above.

In-year and cumulative impairment charges for loans and advances comprise:

Impairments as at 31 March	Opening cumulative impairments charged to the SCNE	Impairments charged to the SCNE in year	Impairments reversed in the SCNE in year	2013-14 Closing cumulative impairments charged to the SCNE
	£m	£m	£m	£m
Loans and advances	(1,350)	(40)	8	(1,382)

27.3 Market risk arising from financial interventions

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: foreign exchange risk, price risk and interest rate risk.

27.3.1 Market risk: BEAPFF derivative

Market risk in the BEAPFF's asset portfolio arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets as a result of changes in market interest rates. Risk is monitored through the value at risk and in the form of 'delta'. Value at risk estimates the potential loss that might arise if existing positions were unchanged for ten business days under normal market conditions, given the historical volatility of the returns on different returns on assets, and the historical correlation between those returns. Delta is the change in valuation from a one basis point increase or decrease in market interest rates. The value at risk at 31 March 2014 was £6.9 billion (2012-13: £10.0 billion) and the delta was £330.9 million (2012-13: £389.0 million).

27.3.2 Price risk: Available-for-sale assets

HM Treasury is exposed to price risk for the equity securities it holds as available-for-sale assets. No market exists for the remaining investments, which are primarily other Government bodies, some of which are never intended for sale. Such investments are accounted for at net asset value or historical cost.

Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and RBS are listed on the London Stock Exchange. In addition, RBS' B-shares are considered to be equivalent in market value to RBS's ordinary shares.

The analysis below shows the impact on net operating income and reserves of a 10 per cent and 25 per cent increase or decrease in the market price of investments in RBS and Lloyds Banking Group, excluding the RBS dividend access share. These variances were considered reasonably possible as at the reporting date.

Change in market price	Net operating income	2013-14 Reserves	Net operating income	2012-13 Reserves
	£m	£m	£m	£m
Increase of 10 per cent	-	4,146	46	3,796
Increase of 25 per cent	-	10,364	46	9,558
Decrease of 10 per cent	-	(4,146)	(1,405)	(2,436)
Decrease of 25 per cent	(3,410)	(6,954)	(5,823)	(3,781)
Holding value of the shares at 31 March		**41,457**		**38,415**

27.4 Liquidity risk

Liquidity risk is the risk of being unable to pay liabilities as they fall due.

HM Treasury's liquidity management controls include monitoring cash flows to ensure that daily cash requirements are met and re-assessing the net cash requirement on a regular basis and reporting this to Parliament through Estimates. HM Treasury is not exposed to significant liquidity risk because it can apply for Parliamentary approval for additional cover to pay for any liquidity gap.

28. Financial risks arising from the mortgage business

Treasury is exposed to financial risks arising from the mortgage business through the consolidation of UKAR. This section looks at the nature and extent of credit risk and how this is managed.

The following table describes the significant activities undertaken by UKAR which give rise to financial or market risk, the potential consequences associated with such activities and the derivative instruments used by UKAR to mitigate the risks arising.

Activity	Risk	Type of derivative instrument used
Funding activities in sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgage lending and investment activities involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Variable rate mortgage products	Sensitivity to changes in interest rates	Interest rate swaps
Investment and funding in foreign currencies	exchange rates	Cross-currency interest rate swaps and foreign exchange contracts

Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on UKAR's SoFP, and from the investment profile of UKAR capital and reserves. UKAR measures, monitors and controls the following interest rate risks and sensitivities: mismatch risk, curve, prepayment risk, basis risk, and reset risk. Exposures are reviewed as appropriate by its senior management and board with a frequency between daily and monthly, related to the granularity of the position. Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps. UKAR also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to UKAR. Interest rate sensitivities are reported monthly and are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve.

Further details of UKAR's approach to risk management and control are provided on pages 52 to 55 of UKAR's 2013-14 Annual Report. The description of risks on those pages form an integral part of the audited financial statements.

28.1 Use of derivatives

In relation to the mortgage business, derivative instruments are used for the purpose of supporting the strategic and operational business activities of UKAR and reducing the risk of loss arising from changes in interest rates and exchange rates. Derivative instruments are used to hedge risk exposure and the objective is to ensure that the risk-to-reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges. However IAS 39 requires certain tests to be satisfied before hedge accounting is permitted. Consequently not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected or because satisfying these tests would be prohibitively onerous.

(i) Fair value hedges

UKAR designates a number of derivatives as fair value hedges. In particular, UKAR has three approaches establishing relationships for:

- Hedging the interest rate and foreign currency exchange rate risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps.

- Hedging the interest rate risk of a single currency portfolio of sterling, US Dollar or Euro non-prepayable fixed rate assets/liabilities on a one-for-one basis with vanilla fixed/floating or floating/fixed interest rate swaps.
- Hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages. The Group believes this solution is consistent with its policy for hedging fixed rate mortgages on an economic basis.

(ii) Cash flow hedges

UKAR designates a number of derivatives as cash flow hedges. In particular, UKAR adopts the following approaches:

- Using fixed interest rate swaps to hedge floating rate sterling liabilities.
- To address the volatility generated by floating/floating cross currency swaps, they are placed into cash flow hedges; the accounting hedge relationship is to hedge the foreign currency exchange rate risk of the foreign currency denominated asset/liability.
- Fixed/floating cross currency swaps are split into their separate risk components and separately designated into cash flow hedges.
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges.

UKAR had the following types of hedges

	Cashflow hedges	Fair value hedges	Economic hedges	As at 31 March 2014 Total	As at 31 March 2013 Total
	£m	£m	£m	£m	£m
Total derivative financial assets held by UKAR	4,604.5	6.7	5.0	**4,616.2**	**6,380.4**
Total derivative financial liabilities held by UKAR	(87.0)	(320.8)	(38.2)	**(446.0)**	**(764.0)**
Fair value of hedging instruments	4,517.5	(314.1)	(33.2)	**4,170.2**	**5,616.4**

28.2 Credit risk arising from the mortgage business

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. Credit risk is the largest risk the UKAR Group faces. The most significant credit risk for the UKAR Group is the exposure to retail, commercial and wholesale counterparties failing to meet their obligations. Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of loans and therefore the financial performance of the UKAR Group.

As no new lending is now being undertaken, UKAR’s ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity, and credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from: changes in the underlying economic environment; assumptions about the future trends in the economy; changes in the specific characteristics of individual loans; and the credit risk strategies developed to add value to the book whilst mitigating credit risk.

As credit risk is the main risk to the UKAR Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The Group closely monitors its credit risk against its credit policies and employs credit behaviour scoring and fraud detection techniques to support loss minimising strategies.

The maximum credit risk exposure at the reporting date before taking account of any collateral netting and other credit enhancements was as follows:

	2014 £m	2013 £m
Cash	7,524	8,867
Loans to Customers	61,250	67,542
Derivative financial instruments	4,616	6,380
Investment securities	1,075	1,811
Other financial assets	30	22
Total	**74,495**	**84,622**
Off-balance sheet loan commitments	**1,757**	**1,806**

The UKAR board has approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures are continually monitored and controlled. The credit limit structure adopts a risk based matrix whereby lower rated counterparties are afforded lower overall levels of limit. Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation is also used in the limit assignment process. Counterparties are assigned maximum limits in accordance with the ratings matrix, based on the lowest rating afforded to any part of the counterparty group.

The Group has investments in a range of investment securities issued by government bodies, banks and building societies, and in asset-backed securities, in both the UK and overseas. UK government securities, bank and supranational bonds comprise 10% (2012: 15%) of investment securities held. 39% (2012: 53%) of the asset-backed securities are backed by UK assets. Further details in respect of concentrations in the wholesale assets portfolio are detailed in UKAR's 2013-14 financial statements note 12(b) on page 99.

The Group operates primarily in the UK, and adverse changes to the UK economy could impact all areas of the Group's business. Residential mortgages are all secured on property in the UK. 39% (2012: 37%) of residential mortgages are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £59.3 billion (2012: £66.1 billion) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 42% (2012: 42%) of the book.

Within the commercial mortgage portfolio and housing association loans, there are 115 loans (2012: 147) totalling £0.6 billion (2012: £0.8 billion), with the largest 10 loans accounting for 65% (2012: 67%) of the portfolio. All of these loans are secured on commercial properties.

28.2.1 Credit risk: loans to banking customers

	Residential loans £m	Commercial loans £m	Unsecured loans £m	As at 31 March 2014 Total £m	As at 31 Dec 2012[1] Total £m
Neither past due nor impaired	55,856.3	446.4	1,225.8	57,528.5	62,671.5
Past due, but not impaired					
- less than 3 months	2,303.3	1.5	84.0	2,388.8	3,519.9
- 3 to 6 months	919.3	-	26.9	946.2	1,505.1
- over 6 months	643.3	-	130.8	774.1	1,224.7
Impaired	774.2	266.0	29.1	1,069.3	1,727.3
Total loans to customers	**60,496.4**	**713.9**	**1,496.6**	**62,706.9**	**70,648.5**
Impairment allowances	(1,151.8)	(90.9)	(214.7)	(1,457.4)	(1,914.9)
Total loans to customers net of impairment allowances	**59,344.6**	**623.0**	**1,281.9**	**61,249.5**	**68,733.6**

[1] Comparatives as at 31 December 2012 have been used from UKAR's published Annual Accounts, as it was not practicable to re-do the analysis as at the 31 March 2013.

'Impaired' loans are those which are 12 months or more in arrears, in possession or held for sale with an LPA receiver, and others which management consider to be individually impaired.

Residential mortgages: collateral held and loan to value

In respect of residential mortgages, the Group holds collateral in the form of mortgages over residential properties. The fair value of this collateral, estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the reporting date, was as follows:

	As at 31 March 2014 £m	As at 31 March 2013 £m	As at 31 Dec 2012 £m
Neither past due nor impaired	80,744.9	81,228.0	82,351.1
Past due, but not impaired	4,651.8	6,296.6	6,547.0
Impaired	784.9	1,260.5	1,151.6
Total collateral held in respect of residential mortgages	**86,181.6**	**88,785.1**	**90,049.7**

If the collateral amount on each individual loan were capped at the amount of the balance outstanding, and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	As at 31 March 2014 £m	As at 31 March 2013 £m	As at 31 Dec 2012 £m
Neither past due nor impaired	55,139.6	57,832.7	58,712.30
Past due, but not impaired	3,757.9	5,376.7	5,605.30
Impaired	695.5	1,121.2	1,045.20
Total collateral held in respect of residential mortgages	**59,593.0**	**64,330.6**	**65,362.80**

The indexed loan to value ('LTV') of residential mortgage balances, weighted by loan balance, falls into the following ranges:

	As at 31 March 2014 %	As at 31 March 2013 %	As at 31 Dec 2012 %
To 50% loan to value	7.6	6.5	6.7
50% to 75% loan to value	21.8	14.5	14.7
75% to 100% loan to value	52.7	45.2	45.3
Over 100% loan to value	17.9	33.8	33.3
Total	**100**	**100**	**100**

Residential mortgage and unsecured loans: arrears and possessions

Arrears and possessions are monitored for residential and unsecured loans as follows:

		As at 31 March 2014		As at 31 March 2013	
		Residential loans	Unsecured loans	Residential loans	Unsecured loans
Arrears 3 months and over					
- Number of cases (proportion of total cases)	No.	14,139 (2.68%)	10,445 (8.76%)	21,338 (3.70%)	24,022 (10.90%)
- Asset value (proportion of book value)	£m	2,067.5 (3.48%)	172.7 (13.47%)	3,075.5 (4.73%)	317.0 (17.52%)
- Total value of payments overdue (portion of book)	£m	84.3 (0.14%)	23.0 (1.80%)	120.6 (0.19%)	94.7 (5.23%)
Possessions					
- Number of cases (proportion of total cases)	No.	1,344 (0.25%)	-	2,364 (0.40%)	-
- Asset value (proportion of book value)	£m	199.0 (0.34%)	-	338.0 (0.52%)	-
- Total value of payments overdue (portion of book)	£m	14.0 (0.02%)	-	22.0 (0.03%)	-
Arrears 3 months and over and Possessions	No.	15,483 (2.93%)	10,445 (8.76%)	23,702 (4.11%)	24,022 (10.90%)
- Number of cases (proportion of total cases)	£m	2,266.5 (3.82%)	172.7 (13.47%)	3,413.5 (5.25%)	317.0 (17.52%)
- Asset value (proportion of book value)	£m	98.3 (0.16%)	23.0 (1.80%)	142.6 (0.22%)	94.7 (5.23%)
- Total value of payments overdue (portion of book)					
Payments overdue in respect of all arrears and possessions	£m	121.2 (0.20%)	23.8 (1.86%)	175.3 (0.27%)	96.6 (5.34%)
Loan impairment provision: as % of total balances	%.	1.90%	14.35%	2.06%	18.11%
Loan impairment provision: new possessions	No.	6,996	-	7,181	-

28.2.2 Credit risk: UKAR's Investment securities

Credit risk arising from investment securities and unsecured investment loans:

				As at 31 March 2014				As at 31 March 2013
	Available-for-sale securities	Investment securities held as loans and receivables	Unsecured investment loans	Total	Available-for-sale securities	Investment securities held as loans and receivables	Unsecured investment loans	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Neither past due nor impaired	181.6	661.1	-	**842.7**	400.1	1,076.6	143.8	**1,620.5**
Impaired	374.1	85.1	216.9	**676.1**	474.4	116.3	256.5	**847.2**
	555.7	746.2	216.9	**1,518.8**	874.5	1,192.9	400.3	**2,467.7**
Provisions	(234.9)	(66.4)	(142.9)	**(444.6)**	(370.1)	(30.5)	(256.5)	**(657.1)**
Total	**320.8**	**679.8**	**74.0**	**1,074.2**	**504.4**	**1,162.4**	**143.8**	**1,810.6**

28.3 Foreign currency risk

The mortgage business includes investment and funding in foreign currencies and this gives rise to foreign currency risk given their sensitivity to changes in foreign currency exchange rates. UKAR's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 March 2013 and 2014, it had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on UKAR's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 March 2013 and 2014.

The table below summarises the UKAR's exposure to foreign currency exchange rate risk at the year end, based on the information presented to management. Included in the table are the

UKAR's financial instruments, including those classified as equity, under the relevant currency headings. The amounts disclosed are the sterling equivalents of the notional amounts due on maturity, including interest accrued at the reporting date, less any impairment provisions. Although equity instruments denominated in foreign currency are recorded in the Statement of Financial Position at their original settlement rates, closing rates are used here to provide sterling equivalents of the currency amounts.

UKAR	EUR £m	USD £m	Other £m	As at 31 March 2014 Total £m
Total financial assets	15,970.2	5,801.8	732.9	**22,504.9**
Total financial liabilities	(15,985.3)	(5,779.4)	(732.9)	**(22,497.6)**
Non-shareholder funds	-	(10.4)	-	**(10.4)**
Net currency gap/(surplus)	**(15.1)**	**12.0**	**-**	**(3.1)**

UKAR	EUR £m	USD £m	Other £m	As at 31 March 2014 Total £m
Total financial assets	18,725.0	7,533.3	951.9	**27,210.2**
Total financial liabilities	(18,723.4)	(7,520.4)	(951.9)	**(27,195.7)**
Non-shareholder funds	-	(11.5)	-	**(11.5)**
Net currency gap/(surplus)	**1.6**	**1.4**	**-**	**3.0**

Further details are available in UKAR's Annual Report and Accounts in Note 37(c) on pages 120-121.

28.4 Liquidity risk

Liquidity risk is the risk of being unable to pay liabilities as they fall due.

UKAR closely monitors its liquidity position against its liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

The table below looks at UKAR's liquidity position as used by management to monitor its liquidity risk, evaluated by comparing its financial assets and liabilities on a stand alone basis, including balances with HM Treasury, into relevant maturity groupings.

UKAR	Up to 3 months £m	3-12 months £m	Over 1 year £m	As at 31 March 2014 Total £m
Total financial assets	8,060.7	481.3	66,260.6	74,802.6
Total financial liabilities	(42,555.4)	(2,495.3)	(23,092.4)	(68,143.1)
Net liquidity gap	**(34,494.7)**	**(2,014.0)**	**43,168.2**	**6,659.5**
Net liquidity gap excluding HMT loans	3,855.8	(2,014.0)	43,168.2	45,010.0

UKAR	Up to 3 months £m	3-12 months £m	Over 1 year £m	As at 31 March 2013 Total £m
Total financial assets	9,634.4	790.1	74,671.3	85,095.8
Total financial liabilities	(48,797.5)	(2,568.1)	(27,980.8)	(79, 346.4)
Net liquidity gap	**(39,163.1)**	**(1,778.0)**	**46,690.5**	**5,749.4**
Net liquidity gap excluding HMT loans	3,832.2	(1,778.0)	46,691.4	48,745.6

The table below analyses UKAR's cash flows for derivative and non-derivative financial liabilities into relevant maturity groupings.

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Non-derivatives: as at 31 March 2013	49,752.2	1,043.5	2,730.9	18,769.6	10,307.1	**82,603.3**
Derivatives: as at 31 March 2013	-	48.1	112.4	368.3	985.1	**1,513.9**
Non-derivatives: as at 31 March 2014	43,197.8	1,164.1	2,748.5	16,876.4	7,613.7	**71,600.5**
Derivatives: as at 31 March 2014	-	43.3	98.5	298.8	905.2	**1,345.8**

Further details are available in UKAR's Annual Report and Accounts in Note 37b on page 119.

29. Capital commitments

	2013-14	2012-13
	£000	£000
Contracted capital commitments not otherwise included in these financial statements		
UKAR capital commitments[1]	700	2,800
HMT IT projects	1,325	-
Sovereign Grant property maintenance	1,631	4,276
Sovereign Grant Helicopter maintenance	213	2,694
OSCAR IT upgrade project	-	442
Royal Train maintenance	-	247
Total capital commitments not otherwise included in these financial statements	**3,869**	**10,459**
Of which:		
Core Treasury and agencies	1,325	442
NDPBs and other bodies	2,544	10,017
Group total	**3,869**	**10,459**

[1] The comparative figures for capital commitments include UKAR balances as at 31 December 2012 rather than 31 March 2013, as it was not practicable to re-do the full analysis for 31 March 2013, and there was no material change during those three months.

Capital commitments comprise future commitments to capital expenditure for the acquisition of property, plant and equipment and intangible assets that are contracted for but not provided for in the financial statements.

30. Commitments under leases

30.1 Operating leases

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

	2013-14		2012-13 (Restated)	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group[1]
	£000	£000	£000	£000
Buildings:				
Not later than one year	1,516	3,828	1,452	2,631
Later than one year and not later than five years	4,614	14,220	4,630	10,029
Later than five years	2,019	16,168	3,172	5,463
	8,149	**34,216**	**9,254**	**18,123**
Other:				
Not later than one year	256	933	137	547
Later than one year and not later than five years	416	681	215	756
Later than five years	-	2,592	-	3,075
	672	**4,206**	**352**	**4,378**

[1] The comparatives figures for the Group include UKAR balances as at 31 December 2012 rather than 31 March 2013, as it was not practicable to re-do the full analysis for 31 March 2013, and there was no material change during those three months..

30.2 Core Treasury PFI contract

In May 2000, HM Treasury entered into a 35 year PFI contract with Exchequer Partnership in respect of Core HM Treasury's buildings at 1 Horse Guards Road. Applying the principals of IFRIC 12 Service Concession Arrangements, the provision of the serviced accommodation at 1 Horse Guards Road building is recognised as an asset of HM Treasury with a net book value of £61.2 million (2012-13: £62.7 million) in Note 13. A full valuation was carried out by the Valuation Office Agency (VOA) in March 2010. A desktop revaluation was carried out in February 2013 by the VOA. The PFI finance lease obligation has been accounted for as a liability in Note 21.

The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements: imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

The finance lease obligation under the PFI contract comprises:	**2013-14** **£000**	**2012-13** **£000**
Rentals due within one year	11,275	11,275
Rentals due between two to five years	45,100	45,100
Rentals due thereafter	206,710	217,986
Gross present value of future obligations	**263,085**	**274,361**
Finance charges allocated to future periods	(137,857)	(147,189)
Total	**125,228**	**127,172**

The total amount charged in the SCNE in respect of the service element (including contingent rent) was £11.9 million (2012-13: £10.9 million). At 31 March 2014 HM Treasury was committed to pay minimum service charges in future years:

	2013-14 **£000**	**2012-13** **£000**
Service charge due within one year	12,591	11,336
Service charge due between two to five years	58,581	51,836
Service charge due thereafter	467,086	454,280
Total service charges	**538,258**	**517,452**

No other members of the Treasury group have entered into PFI arrangements.

31. Other financial commitments

	2013-14 **£000**	**2012-13** **£000**
Financial commitments not otherwise included in these financial statements		
UKAR loan commitments	1,757,300	1,806,200
Undrawn lending commitments relating to the Business Finance Partnership	573,371	694,784
UK Guarantees Northern Line extension loan commitment	750,000	-
Undrawn loan facilities provided by IFUL to other PFI projects	1,901	1,948
Bilateral loan to Ireland	-	806,740
Total other financial commitments not otherwise included in these financial statements	**3,082,572**	**3,309,672**
Of which:		
Core Treasury and agencies	750,000	806,740
NDPBs and other bodies	2,332,572	2,502,932
Group total	**3,082,572**	**3,309,672**

UKAR loan commitments represent contractual amounts to which UKAR is committed for extension of credit to its banking customers. In respect of lifetime mortgages which involved the advance of a lump sum on which interest continues to accrue but is not payable until the loan is redeemed, the commitment reflects an estimate of the interest expected to roll up until redemption. In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption. On other loans, the commitment comprises cash which could be drawn down by customers in respect of further advances and re-drawal of amounts voluntarily overpaid.

IFUL has provided undrawn contracted commitments with six fund managers in respect of prospective investments to be made under the Business Finance Partnership, as well as undrawn loan facilities to pre-existing PFI projects.

The Bilateral loan to Ireland is now recognised in the Statement of Financial Position, as disclosed in Note 16 'Loans and advances'.

HM Treasury also provides a working capital facility to B&B and NRAM. As at 31 March 2014, the undrawn working facilities for B&B and NRAM were £6,525 million and £2,500 million respectively (2012-13: £4,750 million and £2,500 million). As B&B and NRAM are subsidiaries of UKAR and therefore part of the Treasury Group, these working capital facilities are intra-group balances and not shown in the table above.

Manufacturing coinage

HM Treasury has committed to pay the Royal Mint for the metal and manufacturing costs of supplying new UK circulating coinage to meet the demand from banks and other distributors. The manufacturing price is agreed in a Coinage Contract covering 2011-12 to 2014-15. The Royal Mint recharges HM Treasury for the metal prices it incurs, which are variable in line with market prices.

HM treasury makes monthly payments for coins manufactured by the Royal Mint. Coins which have been produced and paid for by HM Treasury but have not yet been issued are stored by the Royal Mint and held as inventory on HM Treasury's SoFP. The coins are later issued to the coin centres and then purchased by banks at face value when required. The payments by the banks are made into the Coinage Deposit Account and surrendered to the Consolidated Fund by the Royal Mint.

For the year 2013-14 HM Treasury paid for the production of 1,716 million coins (2012-13: 1,456 million) and 1,946 million (2012-13 1,398 million) coins were despatched to the coin centres. The net inventory movement resulted in manufacturing charges of £32.6 million (2012-13: £21.7 million) to the SCNE, including VAT, and metal charges of £21.8 million (2012-13: £24.5 million).

32. Contingent liabilities

32.1 Contingent liabilities disclosed under IAS 37

NRAM plc

HM Treasury has confirmed to the Prudential Regulatory Authority (PRA) [9] its intention to take appropriate steps (should they prove necessary) to ensure that NRAM plc will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are estimated to be £1.6 billion. If this contingent liability crystallised, it would result in a transaction between HM Treasury and NRAM, and therefore would be eliminated from the Group position.

Bradford & Bingley plc

HM Treasury has confirmed to the PRA its intention to take appropriate steps (should they prove necessary) to ensure that Bradford & Bingley will continue to operate above the

[9] With effect from 1 April 2013 the Financial Services Authority has been abolished and superseded by the Financial Conduct Authority and the Prudential Regulation Authority. From 1 April 2013, HM Treasury's confirmation is to the Prudential Regulation Authority

minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the PRA which may vary as circumstances demand. In addition, the Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 requires HM Treasury to give a guarantee or to make other arrangements for the purposes of securing that the assets of the remaining section of the Bradford & Bingley Pension Scheme are sufficient to meet its liabilities. HM Treasury has therefore guaranteed to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. The size of the contingent liability is £20.3 million as at 31 March 2014, based on the most recent published accounts of Bradford & Bingley. If these contingent liabilities crystallised, they would result in transactions between HM Treasury and B&B, and therefore would be eliminated from the Group position.

Virgin Money

Under the terms of the sale of Northern Rock plc, HM Treasury has provided certain warranties and a tax indemnity to Virgin Money. The warranties and tax indemnity are both time-limited and subject to an overall cap (100 per cent of the final consideration in relation to the warranties in relation to title, capacity and authority and 35 per cent of the final consideration in other cases).

The warranties in relation to title, capacity and authority have now expired. HM Treasury received initial proceeds in November 2011 of £747 million of cash and a perpetual Tier 1 capital note valued at £66 million on acquisition and received a further £73 million of cash proceeds in July 2012. Based on consideration received to date, maximum potential liabilities under the tax indemnity are estimated to be £310 million as at 31 March 2014. This may increase if additional consideration is received under the sale agreement.

NRAM loans

Prior to 6 April 2008, NRAM made unsecured loans for sums in excess of £25,000 using documentation which incorrectly stated that these loans were regulated under the Consumer Credit Act (CCA). To provide clarity for themselves and their customers, NRAM has commenced declaratory proceedings in the High Court to determine whether customers who took out such loans are entitled to the same or similar rights and remedies as those customers who took out loans that were regulated under the CCA. Clarity is expected by 31 March 2015. In the event of an adverse decision, then NRAM would consider the impact and could be liable for remediation to these customers. Any such remediation would be likely to be through adjustment to customer balances. The current exposure, as at 31 March 2014, resulting from this uncertainty, together with any other potential actions following a judgement, falls within a range up to an estimated maximum of £240 million.

Royal Mint Trading Fund

The Royal Mint Trading Fund has a Memorandum of Understanding arrangement with the National Loans Fund by which it can draw down against a financing facility, with an upper limit of £36 million. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50 million. If the Royal Mint Trading Fund was unable to meet this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met by HM Treasury.

Pool Re and Pool Re (Nuclear) Limited

Pool Re and Pool Re (Nuclear) are mutual reinsurance companies, owned by insurers. They provide terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption following a terrorist attack in Great Britain. HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. The total reserves of Pool Re as at the date of their last published accounts (December 2013) were £5.3 billion (2012: £4.9 billion) and of

Pool Re (Nuclear) were £26.9 million (2012: £25.6 million). In the event of losses exceeding their available resources, HM Treasury will fund the difference which will be repaid over time. Maximum potential liabilities under this arrangement are considered unquantifiable. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Compensation schemes

In accordance with Section 4 of the Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009, HM Treasury was required to appoint a panel to appoint the independent valuer. HM Treasury has indemnified members of the Appointment Panel against any and all claims, losses, damages and liabilities incurred in connection with, or arising from, their membership of the Panel and the performance of the Panel's functions. No claims against the indemnity have been made in 2013-14 or in prior years. Maximum potential liabilities under this intervention are considered unquantifiable.

Under the Northern Rock plc Compensation Scheme Order 2008 an independent valuer was appointed to assess what compensation, if any, is payable to former shareholders and others as a result of the company being taken into public ownership. On 30 March 2010 the valuer issued Assessment Notices and a Final Document, in which he concluded that no compensation is payable. A number of former shareholders referred the case to the Upper Tribunal and subsequently the Court of Appeal which both upheld the independent valuer's interpretation of the statutory valuation assumptions. No appeal to the Supreme Court has or will be heard and accordingly, the independent valuer's determination that no compensation is payable to Northern Rock shareholders (and to those whose rights to receive shares have been extinguished) stands. Therefore, no contingent liability existed at 31 March 2014.

Royal Bank of Scotland plc (RBS)

HM Treasury made available £8 billion of contingent capital to RBS in return for a premium of 4 per cent per annum. This commitment was in place for 5 years, until 22 December 2014, but was ended early by the bank in 2013-14 with the consent of the Financial Services Authority. Therefore no contingent liability existed at 31 March 2014.

32.2 Financial guarantees, indemnities and letters of comfort

The Department has entered into the following guarantees and indemnities. None are contingent liabilities under IAS 37 as the likelihood of a transfer of economic benefit in settlement is too remote. As financial instruments, they are measured following the requirements of IAS 39.

Director indemnities

HM Treasury has guaranteed indemnities provided by UKAR, B&B, NRAM, UKFI and IFUL to directors against liabilities and losses incurred in the course of their actions whilst the companies are in public ownership. Maximum potential liabilities under this intervention are considered unquantifiable.

HM Treasury has also guaranteed indemnities provided by the BEAPFF for its officers and directors against liabilities and losses incurred in the course of their actions in relation to the operation of the Asset Purchase Facility. Maximum potential liabilities under this intervention are considered unquantifiable.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The Government has indemnified the Bank of England and the fund specially created to implement the facility from any losses arising out of or in connection with the facility. The maximum authorised value of purchases under the BEAPFF is £385 billion. The current fair value of assets under the scheme is £375.6 billion (2012-13: £396.0 billion), and a BEAPFF derivative asset of

£0.2 billion is carried at fair value on the SoFP as at the reporting date (2012-13: derivative asset of £44.3 billion), see note 19.1.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and has helped businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. £2.9 billion worth of NLGS bonds are in issue under the scheme. Banks are required to pass on the entire benefit they receive from these guarantees to smaller businesses across the UK through cheaper loans. Current market conditions mean that the Funding for Lending Scheme (FLS) is a more favourable option for banks, and banks who have previously offered NLGS loans are now choosing to deliver credit easing through the FLS. The NLGS is not currently open for new guarantees, but in the event that stressed market conditions re-emerge, HM Treasury would consider whether to reopen the scheme.

Virgin Money

HM Treasury announced guarantee arrangements with effect from 1 January 2010 in respect of retail deposits and wholesale liabilities transferred to Northern Rock plc pursuant to the restructuring of the bank. On 17th November 2011, Northern Rock plc was sold to Virgin Money. Virgin Money made a cash payment of £747 million to HM Treasury, with a potential further £50 million cash consideration within six months of completion. In addition to the cash payment, the Government is holding a capital instrument in Virgin Money worth £150 million and which bears discretionary interest of 10.5%. Further, in the event of a profitable sale or Initial Public Offering by Virgin Money, an additional cash consideration of £50-80 million will be paid so the Government can benefit from the upside of a future disposal. The value of this deal represented approximately 80% to 90% of the book value of Northern Rock plc.

HM Treasury continues to guarantee fixed term retail deposits existing at 24 February 2010 until their maturity. Maximum potential liabilities under this intervention are estimated to be £71.7 million based on guaranteed deposits at the reporting date (2012-13: £184.0 million), of which a financial guarantee liability of £5.3 million is carried at fair value on the SoFP at the reporting date (2012-13: £10.6 million).

NRAM plc guarantees

HM Treasury announced replacement guarantee arrangements with effect from 1 January 2010 to continue to safeguard certain borrowings and wholesale deposits held in accounts with NRAM plc existing immediately after the transfer to Northern Rock plc. Maximum potential liabilities under this intervention are estimated to be £7.1 billion as at the reporting date (2012-13: £7.4 billion), of which a financial guarantee liability of £90.4 million is carried at fair value on the SoFP (2012-13: £99.7 million). There is no contingent liability at the group level.

Bradford & Bingley guarantees

In September and October 2008, HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley. Maximum potential liabilities under this intervention are estimated to be £2.6 billion as at 31 March 2014 (2012-13: £2.8 billion), of which a financial guarantee liability of £369.7 million is carried at fair value on the SoFP at the reporting date (2012-13: £406.8 million). There is no contingent liability at the group level.

UK Guarantees

The Chancellor of the Exchequer and Chief Secretary to HM Treasury announced the UK Guarantees scheme on 18 July 2012. The scheme aims to kick start critical infrastructure projects that may have stalled because of adverse credit conditions. Around £40 billion of guarantees could be offered. Maximum potential liabilities under this intervention are estimated to be £83.3 million as at 31 March 2014 (2012-13: nil). In addition, HM Treasury committed to a £257.2 million guarantee on 28 March 2014, but the liability did not come in to effect until 1 April 2014.

Help to Buy (HMT) Limited mortgage guarantee scheme

The Help to Buy: mortgage guarantee scheme was launched on 2 January 2014. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. In the event of a borrower defaulting on their mortgage, HM Treasury would be liable for a portion of net losses suffered following the sale of the property. The scheme rules provide for a maximum contingent liability of £12 billion. Maximum potential liabilities under this intervention are estimated to be £94.6 million as at 31 March 2014, of which a financial guarantee liability of £9 million is carried at fair value on the SoFP at the reporting date. For further details, please see the scheme rules[10].

Insurance Brokers' Registration Council

Under the Financial Services and Markets Act 2000 (Dissolution of Insurance Brokers Registration Council) (Consequential Provisions) Order 2001 which came in to force on 30 April 2001, all assets and liabilities of the Insurance Brokers' Registration Council (IBRC) passed to HM Treasury. HM Treasury Minute of 10 April 2001 complemented this order by indemnifying former members of the IBRC in their personal capacity. Maximum potential liabilities under this intervention are considered unquantifiable.

33. Losses and special payments

The administration costs of HM Treasury and its agencies include £16,000 of losses (2012-13: £125,000) arising from contract terminations, claims for losses, and claims waived or abandoned.

HM Treasury and its agencies made no special payments in year (2012-13: £99,000). Further details on exit packages can be found in Note 6.

34. Related party transactions

HM Treasury is the parent to the agencies, and sponsor of the NDPBs and other bodies, listed in note 1.2. These bodies are regarded as related parties. HM Treasury has had material transactions with UKAR and FSCS, including material loan balances and repayments as disclosed note 16 'Loans and advances'.

The UKAR Group has material balances with related parties comprising deposits with the Bank of England, loans from HM Treasury, and statutory debt. HM Treasury has also provided guarantee arrangements to the UKAR Group, for which the Group pays fees. It also pays regulatory fees and levies to FSCS. In the normal course of business the FSCS and UKAR have borrowing facilities with banks including Lloyds and RBS. To manage its exposure to interest rate and foreign currency rate risk; UKAR holds derivative swaps with RBS.

Although the Bank of England, the Royal Mint, Partnerships UK, Local Partnerships, Royal Bank of Scotland and Lloyds Banking Group fall outside the resource accounting boundary, their share capital is either wholly owned or substantially owned by HM Treasury. Dividends and other income received from these bodies are material and recorded in the SCNE.

HM Treasury in its role as custodian of the Consolidated Fund has transactions with other Government departments and Central Government bodies but those transactions are outside the scope of these accounts and are disclosed instead in the Consolidated Fund statements.

Organisations within the Treasury group have had various material transactions with other government departments and central government bodies. The most significant of these are National Savings and Investments, Her Majesty's Revenue and Customs and the Cabinet Office. Other significant bodies include: the Commissioners for the Reduction of the National Debt,

[10] https://www.gov.uk/government/publications/help-to-buy-mortgage-guarantee-scheme-rules

the Public Works Loans Board, the Department for Energy and Climate Change, the Attorney General's Office, and the FCA.

Baroness Hogg, HM Treasury's Lead Non Executive Director, provided consultancy services to the department. Consultancy fees totalled £15,000 for 2013-14 (2012-13: £4,200).

Kirstin Baker, Group Director, Finance and Commercial, was appointed a non-executive board member of UKFI in January 2013. In this capacity she also chairs UKFI's Audit Committee. She receives no remuneration for this role.

Christopher Fox, UKFI's Head of Banking, is a non-executive member of the boards of UK Asset Resolution, Bradford and Bingley Plc and NRAM plc.

No Minister, board member, key manager or other related party has undertaken any material transaction with HM Treasury during the year.

Details of compensation for key management personnel can be found in the remuneration report in Chapter 6.

35. Events after the reporting period

On 30 June 2014, an asset transfer was executed with the transfer of the Business Finance Partnerships for medium sized enterprises from the Infrastructure Finance Unit Ltd within the HM Treasury group to British Business Investments Limited (BBIL), a company within the Department for Business Innovation and Skills (BIS) group, with the intention that this credit easing programme will ultimately transfer into the Business Bank. At the same time HM Treasury transferred the loan, which had financed IFUL's investment in BFP, to BIS with both BIS and BBIL novating HM Treasury and IFUL within a keep well agreement such that all assets and liabilities relating to the BFP, transferred out of HM Treasury group.

In June 2014, the Department for Transport transferred its 40% stake in Eurostar International Ltd to HM Treasury in advance of the government's intended sale of its stake in the company.

On 15 May 2014 NRAM announced tender offers in respect of certain securities issued by Whinstone Capital Management Limited and Whinstone 2 Capital Management Limited. The tender process closed on 27 May 2014, resulting in the sale of notes with a face value of £87.2 million and €156.4 million, for cash of £233.6 million including costs.

On 10 June 2014, Bradford & Bingley announced tender offers in respect of certain securities issued by Bradford & Bingley Covered Bonds LLP. The tender process closed on 30 June 2014, resulting in the sale of notes with a face value of CHF 317.0 million, for cash of £129.5 million including costs.

36. Date authorised for issue

The financial statements were authorised for issue by the Permanent Secretary on 14 July 2014.

Statement of Parliamentary Supply

for the year ended 31 March 2014

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

Voted totals and the Net Cash Requirement figures shown below are subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Estimate of Administration costs will also result in an excess vote. Explanations of variances between Estimate and outturn are given in the notes to the SOPS and Chapter 5.

								2013-14	2012-13 (Restated)
		Estimate			Outturn			Voted Outturn compared with Voted Estimate	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	saving/ (excess)	Total
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
Resource	SOPS2.1	(181,527)	11,500	**(170,027)**	(264,324)	11,280	**(253,044)**	82,797	**(194,899)**
Capital	SOPS2.2	(4,790)	-	**(4,790)**	(5,860)	-	**(5,860)**	1,070	**17,988**
Annually Managed Expenditure									
Resource	SOPS2.1	10,602,025	3,259	**10,605,284**	6,264,311	3,798	**6,268,109**	4,337,715	**(19,298,938)**
Capital	SOPS2.2	(5,723,147)	-	**(5,723,147)**	(11,724,724)	-	**(11,724,724)**	6,001,577	**(6,923,746)**
Total Budget		4,692,561	14,759	**4,707,320**	(5,730,597)	15,078	**(5,715,519)**	10,423,159	**(26,399,595)**
Non-Budget		-	-	**-**	-	-	**-**	-	**-**
Total		**4,692,561**	**14,759**	**4,707,320**	**(5,730,597)**	**15,078**	**(5,715,519)**	**10,423,159**	**(26,399,595)**
Total Resource		10,420,498	14,759	**10,435,257**	5,999,987	15,078	**6,015,065**	4,420,512	**(19,493,837)**
Total Capital		(5,727,937)	-	**(5,727,937)**	(11,730,584)	-	(11,730,584)	6,002,647	**(6,905,758)**
Total		**4,692,561**	**14,759**	**4,707,320**	**(5,730,597)**	**15,078**	**(5,715,519)**	**10,423,159**	**(26,399,595)**
Net Cash Requirement	SOPS4			**(8,565,687)**			**(13,542,195)**	4,976,508	**(7,065,308)**
Administration Costs	SOPS3.2			**137,714**			**126,941**	10,773	**135,204**

Notes to the Statement of Parliamentary Supply

SOPS1. Statement of accounting policies

The SOPS and supporting notes have been prepared in accordance with the 2013-14 FReM, the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The SOPS and related notes are presented consistently with HM Treasury budget controls and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the SOPS and related notes have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are some differences. A reconciliation is provided in note SOPS3.1. Key differences are explained below.

SOPS1.2.1 Receipts in excess of HM Treasury agreement

This applies where a limit to retainable income has been agreed by the department, with any excess income scoring outside of budgets, and consequently outside of the SOPS. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas: (i) profit/loss on disposal of assets; (ii) income generation above department Spending Review settlements; and (iii) income received above netting-off agreements.

SOPS1.2.2 Provisions - Administration and Programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the SOPS across AME and DEL control totals, which do not affect the SCNE. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the SOPS differ from that reported in the IFRS-based accounts. A reconciliation is provided in SoPS3.2

Prior Period Adjustments

With effect from 1 April 2013 UK Asset Resolution Ltd (UKAR) was designated to HM Treasury's group and was required to be consolidated in this account. UKAR includes Bradford & Bingley plc, NRAM plc and subsidiaries. Prior year figures for the Treasury group have been restated as if the wider accounting boundary included UKAR. There were no prior period adjustments to figures for Core Treasury and Agencies.

Effect on resource outturn in 2012-13

	2012-13 (Restated) £000
Net resource outturn per Statement of Parliamentary Supply	(18,904,596)
Restatements	(589,241)
Adjusted net resource outturn	**(19,493,837)**

SOPS2. Net outturn

SOPS2.1 Analysis of net resource outturn by section

		Administration			Programme			Outturn	Estimate	Outturn	Outturn	2012-13
		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	net total	net total	compared to Estimate	compared to Estimate, adjusted for virements	Outturn net total (restated)
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit (DEL)												
Voted												
A	Core Treasury	153,970	(45,456)	108,514	3,377	(393,659)	(390,282)	(281,768)	(204,303)	77,465	77,465	(232,110)
B	Debt Management Office	15,592	(1,462)	14,130	4,670	(1,184)	3,486	17,616	17,630	14	14	16,118
C	UK Financial Investments (net)	2,255	-	2,255	-	-	-	2,255	2,900	645	645	2,084
D	Infrastructure Finance Unit Limited (net)	18	-	18	(4,469)	-	(4,469)	(4,451)	-	4,451	4,451	4,841
E	Office of Tax Simplification	288	-	288	-	-	-	288	430	142	142	374
-	Asset Protection Agency	-	-	-	-	-	-	-	-	-	-	601
F	Office for Budget Responsibility (net)	1,736	-	1,736	-	-	-	1,736	1,815	79	79	1,703
G	Royal Mint Advisory Committee (net)	-	-	-	-	-	-	-	1	1	1	-
Non-voted												
H	Banking and gilts registration services	-	-	-	11,280	-	11,280	11,280	11,500	220	220	11,490
Total spending in DEL		**173,859**	**(46,918)**	**126,941**	**14,858**	**(394,843)**	**(379,985)**	**(253,044)**	**(170,027)**	**83,017**	**83,017**	**(194,899)**

		Administration			Programme			Outturn	Estimate	Outturn	Outturn	2012-13
		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	net total	net total	compared to Estimate	compared to Estimate, adjusted for virements	Outturn net total (restated)
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Annually Managed Expenditure (AME)												
Voted												
I	UK coinage metal costs	-	-	-	21,843	(16,415)	5,428	5,428	(4,500)	(9,928)	-	**16,660**
J	Northern Rock	-	-	-	-	(21,096)	(21,096)	(21,096)	(267,000)	(245,904)	-	**(7,406)**
K	Assistance to financial institutions	-	-	-	12,637,577	-	12,637,577	12,637,577	13,035,300	397,723	264,757	**(17,637,708)**
L	Provisions	-	-	-	107,253	-	107,253	107,253	(11,800)	(119,053)	-	**38,330**
M	Equitable Life payment scheme	-	-	-	16,246	-	16,246	16,246	12,800	(3,446)	-	**20,140**
N	Royal Mint Dividend	-	-	-	-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	**(4,000)**
O	Money Advice Service (net)	-	-	-	(484)	-	(484)	(484)	1	485	485	**(3,949)**
P	Financial Services Compensation Scheme (net)	-	-	-	(735,789)	-	(735,789)	(735,789)	1	735,790	735,790	**(404,677)**
Q	Credit easing	-	-	-	665	(68,700)	(68,035)	(68,035)	(68,000)	35	35	**49,052**
R	Sovereign Grant funding of the Royal Household (net)	-	-	-	35,732	-	35,732	35,732	35,800	68	68	**33,269**
S	Investment in Bank of England	-	-	-	-	(80,000)	(80,000)	(80,000)	(30,000)	50,000	50,000	**(55,115)**
-	Core Treasury building impairments	-	-	-	-	-	-	-	-	-	-	**6,636**
T	Bradford & Bingley	-	-	-	-	-	-	-	(373,000)	(373,000)	-	**-**
U	Loans to Ireland	-	-	-	-	(76,479)	(76,479)	(76,479)	(76,000)	479	479	**(42,190)**
V	UK Coinage manufacturing costs1	-	-	-	32,618	-	32,618	32,618	34,000	1,382	1,382	**20,221**
W	Sale of shares	-	-	-	-	(4,101,669)	(4,101,669)	(4,101,669)	(1,690,579)	2,411,090	2,411,090	**(12,844)**
X	UK Asset Resolution Ltd (net)	-	-	-	(1,484,822)	-	(1,484,822)	(1,484,822)	1	1,484,823	865,919	**(1,319,035)**
Y	UKAR Corporate Services Ltd (net)	-	-	-	-	-	-	-	1	1	1	
Z	Help to Buy (HMT) Ltd (net)	-	-	-	1,831	-	1,831	1,831	9,000	7,169	7,169	
Non-voted												
AA	Royal Household Pensions	-	-	-	4,398	(959)	3,439	3,439	2,900	(539)	-	**3,319**
AB	Civil List	-	-	-	359	-	359	359	359	-	-	**359**
Total spending in AME		**-**	**-**	**-**	**10,637,427**	**(4,369,318)**	**6,268,109**	**6,268,109**	**10,605,284**	**4,337,175**	**4,337,175**	**(19,298,938)**
Total resource outturn		**173,859**	**(46,918)**	**126,941**	**10,652,285**	**(4,764,161)**	**5,888,124**	**6,015,065**	**10,435,257**	**4,420,192**	**4,420,192**	**(19,493,837)**

Note 1. Prior to 2013-14 UK coinage manufacturing costs were recognised within Resource DEL. From 2013-14 onwards they are classified under Resource AME

SOPS2.2 Analysis of net capital outturn by section

		Gross	Income	Outturn Net total	Estimate Net total	Outturn net total compared to Estimate	Outturn net total compared to Estimate, adjusted for virements	2012-13 Outturn Net total (Restated)
		£000	£000	£000	£000	£000	£000	£000
Spending in Department Expenditure Limit (DEL)								
Voted								
A	Core Treasury	1,081	(4,010)	(2,929)	(2,690)	239	239	**174**
B	Debt Management Office	401	-	401	700	299	299	**1,332**
C	UK Financial Investments	-	-	-	-	-	-	**(24)**
D	Infrastructure Finance Unit Limited (net)	(3,332)	–	(3,332)	(2,800)	532	532	**16,506**
Capital spending in (DEL)		**(1,850)**	**(4,010)**	**(5,860)**	**(4,790)**	**1,070**	**1,070**	**17,988**
Annually Managed Expenditure (AME)								
Voted								
J	Northern Rock	-	-	-	(2,632,800)	(2,632,800)	-	**-**
K	Assistance to financial institutions	-	(954,588)	(954,588)	(870,000)	84,588	84,588	**(1,671,393)**
O	Money Advice Service (net)	1,239	-	1,239	-	(1,239)	-	**2,169**
P	Financial Services Compensation Scheme (net)	131	-	131	-	(131)	-	**941**
Q	Credit Easing	285,010	(597)	284,413	380,000	95,587	94,217	**5,216**
R	Sovereign Grant funding of the Royal Household (net)	442	-	442	2,575	2,133	2,133	**412**
T	Bradford & Bingley	-	-	-	(1,325,000)	(1,325,000)	-	**-**
U	Loan to Ireland	806,740	-	806,740	807,000	260	260	**1,210,110**
W	Sale of shares	-	(4,789,852)	(4,789,852)	(2,084,922)	2,704,930	2,704,930	**-**
X	UK Asset Resolution (net)	(7,073,249)	-	(7,073,249)	-	7,073,249	3,115,449	**(6,471,201)**
Capital spending in AME		**(5,979,687)**	**(5,745,037)**	**(11,724,724)**	**(5,723,147)**	**6,001,577**	**6,001,577**	**(6,923,746)**
Total capital outturn		**(5,981,537)**	**(5,749,047)**	**(11,730,584)**	**(5,727,937)**	**6,002,647**	**6,002,647**	**(6,905,758)**

Explanation of variances between Estimate and outturn as at 31 March 2014

Explanation for significant variances between Estimates and outturn for 2013-14 are summarised below. Further details are included in the management commentary in Chapter 5.

Net resource outturn against Estimate

Spending in Department Expenditure Limit (DEL)

HM Treasury's DEL outturn was £83 million less than the amount included in the Estimate. This is largely due to an increase in income. During 2013-14, the Financial Conduct Authority (FCA) imposed fines on some banks in relation to the attempted manipulation of LIBOR. These fines, net of enforcement case costs, are payable to HM Treasury. At the time of finalising the supplementary estimate in January the Financial Conduct Authority had received £318 million in LIBOR fines which were payable to the Treasury. This subsequently increased to £386.1 million by 31 March 2014, resulting in a £68.1 million under-spend against the Estimate.

Annually Managed Expenditure (AME)

HM Treasury's net AME expense was £4.3 billion less than the amount included in the Estimate. The group's more unpredictable expenditure is included within AME and large variances can arise as a result of changes in the value of financial instruments. The most significant change that took place between the Estimate and year end was the further sale of Lloyds shares which provided further income of £2.3 billion reducing the net expense.

The other significant variance related to UK Asset Resolution (UKAR). In the absence of a figure for the Estimate, a nominal value was entered and this resulted in net income compared to estimate of £1.4 billion.

Net capital outturn against Estimate

Capital spending in Department Expenditure Limit

HM Treasury's capital DEL spending was £1.0 million lower than in the Estimate. Of this, £0.5 million was due to loan facilities provided by Infrastructure Finance UK Limited that were made available but not fully drawn down at year end.

Capital Annually Managed Expenditure

Net capital AME receipts were £6.0 billion higher than in the Estimate. Of this, £2.7 billion was due to an additional Lloyds share sale at the end of March 2014 that was not included in the Supplementary Estimate. A further £0.9 billion was due to higher than expected loan repayments from NRAM and B&B. Details of all loan repayments are included in Note 16 of the Annual Account. The majority of the rest of the difference related to UKAR which did not have a figure for the Estimate, and this resulted in a large difference compared to the Outturn.

Differences in NRAM and B&B are because the loan repayments feature in UKAR and this was not reflected in the Supplementary Estimate.

SOPS3. Reconciliation of outturn to net operating income, administration budget and net cash requirement

SOPS3.1 Reconciliation of SOPS resource outturn to SCNE net expenditure/(income)

	2013-14 £000	2012-13 (Restated) £000
Total resource outturn, per the SOPS	6,015,065	(19,493,837)
Non-budget income	(32,108)	(32,187)
Net expenditure/(income), per the SCNE	**5,982,957**	**(19,526,024)**

SOPS3.2 Reconciliation of SOPS net administration expenditure to SCNE administration expenditure

	Note	2013-14 £000	2012-13 £000
Estimate – administration costs limit		137,714	140,056
Outturn – Gross administration expenditure	SOPS2.1	173,859	171,025
Outturn – Gross income relating to administration	SOPS2.1	(46,918)	(35,821)
Net administration expenditure, per the SOPS	SOPS2.1	**126,941**	**135,204**
Less: provisions utilised (transfer from programme)		(241)	(1,810)
Net administration expenditure, per the SCNE		**126,700**	**133,394**

SOPS4. Reconciliation of net resource outturn to net cash requirement

				2013-14
		Estimate	Outturn	Outturn Net total compared with Estimate: saving/ (excess)
	Note	£000	£000	£000
Resource Outturn	SOPS 2.1	10,435,257	6,015,065	4,420,192
Capital Outturn	SOPS 2.2	(5,727,937)	(11,730,584)	6,002,647
Accruals to cash adjustments:		(13,258,248)	(7,811,598)	(5,446,650)
Of which:				
Adjustments to remove non-cash items:				
Depreciation		(6,400)	(6,223)	(177)
BEAPFF fair value movements		(13,654,000)	(12,942,215)	(711,785)
New provisions and adjustments to previous provisions		10,000	(107,495)	117,495
Other non-cash items		11,800	1,580,656	(1,568,856)
Adjustments for NDPBs and other bodies:				
Remove voted resource and capital		(40,193)	3,356,384	(3,396,577)
Add cash grant-in-aid		38,745	37,620	1,125
Adjustments to reflect movements in working balances				
Decrease in inventory		-	(7,769)	7,769
Decrease in receivables		-	(443,302)	443,302
Increase in payables		-	352,982	(352,982)
Use of provisions		381,800	367,764	14,036
		(8,550,928)	**(13,527,117)**	**4,976,189**
Removal of non-voted budget items:				
Banking and gilts registration service		(11,500)	(11,280)	(220)
Royal Household Pension Scheme		(2,900)	(3,439)	539
Civil List		(359)	(359)	-
Net cash requirement		**(8,565,687)**	**(13,542,195)**	**4,976,508**

SOPS5. Income payable to the Consolidated Fund

SOPS5.1 Analysis of income payable to the Consolidated Fund

In addition to income and capital receipts retained by HM Treasury, the following amounts are payable to the Consolidated Fund.

		Outturn 2013-14		Outturn 2012-13
	Income	Cash receipts	Income	Cash receipts
	£000	£000	£000	£000
Operating income outside the scope of the Estimate	32,107	*33,718*	32,188	*32,484*
Capital receipts outside the scope of the Estimate	-	*31,102,264*	-	*11,272,472*
Excess cash surrendered to the Consolidated Fund	*13,534,258*	*13,534,258*	7,055,662	*7,055,662*
Excess cash surrenderable to the Consolidated Fund	*994*	*994*	13,245	*13,245*
Total amounts paid and payable to the Consolidated Fund	**13,567,359**	**44,671,234**	**7,101,095**	**18,373,863**

Operating income outside the scope of the Estimate mainly comprises Pool Re insurance premiums received by Core Treasury. The difference between income recognised and cash receipts paid over arises from income accrued but not yet received. Capital receipts outside the scope of the Estimate relate to transfers of excess cash from the Bank of England Asset Purchasing Facility Fund.

A Sustainability in the Treasury

Developing sustainable policy

A.1 The Treasury is committed to sustainable economic growth. For growth to be sustainable in the long-term, it must support wellbeing and opportunity for all, and be achieved alongside the objectives of tackling climate change, and the sustainable use of natural resources.

A.2 As part of its role as the UK's economics and finance ministry, the Treasury is central to ensuring these aims are accounted for in policy appraisal and pursued through policies that deliver value for money and are affordable.

A.3 The department also has a key role in supporting the work of other departments on sustainable development, working with BIS, DECC and others on, for example, the transition to a low-carbon economy and the sustainable use of resources across the economy.

A.4 The Treasury asks all departments to adhere to the Green Book guidance when providing a business case for a policy, programme or project. The supplementary guidance to the Green Book covers the practical application of techniques for valuing environmental impacts in policy appraisal. It applies to all programmes, policies and projects – not just those policies with a specific environmental focus.

A.5 The Treasury is also committed to ensuring all policies with long term implications developed within the Department take into account the need to adapt to climate change.

Sustainability actions within the department

A.6 In its Departmental Business Plan, the Treasury has committed to:

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

A.7 In March 2010 each central government department published an adaptation plan explaining its proposed actions to meet the challenge of a changing climate. The table overleaf charts the Treasury's progress against this plan.

Priority/Action	Progress	Deadline
Work with other departments, seeking appropriate evidence on spending proposals to manage risks or mitigate impacts of climate change.	Treasury played a key role in ensuring that departmental evidence on spending proposals was of a quality and consistency to underpin decisions in the 2010 Spending Review and 2013 Spending Round.	Ongoing
Jointly with DEFRA as lead department: work with the insurance industry to ensure that climate change risks are borne in the most appropriate and efficient way following the ending of the current statement of principles in 2013	Treasury is supporting DEFRA as lead department in addressing flood risk impacted through climate change including through improving value for money in flood defence procurement, supporting the partnership funding approach, and engaging with the insurance industry on the Flood Re scheme to support continued affordable coverage.	Ongoing
Use Treasury Environment Network (TEN) events and external speakers to broaden knowledge and understanding of adaptation issues.	The questions raised by the need to adapt to climate change have been communicated and discussed across the areas of Treasury that they affect through the TEN.	Ongoing

Performance against our Greening Government commitments (GCC)[1]

A.8 During 2013-14 the Treasury Group performed strongest against its reducing waste and paper target, exceeding for the second year the GGC 2015 targets. The Group has also exceeded the 2015 target for emissions from its estate by 66% and is on track to meet its travel target. Although there is no target for water reduction, consumption for this year remains above the government benchmark of 6m³ per FTE, at 11m³p/FTE.

Summary of performance against Greening Government Commitments 2013-14

Key Target Area	Baseline	Target		Actual
1. Reduce Greenhouse Gas Emissions	4,338.36 tCO_2e	25%	-66%	1462.23 tCO_2e
2. Reduce waste	485 t	25%	-70%	146 t
3. Reduce water consumption	14,738m³	-	-22%	11,465 m³

Target 1: Reduce greenhouse gas emissions[2]

Cut carbon emissions from central government offices

A.9 The Group has made an overall reduction of 66% in its greenhouse gas emissions (which include emissions from energy and official business travel) from its 2009-10 baseline figure of 4,338.36 tCO_2e.[3]

Group energy and CO_2 emissions

	2010-11	2011-12	2012-13	2013-14
Electricity (KWH)	4,802,029	4,265,481	4,117,942	2,843,564
Gas (KWH)	475,752	281,003	285,115	87,074
Whitehall Heating System (KWH)	1,813,158	1,228,902	1,832,525	267,833
Total CO_2 Emissions (Tonnes)	3,088	2,615	2,682	1,462

[1] Data is included for the Treasury Group which is defined for sustainability reporting purposes as including the Debt Management Office (DMO) in Eastcheap Court, London (EC), Core Treasury in 1 Horse Guards Road, London (1HGR) and Rosebery Court for business travel data only. The Cabinet Office, Northern Ireland Office and UK Export Finance leases space at 1 Horse Guards Road which is excluded from the Treasury data for reporting purposes. For 2013-14, any shared costs for 1HGR are apportioned between these departments on the basis of 0.47 of the total for HM Treasury. Prior to 2013-14, only the Cabinet Office leased space at 1 Horse Guards Road and data for the earlier years were apportioned at a total of 0.64 for the Treasury.

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

[3] In line with DEFRA guidelines the Group has not weather corrected its building data and conversion factors used to account for carbon are taken from the GOV.UK website.

1 HGR energy costs (restated) (£)

	2010-11	2011-12	2012-13	2013-14
Electricity	342,566	361,986	362,108	301,838
Whitehall Heating System	206,579	155,004	227,578	155,020
Gas	1,950	1,894	2,042	1,832
Total	**551,095**	**518,884**	**591,728**	**458,690**

Cut domestic business travel flights by 20 per cent by 2015

A.10 The Group saw a steady reduction in its travel between 2009 and 2012, and while there was an increase during 2012-13 (due to increases in travel before and after the Olympics in summer 2012), numbers have reduced again in 2013-14.

Group Travel and CO_2 emissions

	2010-11	2011-12	2012-13	2013-14
Fleet[1] (km)	12,144	13,988	13,561	21,119
Domestic Rail (km)	707,960	508,765	555,577	536,316
Domestic Flights (km)	159,796	122,547	218,706	204,640
Standard Taxis[2] (km)	45,859	34,357	12,535	5,147
Hybrid Taxis (km)	-	-	4,329	9,773
No. of domestic flights	264	237	345	314
Total CO2 Emissions (Tonnes)	**78**	**59**	**78**	**67**

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

[2] Standard taxis include private hire, petrol or diesel and include people carriers or saloon cards. This does not include black cabs.

Group Travel costs

	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000
Fleet (including Government Car Service)	296	168	214	235
Rail	378	329	358	351
Domestic flights	39	36	43	52
Taxis	104	83	53	57
Total	**817**	**616**	**668**	**695**

A.11 Air travel is still considered the most appropriate method of travel for official business in Scotland and Northern Ireland. However the department continues to educate its staff on the use of video and audio conferencing in place of travelling to meetings where possible, and continues to review its travel policies to ensure travel is not the first choice for engaging with stakeholders.

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

A.12 During 2013-14 the Treasury saw a continued reduction in the amount of waste it produces, despite increased occupancy in the building.

Group waste (tonnes)

	2010-11	2011-12	2012-13	2013-14
Waste incinerated with energy recovery	133	87	81	57
Waste recycled	161	107	101	84
Waste sent for anaerobic digestion	8	8	6	5
ICT waste recycled	-	2	19	-
ICT waste reused	-	-	1	-
Total tonnes of waste	**302**	**204**	**208**	**146**

A.13 The Group reduced its waste by 339 tonnes to 146 tonnes from its 2009-10 baseline figure of 485 tonnes of waste generated. The Group sends no waste to landfill and all waste is recycled where facilities exist, or is sent for energy recovered incineration.

A.14 Initiatives during the year have included new recyclable paper cups, replacement of paper sugar sachets with sugar pourers, and engagement with staff on reducing waste.

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

A.15 Treasury Group ICT waste is disposed of responsibly in line with government standards under its ICT contract using a take back scheme, or using a 'call-off' environmentally sound disposal contract with Remploy.

Cut paper use and move to closed loop paper supply

A.16 The Group has more than halved its paper consumption to 11,462 reams from its baseline figure of 26,807 reams of paper. In June 2012 the department moved to a closed loop paper contract: used printer paper is recycled and sent back to the department to reuse as printer paper.

Group paper consumption (reams)

	2010-11	2011-12	2012-13	2013-14
Virgin paper A4 (reams)	10,122	11,452	3,467	-
Virgin paper A3 (reams)	230	198	281	237
Closed loop paper A4 (reams)	-	-	9,968	11,225
Total Paper (Reams)	**10,352**	**11,650**	**13,716**	**11,462**

Target 3: Reduce water consumption

A.17 The Group's water consumption, calculated by floor space per FTE equivalent (including contractors and visitors), stands at11m³ per/FTE. Estate rationalisation has meant increased occupancy in 1 HGR which has impacted heavily on consumption and engagement is in place going forward to address water consumption in the Horse Guards Road building.

Group water consumption (m3)

	2010-11	2011-12	2012-13	2013-14
Total Water	11,854.16	11,192.73	16,992	11,465
FTE equivalent	1,581.67	1,532	1,292	1,069
Per FTE	7.5	7.3	13	11
Best Practice	6	6	6	6

Cost of water (£)(1HGR) (restated)

	2010-11	2011-12	2012-13	2013-14
Expenditure (£)	23,184	31,430	32,098	23,201

Sustainable Procurement

A.18 Sustainable Procurement involves the management of internal demand, improving product and service specifications, selecting suppliers with robust sustainability credentials and working with existing and prospective suppliers to improve their performance. Specific examples over the past 12 months include:

- utilising Crown Commercial Service (CCS) frameworks which include sustainability factors as a key criterion for award

- where relevant, the inclusion of sustainability measures in the tender evaluation criteria. Evaluation must include social and economic factors in addition to environmental factors
- contributing to the growth agenda by developing SMEs work with HMT through a SME Action Plan, which includes
- holding supplier open days
- highlighting contract opportunities suitable for SMEs on Contracts Finder
- encourage SME participation, in replacing Treasury IT services in January 2015 the current single provider arrangement has been broken down into a number of discrete "towers". An SME was successful in bidding for 2 of the towers
- the timely return of annual sustainable procurement data to Defra to meet the Greening Government Commitments (GGC4) requirement. For the first time in 2013-14 this data included supply chain impacts data. Treasury engaged with key suppliers to gather this data for contracts such as ICT, print, office supplies, travel and facilities management

B The Better Regulation agenda

B.1 Ensuring regulation is no more burdensome to business than is necessary is a crucial part of the government's growth agenda. The Treasury therefore has strong interest in promoting the Better Regulation agenda across government. The Treasury is also responsible for insurance and financial services regulation, much of which comes from Europe. We apply principles of Better Regulation to this work as well, and seek to ensure it is not unnecessarily burdensome.

The Better Regulation agenda

B.2 The cumulative burden of new regulation has the potential to inhibit growth. The government has increased its efforts to reduce these burdens. The government exceeded its target on the One in, One out policy by reducing total net costs for business of £963 million by December 2012; and the ambition was upped in January 2013 with the introduction of a One in, two-out rule, which is recognised as the most ambitious deregulatory programme in Europe.

B.3 In January 2014, the government achieved its target through the Red Tape Challenge (RTC) to identify over 3,000 regulations to be scrapped or improved, saving businesses over £850 million per annum.

B.4 Overall, the government had reduced the net burden of regulations on business by around £1.2 billion per year since January 2011.

Better Regulation in the Treasury

B.5 The Treasury exceeded the One in, One out target by deregulating to save businesses over £30 million a year, while only imposing £1.65 million a year in new regulatory costs. Alongside this, the department has also introduced regulations that meet international or European obligations, or tackle systemic financial risk. These types of regulation were out of scope of One in, One out and remain out of scope of its successor, One in, two out.

B.6 New regulations require an Impact Assessment, quality assurance of which is provided by the independent Regulatory Policy Committee. Between January and August 2012, 85 per cent of Treasury Impact Assessments received "fit for purpose" opinions when first submitted to the Committee. This is relatively consistent with the strong performance the Treasury achieved in 2011-12, when 89 per cent of impact assessments also received fit for purpose ratings. The average across government in 2012 was 81%.

B.7 On 8 March 2013 the government launched the National Savings and Investments (NS&I) theme of the Red Tape Challenge. 137 regulatory measures were in scope of the NS&I theme. In January 2014, the Treasury announced through the RTC website[1] that 22 of the NS&I regulations would be scrapped and a further 104 would be consolidated, thereby scrapping or improving 92% of the regulations under the NS&I theme.

[1] http://www.redtapechallenge.cabinetoffice.gov.uk/themehome/national-savings-and-investments-nsi/

B.8 The Treasury continues to implement alternatives to regulation wherever possible. For example, the government previously announced it would be introducing further regulation in relation to circumstances where regulated mortgage contracts are sold on to unregulated firms. Following a review, the government took the decision it would not be taking forward legislation at this point in time, but would instead keep the position of contracts sold to unregulated firms under review and return to legislation if there is evidence consumer detriment is taking place.

B.9 A high proportion of regulation the Treasury is responsible for originates in the EU. The government has an objective of proportionate regulation for small and medium sized businesses in the EU. An example of the Treasury meeting this objective is the latest Single Euro Payments Area Regulation, adopted on 30 March 2012. During the negotiations the UK secured more time for the necessary changes to be made and an exemption for micro businesses from some requirements of the Regulation.

Competition over regulation

B.10 The Treasury has worked with the financial regulators to support competition by lowering regulatory burdens where appropriate. In 2012, the government requested the Financial Services Authority investigate regulatory barriers to entry and expansion in the UK banking sector. The subsequent report in March 2013 (by the new FCA and PRA) set out significant changes to make it easier for new banks to enter the market and compete, as well as more proportionate regulatory requirements for smaller banks that do not pose a systemic risk.

B.11 In addition, the government has put competition at the heart of the regulatory system, by giving statutory competition objectives to both the Financial Conduct Authority, Prudential Regulation Authority. The FCA has a primary competition objective to promote effective competition in the interests of consumers. In addition the FCA has competition duty means that it must look to achieve its desired outcomes using solutions that promote competition regardless of which objective they are pursuing.

B.12 The PRA's secondary competition ensures it must facilitate effective competition whilst not compromising its vital role in ensuring the safety and soundness of firms.

Regulating for stability

B.13 The Treasury has carried out a fundamental reform of the UK's financial regulation system to deliver more judgement-led, focussed and effective regulation of the financial services sector.

B.14 The Financial Services Act 2012, which came into force on 1 April 2013, has strengthened the financial regulatory structure through establishing:

- the Financial Policy Committee (FPC), a strong expert macro-prudential authority within the Bank of England, responsible for protecting and enhancing financial stability
- the Prudential Regulation Authority (PRA), a new micro-prudential regulator responsible for ensuring effective prudential regulation of firms that manage complex risks on their balance sheets, which has been established as a subsidiary of the Bank of England
- the FCA will also be responsible for the prudential regulation of non-PRA regulated firms

B.15 The Financial Services (Banking Reform) Act 2013, which received Royal Assent in December 2013, represents the final step in the government's plan to improve stability across the entire financial system. The Act implements key recommendations of the Independent Commission on Banking (ICB), including the ring-fencing of important everyday banking activities from volatile investment bank activities, and the introduction of depositor preference and bail-in.

B.16 The Act also contains a suite of tough new measures to overhaul the standards of conduct in the UK's banking industry, including a new senior managers regime and a new criminal offence of reckless misconduct in the management of a bank – both key recommendations of the Parliamentary Commission on Banking Standards.

B.17 At European level, the government is also pursuing measures that will enable it to impose higher capital requirements on large ring-fenced banks in line with ICB recommendations, through powers in the Capital Requirements Directive (CRD) IV and Capital Requirements Regulation (CRR).

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@hmtreasury.gsi.gov.uk

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