

# **Contingencies Fund Account 2015-16**

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# Contingencies Fund Account 2015-16

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Return to an Order of the Honourable, the House of Commons, dated 7 July 2016.

That there be laid before this House an Account of the Contingencies Fund, 2015-16, showing (1) a Statement of Financial Position, (2) a Statement of Cash Flows and (3) Notes to the Accounts; together with the Certificate and Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper No. 56 of 2015-16).

Treasury Chambers: David Gauke  
7 July 2016

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7 July 2016



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# Performance report

## Overview

### Purpose and activities of the Contingencies Fund

The Contingencies Fund is used to finance payments for urgent services in anticipation of Parliamentary provision for those services becoming available, and to provide funds required temporarily by government departments for necessary working balances, or to meet other temporary cash deficiencies.

HM Treasury (the Treasury) controls access to the Contingencies Fund to ensure that issues are appropriate and consistent with the requirements set out in *Managing Public Money* and *Supply Estimates: a guidance manual*. Wherever possible and required, Parliament is made aware of the intention to use the Contingencies Fund and incur associated resources through a written ministerial statement made in advance of any issues being made. During periods of recess, when an advance has to be made that requires a written ministerial statement, Parliament is informed of the advance as soon as possible after the House returns. All advances from the Contingencies Fund must be repaid. In the case of advances in support of voted expenditure, Parliamentary authority is needed to enable sums advanced to departments to be repaid to the Contingencies Fund.

Where practical, sums due to the Contingencies Fund are recovered within the same financial year. Generally, repayments of advances for voted services are provided for either in Supplementary Estimates of the same year, or, if this is not possible, in the Estimates of the following year. No interest is payable by departments on advances made from the Contingencies Fund.

The Contingencies Fund is prepared on a going concern basis as it receives its funding from the Consolidated Fund and expects to recover all advances it makes to departments.

### Key issues and risks

The key issues and risks facing the Contingencies Fund are considered in the governance statement on pages 7 to 11. In addition, the financial risks related to the Contingencies Fund are separately disclosed in note 6.

### Performance summary

In 2015-16, the Contingencies Fund advanced £4.4 billion to government departments (2014-15: £4.0 billion). The allocation of advances is detailed in Note 5 to the accounts. All advances were repaid in the year.

£1.9 billion (2014-15: £2.4 billion) of the total advances made in 2015-16 was to the Department for Environment, Food and Rural Affairs (Defra). The advances to Defra were in respect of Common Agricultural Policy (CAP) scheme payments to the Rural Payments Agency (RPA).

£916.0 million (2014-15: £nil) of the total advances made in 2015-16 was to the NHS Pension Scheme in advance of pension receipts.

£555.0 million (2014-15: £nil) of the total advances made in 2015-16 was to the Home Office to meet its urgent cash requirements for existing services.

### *The Capital of the Contingencies Fund*

Section 3 of the Miscellaneous Financial Provisions Act 1946, as amended by the Contingencies Fund Act 1974, provides that the capital of the Contingencies Fund, including the permanent capital of £1,500,000 (as per section 52 of the Finance Act 1921), may be increased as necessary up to an amount equal to 2 per cent of the authorised supply expenditure for the year ending on the previous 31 March. Authorised supply expenditure is defined as the total of the sums which Acts passed before the end of the year have authorised the Treasury to issue out of the Consolidated Fund for supply services for that year.

The total cash supply expenditure authorised for 2014-15 was £481,182,455,000 (2013-14: £453,433,868,000) and accordingly the maximum capital, including the permanent capital, available to the Contingencies Fund in 2015-16 was £9,623,649,000 (2014-15: £9,068,677,000).

The claims on the Contingencies Fund are monitored daily and kept regularly under review by the Exchequer Funds and Accounts Team in the Treasury to ensure that issues are within the statutory limit for the capital of the Contingencies Fund. No interest is payable on capital issued to the Contingencies Fund from the Consolidated Fund.

## Performance analysis

Advances from the Contingencies Fund may only be authorised under specific categories. The table below shows an analysis of the issues of advances in 2015-16 against each category of advance with comparatives for 2014-15. Further information on the categories of advance can be found in section 5.14 of *Supply Estimates: a guidance manual*.

	<b>2015-16 £m</b>	2014-15 £m
a During the Vote on Account period, to meet urgent cash requirements (other than supporting a new service) in excess of the net cash requirement granted in the Vote on Account	<b>205.0</b>	0.0
b To meet the cash requirement supporting an urgent service which Parliament has already approved through specific enabling legislation but for which existing provision is not available	<b>20.0</b>	565.8
c To meet the cash requirement supporting a new service which is urgent and cannot await Parliamentary approval of both the specific enabling legislation and the necessary Estimate	<b>1.6</b>	51.7
d To meet a further urgent cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted	<b>1,345.5</b>	588.9
e In the case of an Estimate where expenditure is largely financed from income, advances may be made in anticipation of the receipt of cash associated with such income	<b>2,850.0</b>	2,434.0
<b>Sub total</b>	<b>4,422.1</b>	3,640.4
f In anticipation of revenue, as distinct from income, receipts	<b>0.0</b>	393.0
<b>Total</b>	<b>4,422.1</b>	4,033.4

**Julian Kelly**

24 June 2016

Accounting Officer

HM Treasury



# **Accountability report**

## **Corporate Governance report**

Operationally, the Contingencies Fund is part of HM Treasury and its staff are employees of HM Treasury. The Contingencies Fund itself therefore has no employees of its own.

### **Conflicts of interest**

In 2015-2016, no material conflicts of interest have been noted by the senior management overseeing the Contingencies Fund.

### **Personal data related incidents**

The Contingencies Fund does not hold any protected personal data.

## Statement of Accounting Officer's responsibilities

Under the Treasury Minute of 13 May 1862 the Treasury is required to prepare accounts for each financial year in the form and on the basis set out in the Accounts Direction on page 24. In accordance with the Direction issued on 6 January 2012, the accounts of the Contingencies Fund are to be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM), except for the Statement of Cash Flows, which shall show only receipts and payments, and must give a true and fair view of the state of affairs of the Contingencies Fund and of its cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements of the FReM, and apply suitable accounting policies on a consistent basis; and
- prepare the accounts on a going concern basis.

The Treasury has appointed Julian Kelly, Director General Public Spending and Finance, as Accounting Officer of the Contingencies Fund.

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

The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the Contingencies Fund's auditors are unaware, and that he has taken all the steps that he ought to have taken as Accounting Officer to make himself aware of any relevant audit information and to establish that the Contingencies Fund's auditors are aware of that information.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

### Audit arrangements

The accounts are audited by the Comptroller and Auditor General (C&AG) in accordance with the Treasury Minute of 13 May 1862. The National Audit Office (NAO) bears the cost of all external audit work performed on the Contingencies Fund. During the financial year, no non-audit work was undertaken by the NAO in relation to the Contingencies Fund.

# Governance Statement

## Governance Framework

The Contingencies Fund is managed within the Treasury's overall risk and governance framework as set out in the Treasury's Annual Report and Accounts 2015-16. This includes the Treasury Board's assessment of its compliance with the *Corporate Governance Code*. The Chancellor of the Exchequer, as Minister in charge of the Treasury, is responsible and answerable to Parliament on all the policies, decisions and actions of the Treasury, and ultimately of the Contingencies Fund.

As Accounting Officer for the Contingencies Fund, I am personally responsible and accountable to Parliament for the organisation and quality of management of the Contingencies Fund, including its use of public money and the stewardship of its assets, in line with those responsibilities assigned to me in *Managing Public Money*.

## Audit Committee

The Treasury Group Audit Committee is a subcommittee of the Treasury Board, and is tasked with supporting the Permanent Secretary, as Principal Accounting Officer, and the Treasury's Additional Accounting Officers in their responsibilities for managing risk, internal control and governance related to the Treasury Group's Annual Report and Accounts, the Central Funds (Consolidated Fund, National Loans Funds, Contingencies Fund and Exchange Equalisation Account) and the Whole of Government Accounts. The previous Permanent Secretary, Nick Macpherson, stood down on 31 March 2016 and John Kingman has been acting Permanent Secretary to the Treasury since 1 April 2016. During the 2015-16 financial year John Kingman was Second Permanent Secretary to the Treasury and is therefore fully aware of the effectiveness of risk management, governance and internal control systems that exist.

Details on the overall risk and governance structure of HM Treasury can be found in the Governance Statement in the Treasury's Annual Report and Accounts.

The Permanent Secretary appoints members of the Committee for periods up to three years, extendable by one additional three-year period. The Chair of the Committee (Richard Meddings) reports directly to the Permanent Secretary and is also a non-executive member of the Treasury Board. The membership of the Audit Committee during 2015-16 was:

- Richard Meddings - Supervisory Board at Deutsche Bank and Deutsche Bank Audit committee chair and member of Risk Committee; Non-executive director, Legal & General PLC (December 2014 to current) and Risk Committee chair; Main Board Director (2002-2014) and Group Finance Director (2006-2014) Standard Chartered PLC; Non-executive director and Senior Independent Director of 3i Group PLC (2008-2014) and chair of Audit and Risk Committee; Financial Reporting Review Panel in FRC; Board member of International Chambers of Commerce UK (2007 to current); and Trustee on Teach First Board.
- Mike Ashley (up to 31 July 2015) – Non-executive director, and Audit Committee Chairman, Barclays PLC.; Board membership (and Chair of Audit and Risk Committee) of the Charity Commission; and Chair of the Government Internal Audit Agency (GIAA) Board. Previously Head of Quality and Risk Management and Board Member, KPMG Europe LLP.
- Mary Hardy – Non-executive director of the Royal Navy and Chair of its Audit Committee; non-executive member of Defence Audit Committee; non-executive director of the Oil and Gas Authority and Chair of its Audit and Risk Committee; Trustee of the Chartered Accountants Benevolent Association and Chair of its Audit and Risk Committee.

- Abhai Rajguru – Non-executive director, CPP Group PLC; Director, DBV Finance Ltd; Chairman, Alexander Rosse Ltd; Managing Partner, Pravara Capital LLP.
- Peter Estlin (from 1 May 2015) - Senior Advisor, Barclays PLC., (previously Group Financial Controller and acting Group CFO); Chairman, Bridewell Royal Hospital; Alderman, City of London Corporation.
- Tim Score (from 1 January 2016) - Non-executive director and Chair of Audit Committee at Pearson PLC; Non-executive director and Chair of Audit Committee at the British Land Company PLC.

The Audit Committee met six times during 2015-16, taking the opportunity for pre-committee discussions with the NAO on each occasion. Attendance is outlined in the table below:

	<b>Eligible to attend</b>	<b>Attended</b>
Richard Meddings (Chair)	6	6
Mike Ashley	2	2
Mary Hardy	6	6
Abhai Rajguru	6	6
Peter Estlin	6	6
Tim Score	2	1

The Audit Committee has a robust Conflicts of Interest Policy, which requires members to excuse themselves from discussions where potential conflicts may occur. Members are required to inform the Permanent Secretary about any potential conflicts and highlight these at the start of each meeting as appropriate.

In addition to the independent members, the appropriate Accounting Officers, HM Treasury’s Group Director of Finance and the Treasury Accountant or her deputy also attend Committee meetings. Members have the opportunity for a pre-committee discussion with the NAO, Group Head of Internal Audit for HM Treasury and Head of Exchequer Funds Internal Audit.

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 department’s framework of governance, risk management and control, including the IT Process Audit Report.

The Audit Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

Outside of the planned committee meetings individual members have shared their commercial and professional expertise with key officials across the Treasury.

The external auditor is the Comptroller and Auditor General and the NAO attend all Audit Committee meetings on his behalf.

The Audit Committee receives all NAO reports and a summary of Exchequer Funds Internal Audit (EFIA) reports relating to the Contingencies Fund.

## **Exchequer Funds Internal Audit**

Internal Audit for the Contingencies Fund is provided by EFIA. EFIA reports directly to the Accounting Officer and the Audit Committee on audit reporting matters.

## **Management of the Contingencies Fund**

The Estimates Clerk, with authority delegated by me, or staff with authority delegated by the Estimates Clerk in the Treasury's Public Spending Group authorise most advances from the Contingencies Fund. I approve advances considered to be novel or contentious. The Treasury's Exchequer Funds and Accounts (EFA) Team administers the account.

Detailed guidance on the purpose of and procedures relating to the Contingencies Fund, including advice on processes when dealing with the Contingencies Fund, is set out in *Managing Public Money* and *Supply Estimates: a guidance manual*.

Once an advance has been made it is the responsibility of the receiving department to ensure that the cash is used only for the purpose(s) for which it was advanced and to make repayment at the earliest opportunity (though the Treasury will follow up outstanding repayments as necessary).

## **Reporting to the Treasury's Boards**

The Economic, Fiscal and Operational Risk Groups, each chaired by a member of the Executive Management Board, give evidence to the Treasury Board and its Sub-committee. EFA feeds into the Treasury's quarterly internal Performance Reporting which is produced for the Treasury Board and its Sub-committee. EFA's risks are regularly reported to the Operational Risk Group.

The Chair of the Audit Committee is invited to report concerns or issues to the Treasury Board (Sub-committee), and is a Non-Executive member of the Treasury Board.

## **Risk management**

Risk management is key to all Contingencies Fund processes, including business continuity resilience planning for public funds. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and to identify appropriate mitigating actions. Significant risk issues are recorded in a risk register and are assessed by likelihood and impact. A risk owner, who is responsible for managing the risk, is assigned to each risk. The risk register is reviewed quarterly by EFA management.

There are sufficient experienced staff in both the EFA team and the Public Spending Group with an appropriate range and breadth of knowledge to manage the Contingencies Fund, covering absences as necessary and maintaining resilience. Key operational staff with responsibilities relating to the Contingencies Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk awareness and management is provided as required, either by management or by attending appropriate courses. Training is also provided to staff to build the team's capability and to increase its resilience. EFA team members are encouraged to obtain professional qualifications in areas that are relevant to their roles.

## **The system of internal control**

As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the Contingencies Fund's policies, aims and objectives, whilst safeguarding the public funds

and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Contingencies Fund's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

The system of internal control has been in place throughout the year ended 31 March 2016 and up to the date of approval of the financial statements, and accords with Treasury guidance.

During the year, there were no significant changes to the control environment.

### **Risk profile**

The Contingencies Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resourcing the administration of the Contingencies Fund, security and the management of risks across the Treasury's business.

The key risks in managing the Contingencies Fund and their associated controls are:

- **Breach of the Contingencies Fund capital limit** (imposed by statute and set at two per cent of the previous year's approved cash supply): Before a payment is made from the Contingencies Fund, EFA review the outstanding advances and ensure that the capital limit will not be breached.
- **Irregularity of transactions, including fraudulent or erroneous payments:** Clear separation of duties is enforced by different teams within the Treasury carrying out the authorisation, approval and payment of Contingencies Fund advances. A robust payment authorisation process is in place, with appropriate user permissions within the banking system. Prior to the authorisation of payments, the destination and purpose of the advance, and any changes thereto, are double-checked. Up-to-date policy and procedures manuals, including job instructions, are maintained to ensure that key operational staff with responsibilities relating to the Contingencies Fund carry out their responsibilities in a controlled manner and to aid resilience. In addition, there is an established process for consideration of requests for use of the Contingencies Fund, whereby departments seeking advances from the Contingencies Fund are required to comply with procedures set out in *Managing Public Money* and *Supply Estimates: a guidance manual*.
- **Incorrect accounting:** All entries into the accounting system are entered and then approved by a separate team member. Daily bank reconciliations are carried out to ensure that all advances and repayments have been recorded in the accounting system. Also, a monthly report on the activity of the Contingencies Fund is produced. This is reviewed by the Treasury Accountant or her deputy, and is provided to me.
- **Failure of IT systems:** The Nippon Telegraph and Telephone Corporation (NTT) data centre offers high levels of resilience with the data centre platform availability set to 99.9 per cent and the network connectivity availability set to 99.99 per cent. NTT has dual centres which provides a high level of resilience. As part of disaster recovery measures, there is an Active/Active configuration across the two data centres, which ensures a superior level of availability across both sites with near instant failover. EFA also has its own contingency plans in place.
- **Failure to provide an effective service in adverse circumstances, including disasters:** To ensure operational resilience in key areas in the event of a business continuity problem, staff within

EFA and the Public Spending Group are trained to provide cover for times when other staff members are absent. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan.

- **Failure of principal counterparties to provide agreed services:** Well-developed Service Level Agreements for the provision of services from principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe. A monthly meeting is held with the Government Banking Service management where service levels are discussed. In addition, EFA were heavily involved with the planning and implementation process around the transition of the GBS Banking services to new providers in 2015-16.
- **Information risk:** Data and information risk are managed in accordance with Treasury policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption, and physical and IT security. The Treasury adheres to Cabinet Office guidelines available at <https://www.gov.uk/government/publications/security-policy-framework>. Further guidance on information security and assurance is available to all Treasury staff on the intranet. EFA's own Data Handling Policy identifies risks specific to EFA. This policy is reviewed as required.

### **Review of effectiveness**

In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of Exchequer Funds Internal Audit who provided positive assurance as to the management and control of the Contingencies Fund in 2015-16, and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Group Audit Committee, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Audit Committee considered the 2015-16 accounts in draft and provided me with its views before I formally signed the accounts.

No significant internal control issues, including data related incidents, have been identified in 2015-16, and no significant new risks have been identified in the year. No ministerial directions have been given in 2015-16.

In my opinion, the system of internal control was effective throughout the financial year and remains so on the date I sign this report.

## **Parliamentary accountability and audit report**

### **Regularity of expenditure**

The advances of the Contingencies Fund were applied to the purposes intended by Parliament.

The above statement has been audited.

### **Remote contingent liabilities**

The Contingencies Fund had no remote contingent liabilities as at 31 March 2016.

The above statement has been audited.

### **Long-term expenditure trends**

Since the function of the Contingencies Fund is to finance payments for urgent services in anticipation of Parliamentary provision for those services becoming available, and to provide funds required temporarily by government departments for necessary working balances, or to meet other temporary cash deficiencies, it has no long-term expenditure trends.

**Julian Kelly**

24 June 2016

Accounting Officer

HM Treasury



# **The Certificate and Report of the Comptroller and Auditor General to the House of Commons**

I certify that I have audited the financial statements of The Contingencies Fund for the year ended 31 March 2016 under the Treasury Minute dated 13 May 1862. The financial statements comprise: the Statement of Financial Position, the Statement of Cash Flows 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 Accountability 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 in accordance with the Accounts Direction issued by the Treasury. My responsibility is to audit, certify and report on the financial statements in accordance with the Treasury Minute dated 13 May 1862. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Contingencies Fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance Report and Accountability Report 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 receipts and payments 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 receipts and payments 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 Fund's affairs as at 31 March 2016 and of the cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Accountability Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Treasury Minute dated 13 May 1862; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

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 parts of the Accountability 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**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
Comptroller and Auditor General

28 June 2016

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## Statement of Financial Position as at 31 March 2016

	Note	31 March 2016 £m	31 March 2015 £m
<b>Assets</b>			
<b>Current Assets</b>			
Advances outstanding	4	0.0	0.4
Cash and cash equivalents	3	1.5	1.5
<b>Total assets</b>		<b>1.5</b>	<b>1.9</b>
<b>Liabilities</b>			
<b>Sums repayable to the Consolidated Fund</b>			
Current liabilities	4	0.0	0.4
Non-current liabilities	4	1.5	1.5
<b>Total liabilities</b>		<b>1.5</b>	<b>1.9</b>

The Contingencies Fund does not receive any income, nor does it incur any expenditure. Accordingly, no Statement of Comprehensive Net Expenditure is presented. There were no other gains or losses in the year (2014-15: none).

The notes on pages 17-23 form part of these accounts.

**Julian Kelly**

24 June 2016

Accounting Officer

HM Treasury

## Statement of Cash Flows

	Note	£m	2015-16 £m	2014-15 £m
<b>Receipts</b>				
Issues from the Consolidated Fund			<b>5,000.0</b>	4,534.6
<i>Advances recovered from</i>				
Sundry Estimates voted by Parliament	5.1	<b>4,422.5</b>		3,641.0
Revenue Departments	5.2	<b>0.0</b>		393.0
			<b>4,422.5</b>	4,034.0
<b>Total Receipts</b>			<b>9,422.5</b>	8,568.6
<b>Payments</b>				
Repayments to the Consolidated Fund			<b>(5,000.4)</b>	(4,535.2)
<i>Advances recoverable from</i>				
Sundry Estimates voted by Parliament	5.1	<b>(4,422.1)</b>		(3,640.4)
Revenue Departments	5.2	<b>(0.0)</b>		(393.0)
			<b>(4,422.1)</b>	(4,033.4)
<b>Total Payments</b>			<b>(9,422.5)</b>	(8,568.6)
<b>Surplus of receipts over payments for the financial year</b>			<b>0.0</b>	0.0

The notes on pages 17-23 form part of these accounts.

# Notes to the Accounts

## 1 Accounting Policies

### 1.1 Basis of preparation

The financial statements of the Contingencies Fund have been prepared in accordance with a Direction given by HM Treasury, and the requirements of the 2015-16 Government Financial Reporting Manual (FReM). The Statement of Cash Flows, which shows receipts and payments only, is in accordance with the Accounts Direction. The current version of the FReM is based on International Financial Reporting Standards (IFRS).

The accounts have been prepared under the historical cost convention.

The Contingencies Fund receives its funding from the Consolidated Fund and expects to recover all advances it makes to departments. It is therefore appropriate to prepare the Account on a going concern basis.

There are no areas of the financial statements that are reliant on management's judgement in the process of applying the Contingencies Fund's accounting policies. There are no sources of estimation uncertainty at the balance sheet date.

The financial statements of the accounts are rounded to the nearest £0.1 million.

### 1.2 IFRS in issue but not yet effective

There are no IFRS in issue but not yet effective which are expected to have an impact on the financial statements of the Contingencies Fund.

### 1.3 Functional and presentation currency

The financial statements of the Contingencies Fund are presented in sterling, which is the Contingencies Fund's functional currency.

### 1.4 Financial Assets and Liabilities

All assets and liabilities are accounted for as financial assets and liabilities.

## 2 Income and expenditure

As interest is not receivable on its advances nor payable on its liabilities, the Contingencies Fund does not receive any income, nor does it incur any expenditure. Consequently, no Statement of Comprehensive Net Expenditure is presented.

## 3 Cash and cash equivalents

Cash and cash equivalents comprise a cash balance held by the Government Banking Service. A balance of £1,500,000 was held at both the start and end of the financial year 2015-16. This is equal to the permanent capital of the Contingencies Fund, as specified by section 52 of the Finance Act 1921.

#### 4 Advances outstanding (current assets) and sums repayable to the Consolidated Fund (current liabilities)

	Code (see Overview)	31 March 2016 £m	31 March 2015 £m
Dept for Communities and Local Government	(c)	0.0	0.4
		<u>0.0</u>	<u>0.4</u>

#### Non-current liabilities

The Contingencies Fund's permanent capital of £1,500,000 has been treated as a non-current liability to the Consolidated Fund.

## 5 Advances and repayments

Contingencies Fund advances and repayments that contributed to cash flow in 2015-16 were as follows:

	Code (see Overview)	2015-16 Advances £m	2015-16 Repayments £m	2014-15 Advances £m	2014-15 Repayments £m
<b>5.1 Advances to Departmental Supply Estimates</b>					
Department for Communities and Local Government	(a)	<b>205.0</b>	<b>205.0</b>	0.0	0.0
Department for Transport	(b)	<b>0.0</b>	<b>0.0</b>	550.0	550.0
HM Treasury	(b)	<b>20.0</b>	<b>20.0</b>	10.0	10.0
Water Services Regulation Authority	(b)	<b>0.0</b>	<b>0.0</b>	5.8	5.8
Department for Communities and Local Government	(c)	<b>0.6</b>	<b>1.0</b>	0.4	0.0
Department for Culture, Media and Sport	(c)	<b>0.0</b>	<b>0.0</b>	49.9	49.9
Department for Education	(c)	<b>1.0</b>	<b>1.0</b>	0.0	0.0
Department for Work and Pensions	(c)	<b>0.0</b>	<b>0.0</b>	0.6	1.6
Ministry of Justice	(c)	<b>0.0</b>	<b>0.0</b>	0.9	0.9
Armed Forces Pension and Compensation Scheme	(d)	<b>100.0</b>	<b>100.0</b>	116.0	116.0
Cabinet Office	(d)	<b>37.2</b>	<b>37.2</b>	0.0	0.0
Competition and Markets Authority	(d)	<b>0.0</b>	<b>0.0</b>	13.0	13.0
Department for Communities and Local Government	(d)	<b>94.0</b>	<b>94.0</b>	0.0	0.0
HM Treasury	(d)	<b>83.0</b>	<b>83.0</b>	0.0	0.0
Home Office	(d)	<b>555.0</b>	<b>555.0</b>	275.0	275.0
Ministry of Justice	(d)	<b>460.0</b>	<b>460.0</b>	0.0	0.0
OFSTED, Children's Services and Skills	(d)	<b>0.0</b>	<b>0.0</b>	19.4	19.4

Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England	(d)	0.8	0.8	0.0	0.0
Security and Intelligence Agencies	(d)	0.0	0.0	109.7	109.7
Serious Fraud Office	(d)	15.5	15.5	26.5	26.5
Statistics Board	(d)	0.0	0.0	29.2	29.2
Department for Environment, Food and Rural Affairs	(e)	1,900.0	1,900.0	2,400.0	2,400.0
NHS Pension Scheme	(e)	916.0	916.0	0.0	0.0
Office of Gas and Electricity Markets	(e)	20.0	20.0	20.0	20.0
Office of Rail and Road	(e)	10.0	10.0	10.0	10.0
Water Services Regulation Authority	(e)	4.0	4.0	4.0	4.0
<b>Sub total</b>		<u>4,422.1</u>	<u>4,422.5</u>	<u>3,640.4</u>	<u>3,641.0</u>

## 5.2 Advances in anticipation of revenue, as distinct from income, receipts

HM Revenue and Customs	(f)	0.0	0.0	393.0	393.0
<b>Sub total</b>		<u>0.0</u>	<u>0.0</u>	<u>393.0</u>	<u>393.0</u>
<b>Grand total</b>		<u>4,422.1</u>	<u>4,422.5</u>	<u>4,033.4</u>	<u>4,034.0</u>



## **6 Financial Risks related to the Contingencies Fund**

The cash requirements of the Contingencies Fund are met from the Consolidated Fund and so liquidity risk is borne by the Exchequer.

All of the transactions of the Contingencies Fund occur in sterling, and no interest is paid on issues to the Contingencies Fund from the Consolidated Fund, nor received on advances made by the Contingencies Fund. As a result, the Contingencies Fund is not subject to foreign currency or interest rate risk.

The Contingencies Fund's advances are solely to public sector entities which limits credit risk. The largest advances in 2015-16 were made in anticipation of the receipt of cash from other sources by the borrower at a later date which will repay the advance (category (e)).

The Vote on Account provides authority for spending on continuing services by departments in the early part of the following financial year (until the legislation authorising the Main Estimates obtains Royal Assent). Credit risk for category (a) advances is, therefore, limited since the department will seek cover in the relevant Main Estimates and once the Main Estimates has been granted Royal Assent, the Contingencies Fund is repaid.

Credit risk for category (b) advances is limited because an advance may only be made once it has been confirmed that Parliamentary approval for provision in the Estimates will be sought for new enabling legislation. Repayment to the Contingencies Fund then occurs once Royal Assent is granted to the relevant Supply and Appropriation Bill.

Credit risk for category (c) advances is also limited because an advance may only be made once the enabling legislation has received its second reading in the House of Commons. This provides assurance that the entity will obtain resource and capital cover in the Estimates to ensure repayment once Royal Assent has been granted to the enabling legislation.

Where Contingencies Fund advances are made to meet urgent cash requirements for existing services when provision on the Estimate is exhausted, category (d) advances, credit risk faced by the Contingencies Fund is limited, since once the relevant Supply and Appropriation Bill has been granted Royal Assent, the Contingencies Fund is repaid.

The Category (e) advances made to Defra in 2015-16 were repayable following receipts from the European Union (EU). However, there was a risk that the EU receipts would not be forthcoming if the EU budget for 2015-16 had not been agreed on time. In fact, as in 2014-15, the EU did make timely and adequate payments to Defra, and the advances were repaid in full.

Other category (e) advances are generally made to regulatory bodies that are expected to raise income by charging the industry that they regulate, or charge for work carried out. If, for any reason, the income was not forthcoming, an entity would also either seek a Supplementary Estimate or find savings within its existing provision to repay the Contingencies Fund.

Credit risk for category (f) advances is limited as repayments are funded through tax revenue and normally repayable on the next working day, but no later than a week at the most.

## 7 Commitments

	Code (see Overview)	31 March 2016 £m	31 March 2015 £m
Department for Communities and Local Government	(a)	0.0	205.0
Department for Communities and Local Government	(c)	0.0	0.6
HM Treasury	(c)	2.4	0.0
NHS Pension Scheme	(e)	850.0	916.0
HM Procurator General and Treasury Solicitor	(e)	15.0	0.0
Office of Gas and Electricity Markets	(e)	20.0	20.0
Office of Rail and Road	(e)	25.0	10.0
Water Services Regulation Authority	(e)	5.0	4.0
		<b>917.4</b>	<b>1,155.6</b>

2016-17 advances are reported as Commitments where they have been authorised before the 31 March 2016.

Those category (e) advances made to regulatory bodies provide short term liquidity until sufficient income is received from the industries regulated.

## 8 Related parties

The Treasury has a custodian role in relation to the Contingencies Fund. Therefore, as far as advances from and repayments to the Contingencies Fund are concerned, the Treasury is regarded as a related party.

During the year there was one category (b) and one category (d) advance between the Treasury and the Contingencies Fund for £20 million and £83 million respectively, which were repaid during the financial year (see note 5.1) resulting in no balance outstanding at 31 March 2016 (31 March 2015: £nil).

The Contingencies Fund has transacted with a number of government departments during the year. These transactions are all disclosed in Note 5.

## **9 Events after the reporting period**

There are no events after the reporting period to report.

## **10 Date of Authorisation for Issue of Accounts**

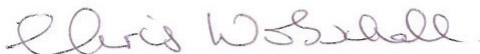
The Accounting Officer authorised these financial statements for issue on 28 June 2016.

## Appendix

### Contingencies Fund Account

#### Accounts Direction given by the Treasury

1. The Treasury shall prepare accounts for the Contingencies Fund for the year ending 31 March 2012 and each subsequent financial year, that give a true and fair view of the state of affairs of the Contingencies Fund at the reporting date and of its cash flows for the year then ended.
2. The accounts shall be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM).
3. The statement of cash flows shall show only receipts and payments.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.
5. This accounts direction shall be reproduced as an appendix to the accounts.
6. This accounts direction supersedes that issued on 17 March 2010.



Chris Wobschall  
Deputy Director, Assurance and Financial Reporting Policy, HM Treasury  
6 January 2012



### **HM Treasury contacts**

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