HM Treasury

Whole of Government Accounts

year ended 31 March 2014

HC 1091

March 2015

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1 Foreword

Introduction

1.1 The Whole of Government Accounts (WGA) consolidates the audited accounts of approximately 5,500 organisations across the public sector in order to produce a comprehensive, accounts based picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector.

1.2 WGA complements other spending analysis such as the National Accounts and provides additional information to provide insight into the public finances. Publication of the WGA also supports the government transparency agenda to make more public data available. The WGA is independently audited giving both Parliament and the outside world greater confidence in the figures, and supports effective scrutiny by Parliament through the Public Accounts Committee.

1.3 A body of data is building up in WGA to help users compare financial data across the public sector and understand trends over time. The effect of fiscal consolidation in the public sector can be clearly seen in the WGA data, as set out below and in Chapter 2.

The 2013-14 WGA

1.4 In summary, the 2013-14 WGA shows:

- tax revenue has increased by 6.0% from £524.4 billion to £555.8 billion in 2013-14 (increase of 3.8% in real terms), mainly driven by higher direct and indirect tax revenue such as VAT, Income Tax and Corporation Tax
- a 0.3% decrease in directly controlled expenditure from £665.8 billion to £663.6 billion in 2013-14 (a reduction of 2.4% in real terms), mainly driven by staff costs, provision movements and reductions in welfare spending
- a reduction in net expenditure from £178.7 billion in 2012-13 to £148.6 billion in 2013-14 (a reduction of 18.7% in real terms)
- assets have increased by £39.8 billion (3.1%) mainly due to increases in property, plant and equipment (£15.8 billion) and financial assets (£17.6 billion). These are driven by new academy schools and United Kingdom Asset Resolution Ltd (UKAR) coming onto the balance sheet for the first time this year
- liabilities have increased by £263.7 billion, driven by increases in the public sector pension liability (£130 billion) and a rise in the level of government borrowing (£99.9 billion) required to fund the fiscal deficit

Improvements in the quality of WGA

1.5 The accounts for 2013-14 continue the trend of delivering significant improvements in the quality of the WGA. They have been published 12 months after the financial year end, three months ahead of the 2012-13 accounts. Our ultimate target is to produce the WGA within 9 months of the year end to ensure the data is relevant and useful for decision makers.

1.6 The number of qualifications this year is the same as 2012-13. Further steps have been taken to address the issues leading to audit qualifications and considerable progress has been made. In particular, the Treasury has continued work to improve the quality of academies data. Although issues do still remain, the Treasury has actions in place to continue to improve data quality in this and other areas. The audit qualifications apply to limited areas of the accounts, partly reflecting underlying entity qualifications and differences in policy view between HM Treasury and the National Audit Office (NAO), but do not diminish the fundamental value and usefulness of these accounts.

1.7 The underlying data quality has continued to improve in comparison to previous years. The process of consolidating the underlying accounts in WGA requires adjustments to remove transactions between component entities. The volume of data that could not be removed fell from £9.1 billion to £7.3 billion, an improvement of 20%. The Treasury implemented a new eliminations approach in 2013-14, which will continue to deliver improvements in future years.

Accounting adjustments in WGA

1.8 The WGA are an accounts based view of the public finances and as such they are subject to a range of accounting adjustments that influence both the net expenditure for the year and the net liabilities on the balance sheet. For clarity and to assist readers on these accounts it is worthwhile drawing attention to the key adjustments and how they impact on the accounts.

Box 1: Accounting issues that impact on the WGA

- Provisions – The value of provisions set out on the balance sheet are subject to discounting to reflect current prices. Therefore the value of the liability shown in WGA is what would have to be set aside today to meet the liability when it falls due for payment. This value will fluctuate depending on interest rate assumptions.
- Pensions – The actuarially determined value of the public sector pension liability is also subject to discounting to reflect current prices. This is standard accounting practice to reflect the long term nature of the pension liability as the cash costs associated with settling the liability are spread over more than 30 years. Therefore, small adjustments in the discount rate can have a large impact. Further details are set out in Chapter 2 and note 26 to the accounts.
- Current deficit and government borrowing – The annual net expenditure (£148.6 billion) measured in WGA is an accruals based view of the public sector and as discussed above includes non-cash related transactions. The increase in government borrowing on the balance sheet represents the cash needed to meet actual payments in year and therefore is not a direct comparison to the net expenditure figure.

WGA in Context

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

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

Box 2: Current deficit vs. WGA net expenditure

- **Income** – the measurement of income is largely the same.
- **Expenditure** – the measurement of expenditure is largely the same but WGA expenditure also includes such items as impairments to assets and pension charges related to the public sector pension liability. This includes more than just the pensions paid in the year. WGA includes longer-term obligations which are triggered by events that have already happened, with cash payments at some point in the future, which could be up to 100 years. These items can be materially affected by estimation assumptions (such as the discount rate) and accounting revaluations.
- **Net expenditure** – as a consequence, WGA net expenditure can fluctuate even though the underlying position on income and expenditure relating to the year that feeds into National Accounts are the same. These fluctuations mean that WGA net expenditure can differ from the National Accounts measure on a year to year basis, as explained in Chapter 3, but it does offer new insights into long-term sustainability.

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

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

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

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

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

How the WGA is used

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

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

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

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

Future Improvements to the WGA

1.18 The Treasury has a programme underway to improve the quality of the accounts year on year. For 2014-15 the main focus will be to make progress on the WGA qualifications. Local authorities will continue to provide full depreciated replacement cost valuations for highways infrastructure assets as part of the process of addressing the qualification on the alignment of accounting systems. Other planned future improvements include:

- consolidation of the assets and liabilities of Network Rail from 2014-15
- improvements in academy schools data, particularly in respect of the valuation of fixed assets
- work with CIPFA to implement a consistent accounting policy for highways infrastructure assets by 2016-17 and deliver improvements in the underlying data quality
- continue to deliver improvements to the publication timetable and aim to publish the accounts within nine months of the year-end
- develop a simplified and streamlined WGA as part of the government agenda to make public sector accounts more accessible
- improve the reporting of cross government fraud, error and debt data in WGA
- investigate the feasibility of providing a greater regional analysis of spending
- work to enhance the reporting of public finance risks and public sector remuneration within WGA

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

Conclusion

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

1.21 Chapter 2 of this document explains the 2013-14 WGA financial statements in more detail.

Julian Kelly
Accounting Officer

19 March 2015

2 Performance Report

Fiscal Overview 2013-14

Total revenue

Ensure fair system that promotes hard work, enterprise and investment to ensure finances are set on a sustainable path to facilitate deficit reduction

Total expenditure

To control spending to support deficit reduction, reduce the current budget deficit and achieve cyclically-adjusted current balance to meet the fiscal mandate

Financing

Minimise the cost of government borrowing to maximise resources available to support public services

Net deficit for the year

The fiscal mandate is to balance the cyclically adjusted current budget by the end of a rolling 5 year period in 2019-20

FISCAL STRATEGY

Revenue

What does government earn from taxes and other income?

£648.5 billion
+4.5%

−

Expenditure

What does government spend on providing services and running costs?

£718.0 billion
+0.1%

−

Financing

What does government pay to finance its liabilities?

£79.1 billion
-3.6%

=

Net Deficit

What is the overall position?

£148.6 billion deficit
-16.8%

	2012-13 £bn	2013-14 £bn
Income tax	150.9	162.1
Social security	90.7	97.3
VAT	99.1	108.2
Local tax	55.9	52.8
Other tax	127.8	135.4
Sale of goods	42.7	39.0
Other revenue	53.6	53.7
Total revenue	**620.7**	**648.5**

	2012-13 £bn	2013-14 £bn
Staff expenses	183.6	185.8
Benefits	215.0	213.4
Purchase of goods	182.3	189.8
Depreciation and impairment	51.1	49.5
Grants	56.3	59.8
Provisions	29.0	19.7
Total expenditure	**717.3**	**718.0**

	2012-13 £bn	2013-14 £bn
Gilt interest	31.0	31.7
Pension interest	47.9	49.1
Sale of assets	3.3	(4.3)
Investment revenue	(4.8)	(7.0)
Other	4.7	9.6
Total financing	**82.1**	**79.1**

Information on revenue:

Statement of Revenue and Expenditure	p51
Tax revenue - Note 3	p83
Sales of good and services - Note 4	p84
Other revenue - Note 5	p85

Information on spending:

Statement of Revenue and Expenditure	p51
Staff Expenses -Note 7	p87
Benefits – Note 6	p86
Expenditure – Note 8 to 10	p89

Information on financing:

Statement of Revenue and Expenditure	p51
Finance cost – Note 12	p91
Pension Interest – note 26	p119
Other – Note 11	p91

Net Worth Summary 2013-14

Assets

Resources owned and controlled by government to benefit the delivery of future services

£1,337.3 billion
+3.1%

Liabilities

Obligations of government arising from past transactions or events, the settlement of which will result in cash payments

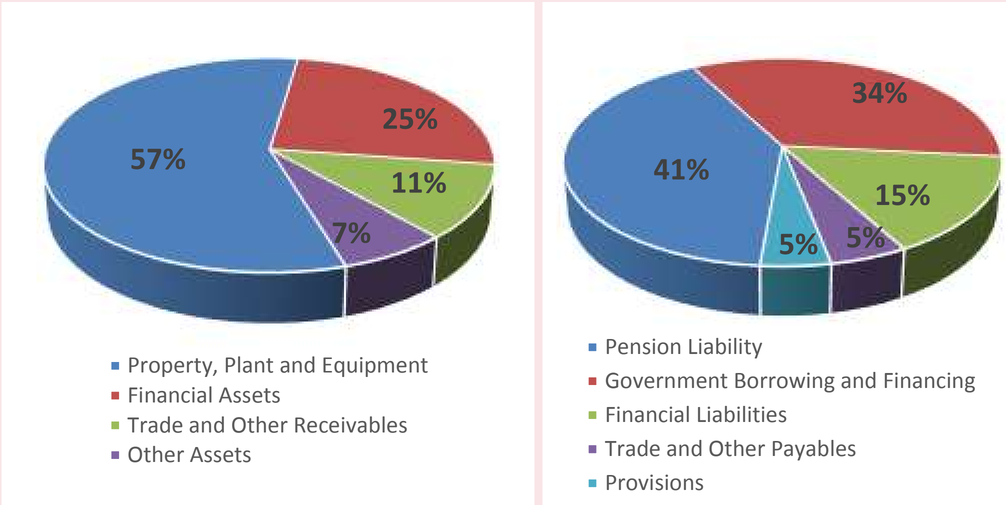
£3,189.1 billion
+9.0%

Net liabilities

£1,851.8 billion
+13.8%

2012-13 - £1,627.9 billion
2011-12 - £1,346.9 billion
2010-11 - £1,185.7 billion
2009-10 - £1,227.9 billion

Chart 2.1: Breakdown of WGA assets and liabilities



Find out more information on assets:

	Note	2012-13	2013-14	
Statement of Financial Position				Page 53
Property plant and equipment	Note 13	£746.8 bn	£762.6 bn	Page 92
Financial assets	Note 21	£316.2 bn	£333.8 bn	Page 107
Trade receivables	Note 16	£138.9 bn	£149.1 bn	Page 103
Performance Report				Page 7

Find out more information on liabilities:

	Note	2012-13	2013-14	
Statement of Financial Position				Page 53
Pensions	Note 26	£1,171.9 bn	£1,301.9 bn	Page 119
Government borrowing	Note 23	£996.2 bn	£1,096.1 bn	Page 112
Financial liabilities	Note 25	£472.8 bn	£490.6 bn	Page 116
Trade payables	Note 22	£153.5 bn	£158.7 bn	Page 111
Provisions	Note 24	£131.0 bn	£141.8 bn	Page 113

2013-14 Key Movements

Statement of Revenue and Expenditure

The Statement of Revenue and Expenditure sets out the scale and nature of the flows to and from the government and changes arising from movements in the value of public sector assets and liabilities.

Income:

- **Income tax (£162.1 billion), National Insurance (£97.3 billion) and VAT (£108.2 billion) account for 57% of all government revenue** (see table 2.3 for further detail).
- **Income tax increased by £11.2 billion (7.4%) from £150.9 billion in 2012-13 to £162.1 billion in 2013-14.** Economic improvement in most sectors, especially the financial and business service sectors has resulted in higher receipts (para 2.9).
- **Local taxes decreased by £3.1 billion (5.5%) from £55.9 billion in 2012-13 to £52.8 billion in 2013-14.** In 2012-13, the council tax receipts included £3.6 billion of council tax benefit, the 2013-14 accounts now show this income on a net basis due to a policy change. Business rates now reflect £1.7 billion of provisions for appeals going as far back as 2005-6 (para 2.10). Excluding this provision business rates have increased by £0.6 billion (2.4%).
- **Other taxes increased by £7.7 billion (6%) from £127.8 billion in 2012-13 to £135.5 billion in 2013-14.** This increase is primarily driven by stamp duty which increased by £3.4 billion, followed by an increase of £0.7 billion for both corporation tax and the bank levy. The remaining increase is spread across different tax revenue streams (paras 2.11 – 2.14).
- **Other revenue increased by £0.1 billion (1.7%) from £53.6 billion in 2012-13 to £53.7 billion in 2013-14.** There was a one off gain of £2.4 billion relating to the sale of 4G spectrum recognised in 2012-13 so underlying revenue has increased by £2.5 billion in 2013-14 (paras 2.15 – 2.16).
- **Investment revenue has increased by £2.2 billion (45.8%) from £4.8 billion in 2012-13 to £7 billion in 2013-14.** This rise is due to UKAR's interest receipt of £2.2 billion from their mortgage loan book.

Expenditure:

- **Staff costs increased by £2.2 billion (1.2%) from £183.6 billion in 2012-13 to £185.8 billion in 2013-14.** Salaries and wages have fallen in line with a reduced public sector work force (down 3.5%) and continued pay restraint. The increase in overall staff costs is due to increased pension contributions and an increase in the cost of providing pension benefits for existing staff (paras 2.26 – 2.29).
- **Benefits have reduced by £1.6 billion (0.7%) from £215.0 billion in 2012-13 to £213.4 billion in 2013-14.** The reduction in benefits is due to the move from Income Support and Incapacity Benefit to Employment Support Allowance and the removal of council tax benefit. The biggest element of welfare spending is pensions, representing 40% of all benefits paid and has increased by £1.2 billion (1.4%) from £83.8 billion in 2012-13 to £85.0 billion in 2013-14 (paras 2.21 – 2.25).
- **Purchases of goods and services have increased by £7.5 billion (4.5%) from £182.3 billion in 2012-13 to £189.8 billion in 2013-14.** The movement is largely due to departments ring-fenced from the budget cuts; the Department of Health increased spending by £1.4 billion with independent providers; the Department for International Development increased spending by £1.8 billion; the Department for Education increased by £1.0 billion due to new academy trusts and the Scottish Government increased spending by £1.1 billion (paras 2.30 – 2.32).
- **Provisions have reduced by £9.3 billion (3.2%) from £29 billion in 2012-13 to £19.7 in 2013-14.** The reduction is mainly due to a one off charge in 2012-13 due to changes in discount rates, offset by increases in the Nuclear Decommissioning Provision (£7.5 billion) and Clinical Negligence (£3.0 billion) in 2013-14 (paras 2.84 – 2.85).
- **The sale of Lloyd's shares generated revenue of £7.4 billion** (para 2.57).
- **Other finance costs of £9.6 billion** primarily relate to downward valuations of gold of £2.7 billion, £1.3 billion of financial assets and interest costs relating to finance leases and PFI of £3.1 billion.

Statement of Financial Position

The Statement of Financial Position sets out the assets held and liabilities owed by the government, in a snapshot of the public sector balance sheet as at 31 March 2014.

- **Assets and liabilities now reflect the consolidation of UK Asset Resolution Ltd (UKAR).** UKAR is the company that manages NRAM Plc and Bradford & Bingley. Prior to its consolidation, HM Treasury had a shareholding of £5.3 billion and loans made to UKAR of £42.6 billion. These assets have been removed on consolidation and replaced with the following material assets and liabilities:
  - **Mortgage loans** - £61.2 billion
  - **Derivative assets** - £4.6 billion
  - **Debt securities liability** - £25.9 billion
  - **Cash collateral liability** - £3.1 billion

- **Assets have increased by £39.8 billion (3.1%) from £1,297.5 billion in 2012-13 to £1,337.3 billion in 2013-14.** Property, plant and equipment (PPE) increased by £15.8 billion due to increased assets under construction and new academies; financial assets increased by £17.6 billion due to increased loans and advances to banks (repos) and trade receivables increased by £10.2 billion due to increases in taxation due.

- **Liabilities have increased by £263.7 billion (9%) from £2,925.4 billion in 2012-13 to £3,189.1 billion in 2013-14.** The key factors behind this increase were an increase in the pension liability of £130 billion (11.1%), followed by an increase in government borrowing of £99.9 billion (10%) and financial liabilities of £17.8 billion (3.8%).

- **Pensions** – WGA shows two pension costs; one is for the state pension which costs £85 billion in 2013-14 but for which no long term liability is accrued (because the state pension is a benefit, not a contractual obligation); and the other is for the public sector pension schemes (£36 billion benefits paid during 2013-14) which have a long term liability as there is a contractual obligation to pay the pension. The public sector pension liability is £1.3 trillion as at March 2014. The pension liability increased due to the following factors:
  - **Current service costs** – these are costs that relate to public sector workers accruing another year of pension that is due to them. While scheme participants are now contributing more, there is also an effect on the actuarial calculation which has to take account that more pension will be due to them in the future.
  - **Financing costs** – as pensions become one year closer to being paid out the value of the liability is adjusted to today's prices. This results in an implied interest charge as the effect of discounting future years is unwound. The cost of this accounting entry is £49.1 billion.
  - **Actuarial losses** – changes in the pension scheme liabilities calculated by actuaries based on certain key assumptions such as inflation rate, mortality rate and salary growth. The Actuarial movements have added £83.5 billion to the pension liability in 2013-14.
  - **Benefits paid** – pensions paid to public sector workers in retirement which reduces the liability by £36 billion.

- **Government borrowing** – the Office for Budget Responsibility (OBR) independently forecasts the central government net cash requirement for the year which for 2013-14 was £87.5 billion. Additional financing for the official reserve of £6 billion and further small adjustments brought the total financing requirement to £99.3 billion. Further WGA adjustments were made relating to gilt redemptions and eliminations of quantitative easing which increased overall government borrowing to £99.9 billion on a consolidated basis.

- **Financial liabilities** – an increase in deposits into financial institutions reserve accounts at the Bank of England is the main driver of increase of £20 billion in financial liabilities at the balance sheet date.

Overview

2.1 The figures reported in the 2013-14 WGA sit within the context of a number of policy decisions made by the government to reduce the current deficit (surplus on current budget) as defined on the basis of the National Accounts. These decisions have successfully reduced the National Accounts current deficit from a peak of £109 billion in 2009-10 to £73 billion by 2013-14. The WGA shows that net expenditure as measured on an IFRS basis is also reducing in line with the government policy of continuing fiscal consolidation. As the economy recovers tax receipts are increasing and expenditure in the public sector is stable. If an adjustment is made to take account of inflation then expenditure is reducing in real terms.

Headline trends

2.2 Net expenditure has reduced due to increased tax revenues, flat expenditure and costs in running government. The statement of financial position has seen net liabilities increase primarily due to the increasing pension liability associated with an ageing population and government borrowing, partially offset by the rising value of property, plant and equipment and financial assets.

2.3 The WGA figures follow the same trend as the National Accounts, showing decreases in net deficit and an increase in the overall net debt measure. Expenditure in local authorities and public corporations continue to fall, whilst central government departments are showing reductions in line with the fiscal consolidation strategy. An explanation of the differences to National Accounts figures is set out in Chapter 3.

Table 2.1: Financial results

	2009-10 £bn	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn
Total income	(583.4)	(614.0)	(616.6)	(620.7)	(648.5)
Total expenditure	667.2	624.9	715.1	717.3	718.0
Finance costs	78.9	83.5	86.8	82.1	79.1
Net expenditure	**162.7**	**94.4**	**185.3**	**178.7**	**148.6**
% of GDP	11.0	5.9	11.4	11.0	8.9
Total assets	1,249.5	1,234.3	1,270.6	1,297.5	1,337.3
Total liabilities	2,477.4	2,420.0	2,617.5	2,925.4	3,189.1
Net liabilities	**1,227.9**	**1,185.7**	**1,346.9**	**1,627.9**	**1,851.8**
% of GDP	82.7	74.5	83.1	100.0	111.0

Key figures:

- **Income has increased by £27.8 billion (4.5%)** due to increased revenues from taxation of £31.4 billion (6%). Expenditure is flat on a nominal basis compared to the prior year. Staff costs have increased by £2.2 billion, mainly due to increased pension current service costs of £5.2 billion. Actual salaries and wages have reduced by £1.2 billion in line with pay restraint and a reduction in public sector employees.
- **Assets have increased by £39.8 billion (3.1%)** mainly due to property, plant and equipment (£15.8 billion) and financial assets (£17.6 billion). These are driven by increases in assets under construction and new academy schools as well as UKAR coming onto balance sheet for the first time this year.
- **Liabilities have increased by £263.7 billion**, driven by increases in the public sector pension liability (£130 billion) and rises in government borrowing (£99.9 billion) due to the continuing fiscal deficit.

2.4 **Total expenditure continues to exceed income, however the gap has been falling since 2011-12 and net expenditure is now 8.9% of (Gross domestic product) GDP, down from 11.0% in 2012-13.** The chart shows a reduction in expenditure and rising income resulting in a reducing annual deficit. This is in line with the national accounts measure of the public sector net deficit.

Chart 2.2: Overview of income and expenditure

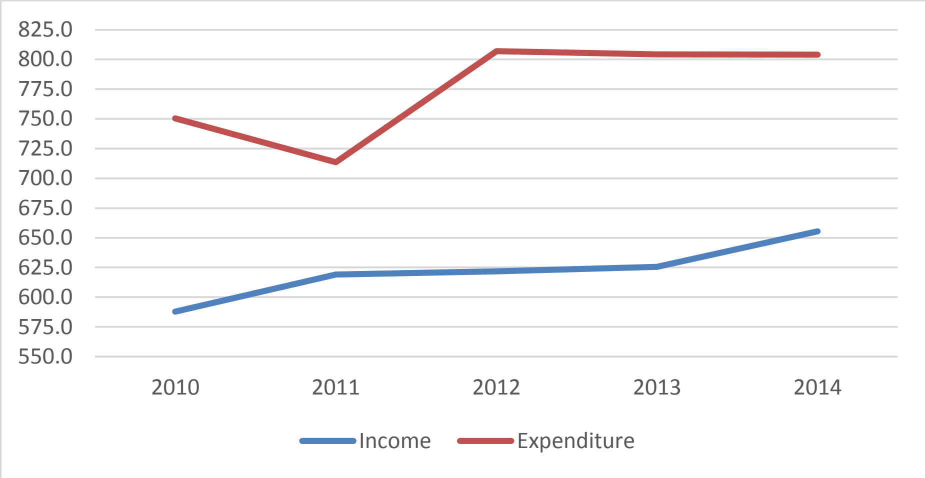
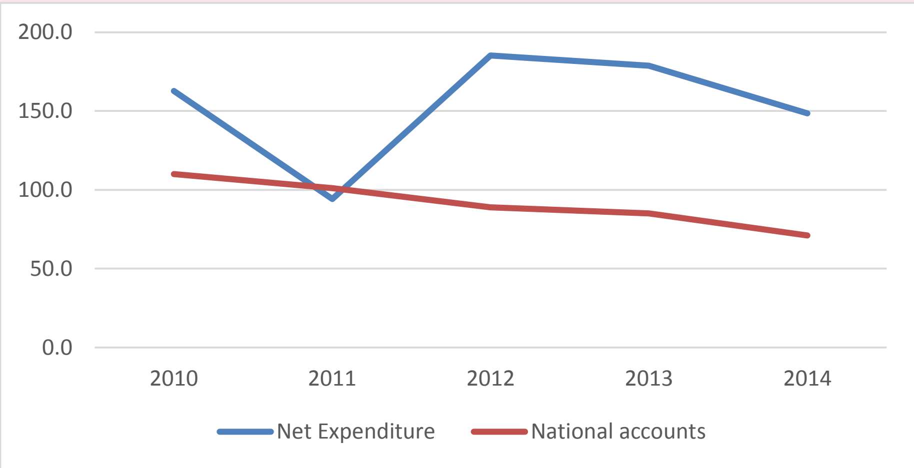


Chart 2.3: Net expenditure compared with the National Accounts measure

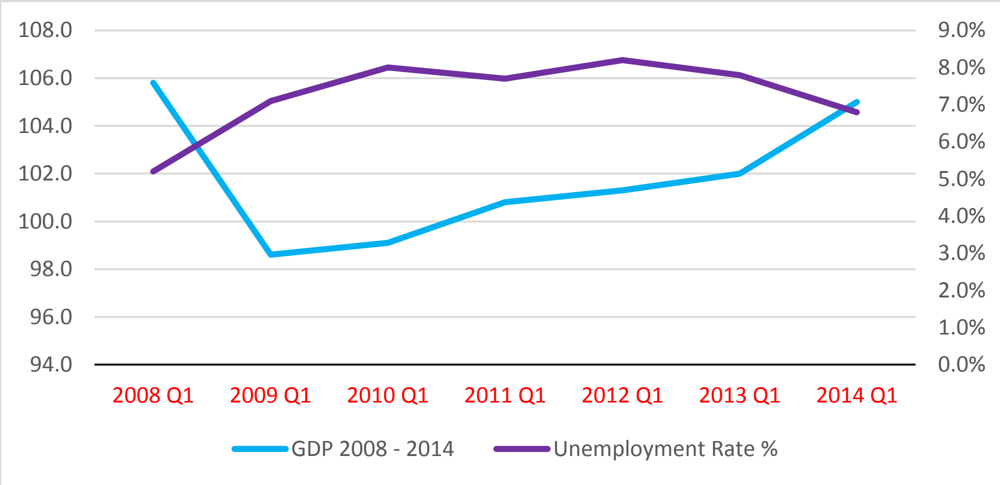


2.5 Chart 2.3 shows the fall in WGA net expenditure since 2011-12 compared to the National Accounts measure of Public Sector Net Deficit. The deficit is less than 10% of GDP for the first time since 2011, where the deficit was reduced due to a one off adjustment of £126 billion when pensions were valued using CPI rather than RPI. Adjusting for this effect, the net deficit in 2010-11 would have been £220 billion or 13.8% of GDP.

Box 4: Economic context

During the year ended 31 March 2014, the economy grew by 2.9% in real terms and 4.5% in nominal terms (source ONS: ABMI). Furthermore, unemployment reduced from 7.8% to 6.8% as at 31 March 2014. Employment levels also grew each quarter during the financial year. The make-up of employed people changed during the year with a fall in public sector employees and a sharp rise of 9% in the number of self-employed.

Chart 2.4: GDP and unemployment rates 2008 – 2014



2.6 Paragraphs 2.7 to 2.101 analyse the WGA data in more detail. The terminology used is explained in Annex 5 of this document, but key elements of the spending frameworks are presented below to help put this narrative into context and an aid to understanding the rest of the performance report.

Box 5: WGA in context

- Fiscal Framework and National Accounts: The fiscal measures used to monitor the public sector finances are based on a European set of standards (ESA10), which are similar to WGA accounting standards (IFRS), but with a number of differences. These are explained in detail in Chapter 3 to help readers understand the links between net expenditure in WGA and the current deficit measure used in National Accounts.
- Public Sector Spending Framework: The Treasury uses a budgetary framework to allocate and monitor departmental spending. This is split into Departmental Expenditure Limits (DEL), the amount government departments have been allocated to spend, and Annually Managed Expenditure (AME), which is money spent in areas outside budgetary control such as welfare, pensions and debt interest.
- WGA trends: When comparing to previous WGA data, it is important to understand that prior year data are not adjusted for inflation (i.e. not presented in real terms). Therefore part of the movement can be explained by inflation and does not reflect increases in public spending in real terms. The WGA data is restated for the previous year when significant changes occur (e.g. new entities or accounting policy changes) however the rest of the time series is not adjusted.

Government income and expenditure

Summary

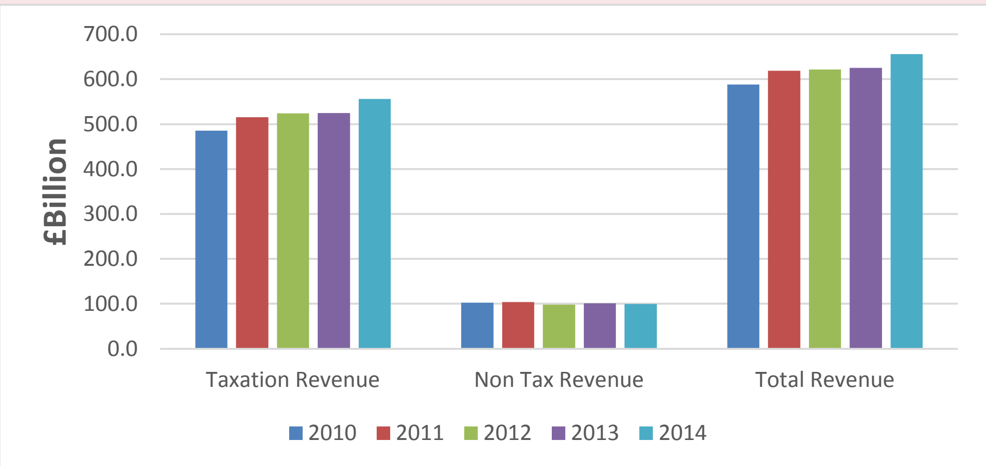
Table 2.2: Income and expenditure summary

	2009-10 £bn	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn
Revenues from taxation	(485.3)	(515.4)	(523.7)	(524.4)	(558.8)
Sales of goods and services	(51.0)	(49.8)	(41.8)	(42.7)	(40.0)
Other revenue	(47.1)	(48.8)	(51.1)	(53.6)	(52.7)
Total income	**(583.4)**	**(614.0)**	**(616.6)**	**(620.7)**	**(648.5)**
Staff costs	179.7	193.1	183.2	183.3	186.1
Benefits	197.1	203.9	209.7	215.0	213.4
Purchase of goods and services	188.9	186.7	177.8	182.3	190.2
Grants and subsidies	66.2	68.4	61.6	56.3	59.8
Depreciation and Impairment	51.6	80.4	64.4	51.1	49.5
Other – including provisions	(16.3)	(107.7)	18.4	29.3	19.0
Operating expenditure	**667.2**	**624.8**	**715.1**	**717.3**	**718.0**
Finance costs	34.9	40.5	42.3	36.3	36.7
Investment revenue	(4.4)	(5.1)	(5.2)	(4.8)	(7.0)
Other costs	50.2	48.1	49.7	50.6	49.4
Total finance costs	**78.9**	**83.5**	**86.8**	**82.1**	**79.1**
Net expenditure	**162.7**	**94.4**	**185.3**	**178.7**	**148.6**
% of GDP	11.0	5.9	11.4	11.0	8.9

Revenue

2.7 The primary source of revenue to government is taxation, which forms 86% of total public sector receipts. Taxes can be direct such as Income Tax, indirect such as VAT, or collected by local authorities. The primary purpose of the tax system is to raise revenue to fund public services and other government activities.

Chart 2.5: Revenue 2009-10 to 2013-14



Taxation revenue

2.8 **Tax revenue increased by £31.4 billion** in the year from £524.4 billion to £555.8 billion, largely driven by increased income tax and VAT.

Table 2.3: Changes in taxation revenue

	2009-10 £bn	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn	% of Total	Change from 2012-13 to 2013-14 %
Income Tax, social security	243.0	243.6	242.6	241.6	259.4	46.7%	7.4%
VAT	76.1	88.2	97.7	99.1	108.2	19.5%	9.2%
Local government taxes	52.1	52.8	54.8	55.9	52.8	9.5%	-5.6%
Corporation Tax	37.8	45.7	40.0	38.9	39.6	7.1%	1.8%
Hydrocarbon oil duty	26.3	27.2	26.9	26.5	26.9	4.8%	1.5%
Other indirect taxes	12.4	16.6	17.5	17.7	19.4	3.5%	9.6%
Excise duties	25.1	25.2	26.7	26.6	26.8	4.8%	0.8%
Stamp duties	8.1	9.0	8.7	9.5	12.9	2.3%	35.8%
Bank Levy	-	0.7	1.5	1.6	2.2	0.4%	37.5%
Other direct taxes	4.4	6.4	7.2	7.0	7.6	1.4%	8.6%
Total taxation revenue	**485.3**	**515.4**	**523.6**	**524.4**	**555.8**	**100%**	**6.0%**

2.9 Income Tax was £162.1 billion (2012-13: £150.9 billion), and National Insurance £97.3 billion (2012-13: £90.7 billion), together accounting for 47% of all taxes. **The rise in Income Tax is the first since 2010-11.**

2.10 Local government taxes include Council Tax, which is retained by local authorities, and national non-domestic rates, which are levied on local businesses and returned to central government. Council Tax amounted to £28.5 billion (2012-13: £30.4 billion), which reduced due to reforms to the benefits system and national non-domestic rates amounted to £24.3 billion (2012-13: £25.5 billion), a decrease of 4.9%. This decrease in non-domestic rates reflects the first time recognition of appeals provisions, reducing the accrued tax for 2013-14 by £1.7 billion.

2.11 Corporation Tax increased by £0.7 billion (1.8%) in the year, and accounted for 7% of total tax revenues. To help stimulate the economy, Corporation Tax rates have been reducing from 26% in 2011 to 23% in 2013. From 1 April 2014, Corporation Tax rates are set at 21%. During 2011-12 and 2012-13 Corporation Tax receipts were reducing year on year as a consequence of the economic downturn, especially in the banking sector where losses were carried forward to offset against future profits. The continued growth in GDP since 2010 has resulted in higher Corporation Tax receipts in 2013-14 yet is still below the 2011-12 receipts of £40 billion.

2.12 Hydrocarbon oils duty or fuel duty, a consumption-led tax, was £26.9 billion (2012-13: £26.5 billion), £0.4 billion (1.5%) higher. This was mainly due to a rise in demand for diesel following a fall in the pump prices during the year.

2.13 Excise duties, such as alcohol and tobacco duties, were £26.8 billion (2012-13: £26.6 billion), £0.2 billion (0.8%) higher. Tobacco duties remained static at £9.6 billion but alcohol duties increased by £0.2 billion due to increase in duty rates in March 2013 and accounts for the rise in excise duties as a whole. VAT increased by 9.2%, as a result of growth in a variety of sectors due to rise in consumer spending.

2.14 Other taxes, which account for 7.6% of total tax revenue, were £42.1 billion (2012-13 £35.9 billion), £6.2 billion (17.3%) higher. This increase was attributable to a number of factors including a £3.4 billion increase in stamp duty, reflecting the improved position of the housing market in 2013-14. The bank levy also raised £0.6 billion more revenue than a year earlier, providing £2.2 billion in receipts (2012-13: £1.6 billion) and £6.0 billion overall since it was introduced in 2010-11.

Non-tax revenue

2.15 The major component of non-tax revenue was revenue from the sale of goods and services. Local authorities received revenue from services provided to the public of £23.8 billion (2012-13: £22.5 billion), which included fare revenue from the London bus and underground transport service £3.8 billion (2012-13: £3.5 billion). Revenue earned by public corporations reduced from £14.8 billion in 2012-13 to £11.0 billion primarily due to the sale of the postal service in December 2013, meaning only part year revenue of £4.5 billion was recognised (2012-13: £9.9 billion).

2.16 Income was also received from fees, levies and charges made by central government entities to recover the cost of services, rental income from social housing, grants from the EU, and receipts into pension schemes from employees and those employers that are not an entity within WGA. Other revenue has increased by £0.1 billion in 2013-14 but stripping out the one-off gain relating to the sale of the 4G spectrum of £2.4 billion in 2012-13, underlying revenue has increased by £2.5 billion.

Expenditure

Overview

2.17 **Total expenditure in 2013-14 was £718.0 billion** (2012-13: £717.3 billion), this was £0.7 billion (0.1%) higher than 2012-13 (a real terms reduction of 2.0%).

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

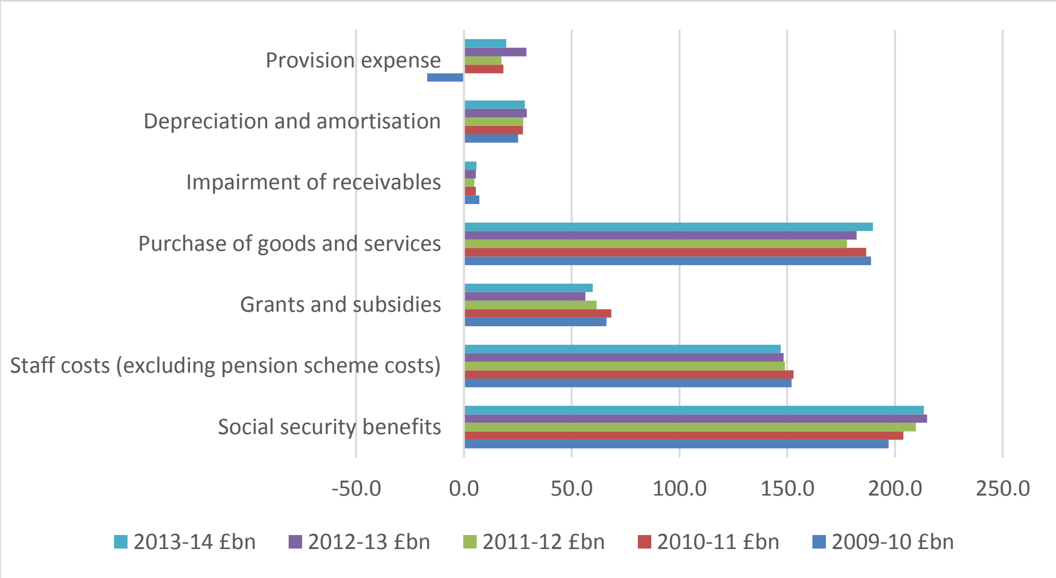
Table 2.4: Changes in expenditure

	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn
Social security benefits	204.0	209.7	215.0	213.4
Staff costs (excluding pension scheme costs)	153.0	148.9	148.4	146.8
Grants and subsidies	68.4	61.6	56.3	59.8
Purchase of goods and services and other expenses	186.7	177.8	182.3	189.8
Impairment of receivables	5.5	4.8	5.6	5.9
Depreciation and amortisation	27.4	27.6	29.2	28.2
Provision expense	18.3	17.4	29.0	19.7
Direct expenditure	**663.3**	**647.8**	**665.8**	**663.6**
Other impairment of assets	47.5	32.0	16.3	15.4
Pension scheme costs and actuarial revaluations	(85.9)	35.3	35.2	39.0
Total expenditure	**624.9**	**715.1**	**717.3**	**718.0**
% change year on year		**+14.4%**	**+0.3%**	**+0.1%**

Direct expenditure

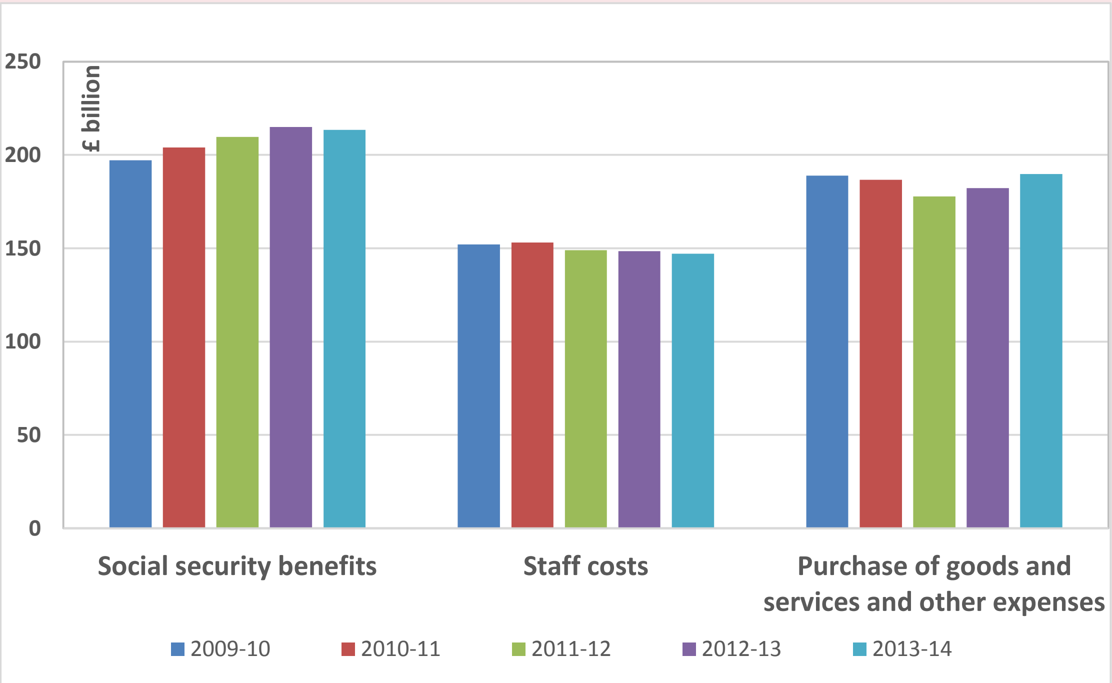
2.19 **Direct spend in 2013-14 was £663.6 billion** (2012-13 £665.8 billion), £2.2 billion lower than the previous year. Direct spend is monies incurred in the direct delivery of the government's policies and includes expenditure controlled by departments (DEL) and expenditure outside budgets (AME), such as welfare spending and pensions. Other items recognised in the Statement of Revenue and Expenditure result from the revaluation of assets or are actuarially determined.

Chart 2.6: Analysis of direct spending



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

Chart 2.7: Significant elements of expenditure 2010 to 2014



Social security benefits

2.21 **Expenditure on social security benefits decreased in the year by £1.6 billion from £215.0 billion to £213.4 billion**[1]. This decrease is partly due to the move from Income Support and Incapacity Benefit to Employment Support Allowance (ESA), alongside other changes to social benefits. Social benefit spending is part of Annually Managed Expenditure (AME), and not part of departmental budgets.

2.22 The state pension was the largest benefit at £85.0 billion (2012-13: £83.8 billion), accounting for 40% of all benefits. This benefit increased by £1.2 billion (1.4%), as a result of the uprating of pensions by 2.5% from £107.45 per week to £110.15 per week. Whilst the state pension has grown in every year since 2009-10, the rate of growth has fluctuated in line with the Consumer Price Index.

2.23 Tax credits accounted for 14.5% of benefits, and were £30.9 billion (2012-13: £30.8 billion), £0.1 billion (0.3%) higher than the previous year.

2.24 Housing and other local government benefits amounted to £27.3 billion (2012-13: £28.5 billion), £1.2 billion (4%) lower than the previous year and accounted for 13% of social security benefits. This is due to continuing welfare reforms reducing the amount of benefit.

2.25 Disability Living Allowance was £15.6 billion (2012-13: £15.5 billion), £0.1 billion (0.6%) higher than the previous year, and accounted for 7.3% of social security benefits.

Staff costs

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

2.27 At Autumn Statement 2011 the Chancellor announced that public sector pay awards would average 1% for 2013-14 and 2014-15. Budget 2014 confirmed that pay awards for public sector workers will be limited to 1% in 2014-15 with the intention to limit awards in 2015-16 to an average of up to 1%.

2.28 Wages and salaries in the public sector fell by £1.4 billion between 2012-13 and 2013-14 from £147.6 billion to £146.2 billion.

2.29 The public sector workforce has reduced in size by 3.5% (161,004) in 2013-14 and by 6.0% (286,831) since 2010-11. This reduction also includes an increase in staff owing to schools that were previously outside the WGA boundary converting to academies and appearing in the public sector finances and also a reduction due to Royal Mail privatisation taking place in October 2013. Excluding academies staff, numbers have reduced by 4.8% (210,181) in 2013-14. The cost of exit packages due to compulsory redundancies and other agreed departures of staff was £1.8 billion, representing the upfront cost of reducing the overall workforce cost to produce substantially higher savings over the longer term.

Purchase of goods and services

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

2.31 The total value of goods and services purchased was £189.8 billion (2012-13: £182.3 billion restated), a £7.5 billion (4.1%) increase on the prior year. Departments significantly contributing to this increase in 2013-14 were the NHS with a £1.4 billion increase in cost of purchasing health and social care from independent providers; the Department for International Development showing a £1.8 billion

[1] In real terms (in 2009-10 prices), based on Office of National Statistics GDP deflators, expenditure has decreased from £197.1 billion (2009-10) to £196.6 billion in 2013-14 (2012-13 £202.3 billion).

increase in promissory notes to developing countries and the Department for Education had a £1.0 billion increase due to new academies being classified to the public sector.

2.32 The value of goods and services purchased by central government was £115.8 billion (2012-13: £103.7 billion restated), £65.2 billion (2012-13: £68.7 billion restated) by local government (which included Transport for London and the majority of schools), and £8.8 billion (2012-13: £9.9 billion restated) by public corporations (which includes the BBC).

Grants and subsidies

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

2.34 Total grants and subsidies were £59.8 billion (2012-13: £56.3 billion), of which £10.2 billion (2012-13: £10.6 billion) were capital and £49.6 billion (2012-13: £45.7 billion) were revenue. The Department for International Development increased grant payments to developing countries from £5.4 billion in 2012-13 to £6.7 billion in 2013-14. Since 2010-11, overall grants have fallen by 12.6% (£8.6 billion).

2.35 Reductions to revenue grants continue to be made to numerous schemes across the public sector, including social housing and adult education. "Other" grants, which include grants to private and charity sector, have fallen from £15.3 billion in 2010-11 to £7.0 billion in 2013-14. The UK's net contribution to the European Union's budget was £12.1 billion (2012-13: £8.9 billion), being the amount the UK pays directly to the EU less any subsidies.

Depreciation and impairments

2.36 Depreciation and impairment charges for the year were £49.5 billion (2012-13: £51.1 billion). The charges in the year comprised depreciation and amortisation of tangible and intangible non-current assets of £28.2 billion (2012-13: £29.2 billion) and impairments and revaluations of £21.3 billion (2012-13: £21.9 billion).

2.37 Impairments to receivables were £5.9 billion (2012-13: £5.6 billion). These included £5.6 billion (2012-13: £5.1 billion) relating to tax debts. These impairments were made up of remissions (debts theoretically capable of recovery but which HMRC decided not to pursue on the grounds of value for money) and write-offs (debts that were irrecoverable as a consequence of insolvency where there was no practical means of pursuing the liability).

2.38 Impairments included £8.6 billion (2012-13: £12.0 billion) of reductions to the value of non-current assets. These are assets such as buildings and equipment where the value is less than that previously reported on the Statement of Financial Position due to changes in market values, loss, damage or unforeseen obsolescence.

2.39 Impairments also included a £4.2 billion reduction in the value of the student loan book, reflecting the risk that graduate earnings may not reach the levels predicted when student loans were issued. These can lengthen the time period before loans are in repayment and extend the repayment period, both of which impact on the value of the loans in the accounts. This has also been compounded by the earnings threshold for repayment not being adjusted to reflect slow earnings growth as a result of the recession and the 30 year limit which increases the risk of non-payment.

Net financing cost

2.40 The net financing cost was £78.8 billion (2012-13: £79.4 billion), £0.6 billion (0.8%) lower than the previous year. This comprises net interest on pension scheme liabilities of £49.1 billion (2012-13: £47.9 billion restated) and finance costs of £36.7 billion (2012-13: £36.3 billion), offset by investment revenue of £7.0 billion, primarily from student loans (£1.3 billion) and UKAR mortgage interest (£2.2 billion).

2.41 Interest costs in respect of government borrowing and financing increased by £0.7 billion from £31.0 billion to £31.7 billion in the year.

Assets and liabilities

Table 2.5: Assets and liabilities summary

	2009-10 £bn	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn
Property, plant and equipment	712.8	714.0	744.5	746.8	762.6
Gold, cash and other financial assets	274.2	254.6	282.1	311.2	324.0
Trade receivables	139.4	145.1	141.9	138.9	149.1
Equity in public sector banks	61.1	59.5	40.8	40.0	43.0
Intangible assets	36.3	34.8	35.2	34.5	31.9
Other physical assets	25.7	26.3	26.1	26.1	26.7
Total Assets	**1,249.5**	**1,234.3**	**1,270.6**	**1,297.5**	**1,337.3**
Public sector pensions	1,134.7	961.0	1,005.8	1,171.9	1,301.9
Government borrowing	781.8	908.2	965.5	996.2	1,096.1
Financial liabilities	312.6	295.4	374.3	472.8	490.6
Trade payables	146.1	148.4	158.9	153.5	158.7
Provisions	102.2	107.0	113.0	131.0	141.8
Total Liabilities	**2,477.4**	**2,420.0**	**2,617.5**	**2,925.4**	**3,189.1**
Net Liabilities	**1,227.9**	**1,185.7**	**1,346.9**	**1,627.9**	**1,851.8**
% of GDP	83%	75%	83%	100%	111%

Overview

2.42 **Assets have increased by 3.1% from £1,297.5 billion to £1,337.3 billion in 2013-14, with liabilities increasing by 9% from £2,925.4 billion in 2012-13 to £3,189.1 billion in 2013-14.** The rise in assets is largely due to increases in the number of academies on the public sector balance sheet and increased financial loans and deposits. In 2013-14, UK Asset Resolution Ltd was fully consolidated into WGA, resulting in £42.6 billion of government loans made to UKAR being replaced with a £61.2 billion mortgage book. The main contributors to the increased liabilities were government borrowing (£99.9 billion) and the public sector pension liability (£130.0 billion).

2.43 The government's policy is to sell assets where they are not required for the delivery of policy priorities and where a sale represents value for money. **In December 2013, the government disposed of 70% of its shareholding in Royal Mail, raising £2.0 billion of receipts and resulting in a profit on sale of £0.3 billion**, recognised in the Department for Business, Innovation and Skills 2013-14 accounts.

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

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

2.46 Overall, the position of the government's balance sheet from 2009-10 to 2013-14 shows net liabilities have increased by £623.9 billion, or 51%. The valuation of liabilities is highly sensitive to accounting adjustments, which affect key balances such as the pension provision. One of the effects of the financial crisis over the last 4 years has been a significant rise in the value of deposits financial institutions are holding at the Bank of England. These have increased from £189.3 billion in 2009-10 to £355.1 billion in 2013-14 and show as liabilities in WGA. The remaining movements since 2009-10 are driven by additional borrowing to fund the continuing fiscal deficit (£314 billion) and the increasing public sector pension liability (£167.2 billion).

2.47 The net liability of £1,852 billion compares with the equivalent National Accounts public sector net debt measure of £1,402 billion. This difference is explained in Chapter 3. The nature of government financing and long term pension liabilities that will be met from future tax revenues means WGA can be expected to show a net liability.

Property, plant and equipment

2.48 Property, plant and equipment of £762.6 billion (2012-13 restated: £746.8 billion) included all of the assets owned by the public sector to carry out its functions. It included £357.7 billion (2012-13 restated: £348.0 billion) of land, buildings and dwellings (e.g. schools, hospitals and social housing), £278.2 billion (restated 2012-13: £273.4 billion) of infrastructure (e.g. roads and the London Underground), and £33.3 billion (2012-13: £35.7 billion) of military equipment.

2.49 The value of the government's fixed asset portfolio has increased by 7.0%, or £49.8 billion, since 2009-10. The two largest areas of increase are infrastructure and buildings. Infrastructure (e.g. roads, telecommunications) has increased by £43.9 billion, £22.3 billion (49%) relates to genuinely new infrastructure. The remaining increase relates to revaluations of the road network to current replacement cost. Buildings have increased by £14.4 billion in 4 years, however £3.9 billion of this amount relates to academies that were not previously recognised within WGA. The remainder of the increase mainly relates to the NHS, reflecting investment in new hospitals and health facilities.

Table 2.6: Property, plant and equipment analysis

	2012-13 Restated	2013-14	Change on 2012-13
	£ bn	£ bn	%
Buildings, dwellings and land	348.0	357.7	5.1
Infrastructure assets	273.4	278.2	1.8
Assets under construction	39.0	42.5	9.0
Military equipment	35.7	33.3	-6.7
Other	50.7	50.9	0.2
Net book value	**746.8**	**762.6**	**2.1**

2.50 Asset disposals with a net book value of £4 billion took place in the year (2012-13: £3.5 billion). This reflects the disposal of buildings, transport equipment, and the disposal of life expired plant and machinery.

2.51 Local authorities value highways infrastructure assets (HIA) on the basis of their historic cost rather than the depreciated replacement cost basis used by central government. The best proxy available for the depreciated replacement cost of local government HIA was the calculated asset value for local government "Other Structures" used by the Office for National Statistics from their perpetual inventory model (PIM). This estimated the value of the road network at £292 billion (2012: £275 billion) as at 31 December 2013[2]. Therefore, infrastructure assets reported in WGA are likely to be understated by at least £200 billion. As requested by the Treasury, local authorities are working towards calculating a

[2] UK National Accounts, The Blue Book, 2014, Table 10.9 'Other Structures'

depreciated replacement cost valuation of HIA for inclusion in WGA, pending the accounting policy change in 2016-17. This will bring local authorities into line with central government.

Private Finance Initiative funded assets

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

2.53 At 31 March 2014 the net book value of PFI assets was £38.6 billion (2012-13: £37.0 billion), and the associated liability for capital repayments was £37.8 billion (2012-13: £36.6 billion).

2.54 There are three key elements to the annual charge: the service element to run the project (which could include cleaning, catering, maintenance and security), repayment of the capital asset built and interest on the capital. The present value of future PFI obligations, including service charges, decreased to £150.6 billion (2012-13 £156.6 billion). The decrease is largely due to lower future commitments from existing contracts as PFI facilities are commissioned and start to deliver services following completion of construction. The total interest payable on these capital commitments is expected to be £41.8 billion (2012-13: £42.2 billion).

Financial sector interventions

2.55 In response to the financial crisis in 2008, the government made a number of interventions to support the stability of the financial sector. These included purchases of shares in Lloyds, Royal Bank of Scotland (RBS), Northern Rock and Bradford and Bingley which were subsequently classified to the public sector. Northern Rock was split into two entities, Northern Rock PLC which was sold to Virgin Money in 2011-12 and Northern Rock Asset Management (NRAM) which together with Bradford and Bingley were amalgamated into UK Asset Resolution Ltd (UKAR). Additional interventions included the creation of the Bank of England Asset Purchase Facility Fund to engage in quantitative easing and the Asset Protection Scheme.

2.56 UK Asset Resolution Ltd (UKAR) is consolidated into WGA from 2013-14. The impact of consolidating UKAR has meant that £42.6 billion of loans to NRAM and Bradford and Bingley have been replaced by UKAR's mortgage loan book which had a book value of £61.2 billion. UKAR's policy is to let this loan book wind down over time. Equity investments included a £5.2 billion stake in UKAR which was removed upon consolidation.

2.57 During the year 9.8 billion shares in Lloyds were sold generating revenue of £7.4 billion. The book value of these shares were £4.8 billion, resulting in a net gain of £2.6 billion. Treasury reduced its share holdings of Lloyds to 24.9%, and Lloyds was reclassified back to the private sector from March 2014. The rise in bank share prices resulted in a fair value increase of £4.6 billion for Lloyds and £3.2 billion for RBS. The closing position of equity investment in the remaining banks is £43.0 billion. See note 21 for more detail.

2.58 Royal Bank of Scotland Group plc (RBS) will continue to be held as available-for-sale financial assets. There is no intention for the government to retain the assets and liabilities of RBS in the long term and in due course it will be returned to the private sector. If RBS was to be consolidated, the scale would dwarf other aspects of WGA, distorting the accounts and making it difficult to determine trends in the government's finances.

2.59 At 31 March 2014, the total outstanding support to the financial sector is shown below.

Table 2.7: Analysis of support to the financial sector

	Note	2011-12 £bn	2012-13 £bn	2013-14 £bn
Equity investments	*21*	40.8	40.0	43.0
Loans and advances	*21*	51.0	46.6	3.8
Total support to the financial sector impacting the balance sheet		**91.8**	**86.6**	**46.8**
Contingent liabilities	*31*	9.9	9.9	0.3
Remote contingent liabilities	*32*			
Asset Purchase Scheme		54.7	-	-
Credit Guarantee Scheme		24.2	-	-
Guarantees to depositors		14.3	10.2	-

Government borrowing and financing

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

2.61 There was an increase of £99.9 billion in government borrowing and financing, from £996.2 billion in 2012-13 to £1,096.1 in 2013-14. The continued shortfall of tax income over the government cash requirement requires funding of which the issuance of gilts and treasury bills is the main source.

2.62 At 31 March 2014, the government had **current borrowing and financing liabilities** due to be repaid within a year, or payable on demand, of £212.4 billion (2012-13: £214.3 billion), comprising NS&I products of £105.7 billion (2012-13: £102.0 billion), Treasury bills of £57 billion (2012-13: £60.5 billion) and gilt-edged securities of £49.7 billion (2012-13: £51.8 billion). In addition, it had **non-current gilt-edged securities** of £883.7 billion (2012-13: £781.8 billion) and NS&I products of zero (2012-13: £0.1 billion) that need to be repaid over periods longer than a year. **This borrowing is net of the Bank of England's purchase of UK government debt through quantitative easing. Before eliminations, the nominal value of gilts held by the Bank of England for quantitative easing amounted to £375.0 billion in 2013-14 (2012-13: £375.0 billion).**

Working capital

Trade and other receivables

2.63 Current and non-current trade and other receivables are amounts owed to the public sector due to its day to day operations from suppliers and taxpayers. Current and non-current trade and other receivables increased by £10.2 billion in the year to £149.1 billion. This included tax receivables of £25.8 billion (2012-13: £22.6 billion) which represented all taxpayer liabilities that were established, irrespective of whether due or overdue, for which payments had not been received. It also included accrued tax revenue of £89.3 billion (2012-13: £82.4 billion) which represented estimates of taxes and duties relating to the current financial year that were not yet due or received from taxpayers.

2.64 Receivables included a current provision for bad debt of £16.2 billion (2012-13: £14.2 billion). The largest single element of this related to tax, where the estimate of tax at risk of not being collected was £10.6 billion (2012-13: £9.9 billion), based on historical trends in debt recovery and consideration of future economic conditions.

Table 2.8 Analysis of current trade receivables

	2009-10	2010-11	2011-12	2012-13	2013-14
Trade and other receivables (net)	142.4	144.7	139.6	135.9	147.2
Provision for doubtful debts	18.2	14.0	13.6	14.2	16.2
Provision as a percentage of receivables	12.8%	9.7%	9.7%	10.4%	11.0%

Other assets

2.65 Inventories included consumable items such as military equipment and medical items, as well as finished goods for resale and assets to be sold under long term contracts. The Ministry of Defence held 60.3% (2012-13: 62.3%) or £7.3 billion (2012-13: £7.6 billion), of all public sector inventories. The department carried out an impairment review in 2013-14 which resulted in a write down of £0.9 billion to the inventories it held leading to the removal of the audit qualification it received in 2012-13 in respect of the valuation of its inventory.

2.66 Gold decreased by £2.8 billion to £7.7 billion in 2013-14 (2012-13: £10.5 billion), as a result of a fall in the value of gold from £1,053 to £775 per ounce.

Trade and other payables

2.67 Trade and other payables are the amounts of money owed by the public sector to private and third sector suppliers, households, and financial and international institutions. Trade and other payables were £158.7 billion, £5.2 billion higher than the previous year, primarily driven by an increase in accruals and deferred income of £4.0 billion. Within this category, the amounts owed to suppliers, has fallen each year, by 2% in 2010-11, 3% in 2011-12, 4% in 2012-13, and 2% in 2013-14, reflecting government policy to pay suppliers quickly.

2.68 As at 31 March 2014, current trade and other payables comprised: trade and other payables for goods and services of £36.6 billion (2012-13: £37.3 billion); accruals and deferred income of £38.9 billion (2012-13: £34.9 billion); and amounts owed to taxpayers of £24.8 billion (2012-13: £23.2 billion), in respect of tax overpayments, refunds and receipts in advance of the tax period. Accruals and deferred income related to goods and services received but not invoiced at the year-end or monies received for services not yet provided.

2.69 Non-current trade and other payables included amounts payable under PFI contracts of £36.4 billion (2012-13: £35.3 billion) and amounts owed in line with contractual obligations of £14.9 billion (2012-13: £15.7 billion).

Financial assets and liabilities

2.70 Financial assets comprised £136.2 billion (2012-13 restated: £117.6 billion) of current financial assets and £197.6 billion (2012-13 restated: £198.6 billion) of non-current financial assets. Since 2010, Financial Assets have grown by £86.6 billion, primarily driven by government interventions to stabilise the financial sector.

2.71 The value of student loans held by government at 31 March 2014 reflects an estimate of the present cost of subsidising interest on loans over the life of the loan (interest subsidy impairment) and an estimate of the future cost of policy write offs as not all of the loans issued will be recoverable due to the repayment terms offered (policy write off impairment). Further details regarding student loans are available in the statement of accounting policies at paragraph 1.22.8 and Note 21.

2.72 The increase in **current financial assets** of £18.6 billion was primarily due to an increase in loans and deposits with banks of £17.5 billion to £74.8 billion, offset by a decrease in other financial assets of £3.1 billion.

2.73 **Financial liabilities** included current and non-current amounts of £429.6 billion and £61.0 billion respectively. Current financial liabilities increased by £21.2 billion in the year largely because of increased deposits with the Bank of England.

2.74 Current financial liabilities included deposits by banks of £355.1 billion (2012-13: £334.2 billion) as part of the government's cash management operations, and a liability to the International Monetary Fund (IMF) for the UK's allocation of IMF Special Drawing Rights of £9.4 billion (2012-13: £10.0 billion). **Financial liabilities have increased by £447 billion since the financial crisis, which is mainly a consequence of the Bank of England's quantitative easing programme.**

Pension liability

2.75 Public sector pensions form a significant part of the government's total liabilities, with a **total net pension liability of £1,301.9 billion** as at 31 March 2014 (2012-13 restated: £1,171.9 billion).

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

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

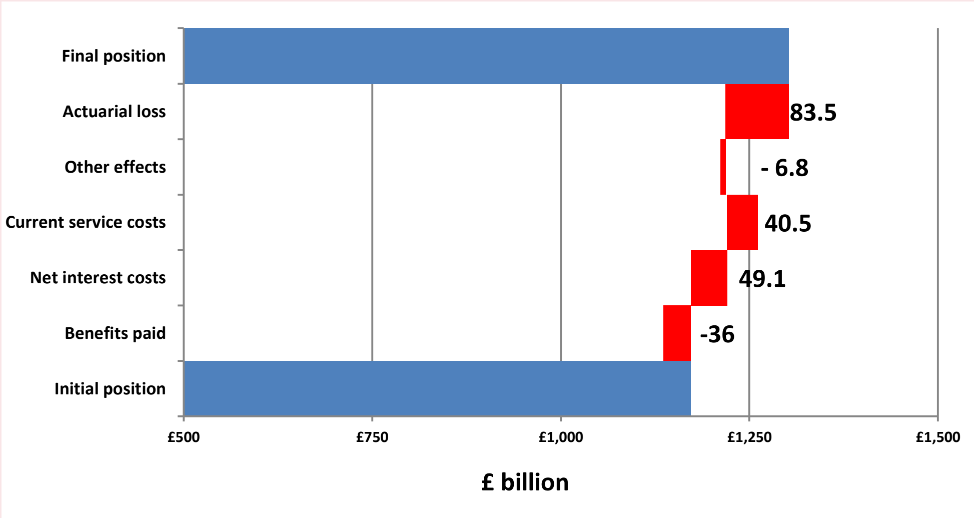
Table 2.9 Net pension liability by type of scheme

	2012-13 Restated £bn	2013-14 £bn	Change %
Unfunded schemes (gross)			
Teachers (UK)	258.5	288.1	11.4
NHS (UK)	325.1	391.6	20.4
Civil Service	176.5	193.2	9.5
Armed Forces	118.1	129.6	9.7
Police	118.0	123.0	4.2
Fire	22.9	25.5	11.3
Other unfunded	53.2	54.8	3.0
	1,072.3	**1,205.8**	12.4
Funded schemes (net)			
Local Government	90.5	85.6	(5.4)
Other funded	8.8	10.5	19.3
	99.3	**96.1**	(3.2)
Restatements	**0.3**		
Total net pension liability	**1,171.9**	**1,301.9**	**11.1**

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

2.79 The chart below shows an analysis of the change in the net public sector pension liability over 2013-14. An analysis of the liability is provided in Note 26 to the accounts.

Chart 2.8: Change in the net public sector pension liability in 2013-2014



2.80 There are a number of key assumptions that are used to calculate public sector pension liabilities. These include the rate of increase in salaries and pensions inflation as well as the discount rate. As with all long-term economic projections, these assumptions are inherently subject to significant uncertainty. The value of the public sector pension liability is very sensitive to changes in these assumptions. For example, of the total actuarial loss of £83.5 billion, £22.5 billion is as a consequence of the change in discount rate from 2.4% in 2012-13 to 1.8% in 2013-14. The remaining reduction is due to changes in the underlying valuation assumptions used by the actuaries.

2.81 The accounting standards require that entities set the discount rate to reflect the yield on high quality corporate bonds. Central government schemes use a centrally set real discount rate determined by the Treasury, having obtained advice from the Government Actuary's Department. Other entities set their own discount rate, generally after obtaining the advice of an actuary. Note 26 describes in more detail the assumptions made in calculating the liability as at 31 March 2014.

Provisions

2.82 As at 31 March 2014, provisions amounted to £141.8 billion (restated 2012-13 restated: £131.0 billion), an increase of £10.8 billion (8.2%) in the year. As with 2012-13 the most significant provisions were the nuclear decommissioning provision and the provision for clinical negligence. Over the period 2009-10 to 2013-14, the provision for nuclear decommissioning has increased by 37%, clinical negligence by 69%, and other types of provision by 27%.

2.83 The **provision for nuclear decommissioning was £77.4 billion** (restated 2012-13: £69.9 billion) which included the cost of dealing with radioactive waste, nuclear fuels and materials, capital facilities, redundant facilities and contaminated materials. The provision and recoverable balances are expressed at current price levels to take account of the time value of money for the very long timescales over which work will be carried out, currently planned to be over 100 years. The provision increase in the year was largely the result of revised estimates of future clean-up costs at the Sellafield site, increasing the provision by £5.1 billion as set out in the table below. A thorough review of the management structure of Sellafield was undertaken in 2014, and the government announced its decision to move to a new operating model in January 2015. This move is designed to facilitate a more appropriate transfer of risk between the public and private sectors and should improve performance and value for money over time.

Table 2.10 Nuclear Decommissioning Analysis

	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn
Sellafield	31.6	37.4	42.8	47.9
Low Level Waste Repository/Geological Disposal Facility	4.1	4.1	4.2	4.4
Research Sites	4.2	3.0	3.3	3.7
Fuel Manufacturing and generation	9.3	8.4	8.6	8.0
Ministry of Defence	4.5	3.7	3.7	3.6
British Energy / EDF	5.1	5.5	5.4	7.2
Other	2.1	1.7	1.9	2.6
Total	**60.9**	**63.8**	**69.9**	**77.4**

2.84 The **provision for clinical negligence was £26.6 billion** (2012-13 restated: £23.6 billion) an actuarially determined assessment of individual incidents that have occurred, where it was more than 50% probable that the claim would be successful and the amount of the claim could be reliably estimated. Clinical negligence claims that are less likely to succeed are disclosed as contingent liabilities. The increase in the provision was due to the number of new claims being at an unprecedented level of 11,945. This significant increase in claims (18%) occurred in the run up to the Legal Aid, Sentencing and Punishment of Offenders Act (LAPSO) coming into place which will stop lawyers charging 100% success fees on their costs. The longer term impact of the changes should see legal costs reducing over time.

2.85 The government also held a number of other provisions totalling £37.8 billion (2012-13 restated: £37.5 billion), which included provisions for taxes subject to challenge, in relation to legal cases, matters relating to medical costs and government schemes such as the Financial Assistance Scheme.

Contingent liabilities

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

2.87 Total quantifiable contingent liabilities were £63.0 billion (2012-13 £87.9 billion), a decrease of £24.9 billion. The substantial decrease in the contingent liability associated with supporting international organisations is due to the reclassification of the liability pertaining to European Investment Bank (EIB) callable capital subscription as a remote contingent liability now disclosed in Note 32.

2.88 The largest component of quantifiable contingent liabilities were taxes subject to challenge, which increased from £14.5 billion in 2012-13 to £29.2 billion in 2013-14 (101%). In prior years, financial stability interventions were the biggest contributor to contingent liabilities but these have been wound down following the improved economic outlook and stability in the financial sector.

2.89 The quantifiable remote contingent liabilities have increased to £104.9 billion from £73.6 billion in 2012-13. They included:

- callable capital to provide funding to the European investment Bank £29.5 billion
- an indemnity in support of Network Rail of £33 billion

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

Balance Sheet risk profile

2.91 The balance sheet liabilities show the future financial risk inherent in the UK government as a whole, the equivalent to a going concern consideration for a private entity. The table below analyses this risk profile for WGA and explains some of the key drivers.

Table 2.11: Balance sheet liability risk profile

Level of certainty	On/off balance sheet	Types of liabilities	2009-10 £bn	2010-11 £bn	2011-12 £bn	2012-13 £bn	2013-14 £bn	% of total assets
Certain	On balance sheet	Payables, borrowing and pensions	2,375.2	2,313.0	2,504.5	2,794.4	3,047.3	228%
Probable	On balance sheet	Provisions	102.2	107.0	113.0	131.0	141.8	10.6%
Possible	Off balance sheet	Contingent liabilities and other financial commitments	109.6	110.4	162.6	137.2	121.7	9.1%
Remote	Off balance sheet	Contingent liabilities reported to Parliament	434.0	377.6	162.4	73.5	104.9	7.8%

2.92 **Government borrowing (certain)** is the issuance of gilts (long term borrowing) and treasury bills (short term borrowing) primarily to fund the shortfall between annual expenditure and income. The funds are also used to make loans to local authorities, provide capital to manage foreign currency assets and to fund special schemes such as funding for lending.

2.93 **Payables (certain)** includes refunds of taxes payable, PFI obligations and the UK's liability to the IMF as well as payables incurred in day to day business delivery costs.

2.94 The **Public Sector Pension liability (certain)** has increased from £1,171.9 billion in 2012-13 to £1,301.9 billion in 2013-14, primarily due to current service costs of £40.5 billion, actuarial increases of £83.5 billion and financing costs of £49.1 billion. These liabilities are offset by benefits paid of £36.0 billion and employee contributions of £8.0 billion. The changes in pension liability are explained in more detail in note 26.

2.95 **Provisions (probable)** reflect costs that are likely to be incurred in the future as a result of a decision or commitment that has already been made. This primarily includes costs relating to the decommissioning of nuclear power stations and clinical negligence claims as well as payments for the financial assistance scheme (FAS), legal claims, medical costs, taxation, compensation payments and other small provisions.

2.96 **Contingent liabilities and other financial commitments (possible)** are potential financial costs that may be incurred depending on a future event where the outcome is uncertain, such as a court case. These have reduced from £87.9 billion in 2012-13 to £63.0 billion in 2013-14 mainly due to the liability relating to the European Investment Bank (EIB) of £29.5 billion now being deemed remote and moved to the category below. Further reductions of £9.6 billion are due to financial stability interventions no longer required, such as the callable capital commitment made available to RBS (£8 billion) which ended early in December 2014 with the consent of the regulatory authorities. These reductions have been offset by an increase of £14.7 billion relating to taxes subject to challenge in HMRC, due to a £10.4 billion revision to the estimates of cases currently in litigation or court decisions made during the year and new cases of £4.3 billion.

Contingent liabilities reported to Parliament (remote) are potential financial costs where the risk of crystallisation is remote and depends on a future event. The sharp reduction in 2011-12 was due to HM Treasury's guarantees for Bradford and Bingley and Northern Rock Asset Management no longer being required as these banks are now consolidated into WGA. The increase in 2013-14 is due to the £29.5 billion EIB callable capital now being classified as remote.

Future capital and financial commitments

2.97 The government made capital commitments for future expenditure of £34.6 billion (2012-13: £37.7 billion). These were made primarily in relation to defence projects (£14.5 billion), transport infrastructure (£2.4 billion) and health assets (£2.3 billion).

2.98 The government also had a financial commitment for future payments of £58.7 billion (2012-13 £49.3 billion) as a result of other non-cancellable contracts entered into by a range of central and local government bodies. The increase reflected a rise in transport commitments for future payments (£20.5 billion from £4.7 billion in 2012-13) and service contracts by Department of Health (£4.8 billion from £4.6 billion in 2012-13). It also includes the Department for Environment, Food & Rural Affairs facilities management costs (£2.5 billion from £2.3 billion in 2012-13), and for Scottish Government transport (£2.4 billion from £1.3 billion in 2012-13).

Segmental analysis

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

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

Table 2.12 Net contribution by sector 2013-14

	Central Government £ bn	Local Government £ bn	Public Corporations £ bn	Whole of Government £ bn
Taxation revenue	(502.8)	(52.8)	(0.2)	(555.8)
Other revenue	(44.6)	(34.8)	(13.3)	(92.7)
Total operating revenues	**(547.4)**	**(87.6)**	**(13.5)**	**(648.5)**
Social security benefits	186.2	26.6	0.6	213.4
Staff costs	114.1	66.2	5.5	185.8
Other expenses	227.2	81.0	10.6	318.8
Net expenditure/(revenue) before financing costs	**(19.9)**	**86.2**	**3.2**	**69.5**
Net financing cost	66.7	11.9	0.2	78.8
Net loss on revaluations and disposals of assets and liabilities	(1.3)	(0.1)	1.7	0.3
Net expenditure/(revenue) for the year	**45.5**	**98.0**	**5.1**	**148.6**
Property, plant and equipment	399.8	303.5	59.3	762.6
Other non-current assets	236.8	19.7	4.1	260.6
Current assets	249.5	39.4	25.2	314.1
Total assets	**886.1**	**362.6**	**88.6**	**1,337.3**
Current government borrowing and financing	(212.4)	-	-	(212.4)
Other current liabilities	(126.1)	(23.0)	(395.5)	(544.6)
Non-current government borrowing and financing	(883.7)	-	-	(883.7)
Net pension liability	(1,065.7)	(234.2)	(2.0)	(1,301.9)
Other non-current liabilities	(197.8)	(43.1)	(5.6)	(246.5)
Total liabilities	**(2,485.7)**	**(300.3)**	**(403.1)**	**(3,189.1)**
Net assets/(liabilities)	**(1,599.6)**	**62.3**	**(314.5)**	**(1,851.8)**

Table 2.13 Net contribution by sector 2012-13

	Central Government £ bn	Local Government £ bn	Public Corporations £ bn	Whole of Government £ bn
Taxation revenue	(468.4)	(55.9)	(0.1)	(524.4)
Other revenue	(42.6)	(37.8)	(15.9)	(96.3)
Total operating revenues	**(511.0)**	**(93.7)**	**(16.0)**	**(620.7)**
Social security benefits	186.5	27.9	0.6	215
Staff costs	108.7	65.4	9.5	183.6
Other expenses	219.2	87.4	12.1	318.7
Net expenditure/(revenue) before financing costs	**3.4**	**87**	**6.2**	**96.6**
Net financing cost	69.6	9.8	-	79.4
Net loss on revaluations and disposals of assets and liabilities	2.4	0.4	(0.1)	2.7
Net expenditure/(revenue) for the year	**75.4**	**97.2**	**6.1**	**178.7**
Property, plant and equipment	388.8	296.9	61.1	746.8
Other non-current assets	238.8	18.7	4.6	262.1
Current assets	225.7	37.6	25.3	288.6
Total assets	**853.3**	**353.2**	**91.0**	**1,297.5**
Current government borrowing and financing	(214.3)	-	-	(214.3)
Other current liabilities	(117.6)	(24.7)	(377.8)	(520.1)
Non-current government borrowing and financing	(781.9)	-	-	(781.9)
Net pension liability	(934.8)	(235.6)	(1.5)	(1,171.9)
Other non-current liabilities	(193.3)	(37.7)	(6.2)	(237.2)
Total liabilities	**(2,241.9)**	**(298.0)**	**(385.5)**	**(2,925.4)**
Net assets/(liabilities)	**(1,388.6)**	**55.2**	**(294.5)**	**(1,627.9)**

Events since 31 March 2014

2.101 Since the accounts of the individual entities that form WGA were prepared, there have been a number of events that could have a bearing on the balance sheet position as at 31 March 2014. These events are shown in Note 37.

3 Comparison to National Accounts

Broader fiscal framework

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

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

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

Comparison to National Accounts

3.3 WGA complements the financial information the government and other independent bodies already publish, such as the statistics published by the ONS, which follow the internationally-agreed National Accounts framework. WGA is prepared using International Financial Reporting Standards (IFRS) adapted and/or interpreted for the public sector.

3.4 The National Accounts must adhere to international standards, specifically the European System of Accounts, to ensure international comparability. These standards are updated periodically to reflect economic or technological developments and changes in user needs. From September 2014 the UK National Accounts aggregates moved from the European System of Accounts 1995 (ESA95) to the European System of Accounts 2010 (ESA10). This WGA publication includes a reconciliation on an ESA10 basis. The ONS article 'Transition to ESA10: Impact on Public Sector Finances (27 February 2014)' provides further information on the changes. The changes to National Accounts which impact on WGA as a result of ESA10 are set out below.

Network Rail

3.5 The reclassification of Network Rail into the Public Sector means that it will be included in National Accounts for 2013-14, and it has increased net debt by £34 billion. Network Rail will be included in WGA from 2014-15.

Capitalisation of Single Use Military Equipment

3.6 Single Use Military Equipment (SUME) was previously treated as current expenditure for public sector finances under ESA95. Under ESA10 it is now required to be treated as capital expenditure. The impact of this change is to increase capital spending and decrease current spending (and the current budget deficit). As these values are equal there is no impact on public sector net borrowing, and the change brings National Accounts and WGA into alignment. The change also increases capital consumption which, although it does not increase public sector net borrowing, does form part of the current budget deficit. In many years the increase to capital consumption and the decrease to current spending are roughly equal so there is not a significant overall increase to the current budget deficit from this change.

Capitalisation of research and development (R&D)

3.7 Research and Development was previously treated as current expenditure, however using ESA10 it is now classified as capital as it is an investment in an asset used in production for more than a year. For public sector finances the impact is zero as current expenditure is reduced and capital expenditure increased by the same amount. Therefore, there is no change to public sector net borrowing.

The treatment of mobile phones licenses

3.8 Under ESA95 the government sale of mobile phone licenses was treated as a one-off receipt. With the introduction of ESA10, the cash proceeds from the license sale have been treated as rental income, with annual payments accrued over the life of the lease. This decision applies to the sale of both 3G and 4G licenses.

Comparison between IFRS and National Accounts

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

3.10 The Public Sector Finances, published by ONS and based on the National Accounts are produced in-year, and updated on a monthly basis to strict timescales, whereas WGA is an annual exercise produced after the year end of the financial period.

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

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

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

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

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

Reconciliations between WGA and National Accounts

3.16 Two of the key fiscal aggregates based on the National Accounts are the public sector net debt and the current deficit (surplus on current budget). These are used as the basis for the government's fiscal mandate and supplementary aim for debt. The nearest equivalents in WGA are net liabilities and net expenditure for the year. The measures of public sector net debt and the current deficit used in setting fiscal policy "exclude" the public sector owned banks. Therefore these entities are treated as being outside the public sector. The reconciliation of these aggregates to WGA and the key differences with National Accounts are further explained below.

Public Sector Net Debt

	2013-14 £bn	2012-13 (restated) £bn	2011-12 £bn
Net liabilities (WGA)	**1,852**	**1,628**	**1,347**
Net public sector pensions liability	(1,302)	(1,172)	(1,006)
Provisions	(142)	(131)	(113)
PFI contracts	(33)	(32)	(31)
Unamortised premium or discount on gilts	(29)	(31)	(23)
Property, plant and equipment	763	747	745
Investment property	13	12	13
Intangible assets	32	35	35
UK Asset Resolution (UKAR) net impact on net debt	74	83	83
Trade and other payables	(47)	(48)	(50)
Accruals and deferred income	(44)	(39)	(41)
Net taxation and duties due	6	3	3
Inventories	12	12	11
Trade and other receivables	39	35	35
Prepayments and accrued income	80	77	81
Investments	23	27	17
Network Rail	34	34	-
Asset Purchase Facility	45	44	-
Other	26	15	-
Public sector net debt (National Accounts)	**1,402**	**1,299**	**1,106**

3.17 Public sector net debt is an aggregate that includes most financial liabilities (except for payables) and liquid financial assets. The public sector financial liabilities largely consist of government bonds (known as gilts), Treasury bills and National Savings liabilities. Liquid assets mainly comprise foreign exchange reserves and bank deposits.

3.18 Public sector net debt does not take account of other illiquid financial and other assets within working capital such as receivables. Under the Maastricht Treaty these are not considered to be debt instruments and therefore not included in public sector net debt. In contrast, the WGA net liability balance is a fully accrued statement of financial position, including all payables, receivables, fixed assets and all financial assets.

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

Differences in relation to pensions

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

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

Differences in relation to provisions

3.22 The WGA measures of net liabilities include provisions. These take account of liabilities that will be met in the future arising from events that have occurred in the past that create a legal or constructive obligation that can be measured reliably. Under ESA95 the National Accounts measure of public sector net debt does not record the creation of or movements in provisions. As such, the majority of provisions are treated as contingent liabilities (due to uncertainty around timing and amount), as they are not cash-based, and only register in National Accounts measures when actual payments occur.

Differences in relation to PFI

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

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

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

Differences in relation to assets

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

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

Differences in relation to UK Asset Resolution

3.28 UK Asset Resolution Ltd (UKAR) is the holding company for the wholly-owned banks, Northern Rock (Asset Management) Plc and Bradford & Bingley plc. UKAR is now consolidated into HM Treasury Group accounts from 2013-14 so the remaining difference now reflects conceptual differences in the treatment of assets and liabilities not differences in the boundary of the public sector. Public sector net debt includes UKAR's own debts to the private sector and exclude their non-liquid financial and other assets, whereas WGA includes both the liabilities and the assets.

Other differences – net debt

3.29 There are a number of other differences between the National Accounts' measures and WGA. The most significant of these relate to the treatment of unamortised premium or discount on gilts. Public sector net debt includes gilts based on their historical cost, whereas WGA follows the accounting standard that requires discounts and premiums to be amortised. The unamortised premium or discount on gilts in WGA of £29 billion (2012-13: £31 billion) has decreased. The movement is a function of decreased gilt issuance in recent years and also due to reduced market interest rates.

3.30 The Asset Purchase Facility (APF) is a subsidiary company of the Bank of England. It carries out asset purchases financed by the creation of central bank reserves (known as quantitative easing), the issue of treasury bills and the DMO's cash management operations. The ONS record the gilt purchases at nominal value, £330 billion, whereas WGA shows gilt purchases at fair value, £375 billion, resulting to a reconciling difference of £45 billion.

Public Sector Current Budget Deficit

	2013-14	2012-13 (restated)	2011-12
	£bn	£bn	£bn
Net expenditure (WGA)	**149**	**179**	**185**
Public sector pensions	(49)	(48)	(52)
Depreciation and amortisation charges	8	5	(4)
Impairment and revaluations of assets	(26)	(21)	(35)
Capital grants	(11)	(12)	(15)
Provisions	(10)	(16)	(6)
Net gains/losses on sale of assets	4	(3)	(0)
Military expenditure not capitalised	-	-	6
UK Asset Resolution (UKAR) net impact on current deficit	-	(1)	(1)
Research and development	(3)	-	-
Other	11	1	11
Current deficit (National Accounts)[3]	**73**	**84**	**89**

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

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

Differences in relation to pensions and provisions

3.33 As discussed above, future liabilities for public sector pensions and provisions (except for decommissioning costs) are not accounted for in the National Accounts. The same rationale applies to the differences between WGA net expenditure and the current deficit in relation to: interest on pension liabilities of £58.3 billion (2012-13: £59 billion) which is included in WGA but not in the National Accounts; expected return on pension scheme assets of £9.5 billion (2012-13: £11.2 billion); and service charges of £1.0 billion (2012-13: £1.0 billion).

3.34 For unfunded pensions, the surplus on current budget includes only the cash payments and receipts associated with pensions, but do not take account of movements in future pension liabilities. WGA is prepared on an accruals basis and recognises an estimate of the liability associated with accrued

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

pension rights. In line with IAS19, interest on all liabilities and returns on assets for funded schemes are charged in the year they occurred, thus net interest is recognised in WGA but not in the National Accounts.

3.35 Similarly, the National Accounts do not recognise the in-year movement of provisions of £19.7 billion (2012-13: £29.0 billion) as current expenditure but related expenditure (i.e. provisions' expenditure crystallising in 2013-14) of £9.7 billion (2012-13: £12.7 billion) in the same period is included in the National Accounts.

Impairments and depreciation

3.36 Impairments are accounting transactions to expense the amount by which the carrying value of an asset exceeds its recoverable amount. There are conceptual differences between the National Accounts' treatment and WGA as only impairments caused by normal obsolescence and normal accidental damage are included in the National Accounts' measures of depreciation. However, as mentioned in paragraph 3.22, these are calculated from a statistical model rather than on an accounting basis. Following the capitalisation of research and development costs under ESA10 these also include estimates for the depreciation of the related assets. The WGA measure of expenditure includes depreciation and impairments resulting from an annual review of asset values and consequently includes all impairments, no matter what their cause.

Differences in relation to capital-related spend

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

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

3.39 From September 2014 when ESA10 was implemented both National Accounts and WGA treat spending on Single Use Military Equipment (SUME) as capitalised expenditure. Previously National Accounts' rules require that purchases of military weapons and the equipment needed to deliver them are scored at the point of purchase and treated as a current expense contributing to the current deficit, whereas WGA treated this equipment as a non-current asset, depreciated over its useful life. Therefore, there is no longer a difference in how the purchase of military weapons are treated.

4 Statement of Accounting Officer's Responsibilities

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

- to exercise functions of a public nature
- to be entirely or substantially funded from public money

4.2 The account is prepared on an accruals basis and in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2013-14 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of government's finances.

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

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating accounting information provided by different sectors
- state whether applicable accounting standards, as set out in the FReM, have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis

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

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

4.5 The responsibilities of an Accounting Officer are set out in Managing Public Money[4] published by HM Treasury and include the need for efficiency, economy, effectiveness, and prudence in the administration of public resources to deliver value for money.

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

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

5 Governance Statement

Scope of Accounting Officer's responsibility

5.1 As Accounting Officer, I am responsible for maintaining a governance framework to support the efficient and effective production and audit of the Whole of Government Accounts. The framework is designed to minimise the risks to the process of preparing and publishing the consolidated account. The accounts of individual entities consolidated within WGA are subject to their own governance frameworks.

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

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

5.4 In producing WGA, I must rely on the accounting officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process. The major risks identified from the underlying accounts are set out in paragraphs 5.13 to 5.14 below. The key risks in the preparation of the Whole of Government accounts include:

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

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

5.6 The WGA governance framework has been in place for the year ended 31 March 2014 and up to the date of approval of the account, and accords with HM Treasury guidance, including the 'Corporate Governance in Central Government: Code of Good Practice', to the extent that it is deemed relevant and practical. The control and validation framework was provided to the HM Treasury audit committee who confirmed it provided a good basis of assurance.

The WGA governance framework

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

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

The Comptroller & Auditor General and his staff have access to all HM Treasury papers and attend HM Treasury's Audit Committee and the WGA Advisory Group.

5.8 The advisory group for WGA provides exclusive focus on WGA, supporting the ongoing issues relating to the accounts, assisting the future development of WGA and providing advice on key issues as they affect the presentation, quality and use of the account.

5.9 The advisory group has private and public sector members. For the 2013-14 Account, membership was as follows:

- Ann Beasley (Chair), Director General for Finance at the Ministry of Justice.
- Julian Kelly, Director General for Public Spending and Finance at HM Treasury and Head of the Government Finance Profession.
- Rob Whiteman, Chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- Mike Hathorn, a partner at Moore Stephens LLP.
- Roger Marshall, a member of the Financial Reporting Council and Chair of its Accounting Council.
- Richard Douglas, the Director General of Policy, Strategy and Finance at the Department of Health.
- Simon Ridley (Matthew Style from October 2014), the Director of Local Government Finance at the Department for Communities and Local Government (to September 2014).
- Peter Lauener, Chief Executive of the Education Funding Agency.
- Mary Hardy, Independent Member of the Treasury Group Audit Committee.

5.10 The WGA Advisory Group meets 3 times per year. The effectiveness of the Advisory Group is evaluated through an annual review of the terms of reference by the committee. The effectiveness of the audit committee is assessed in HM Treasury Annual Report and Accounts.

HM Treasury's role in managing financial risk

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

- **The Managing Public Money framework** – provides departments with guidance and sets out requirements on how to handle public funds properly.
- **Spending Reviews** – the process through which spending is allocated to areas of government activity including public services, social security, and administration costs, according to the government's priorities. Spending Reviews set firm and fixed spending budgets over several years for each department.
- **The budget and estimates process for central government departments** - the government uses the annual budgeting system to plan and control public expenditure. The Treasury presents estimates of budgetary plans to Parliament to obtain the statutory authority to consume resources and spend cash. The budgetary system has two main objectives.
    1. To support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the government's fiscal framework.
    2. To provide good incentives for departments to manage spending well so as to provide high quality public services that offer value for money for the taxpayer.
- The Treasury sets the **financial reporting framework** for central government and works with the other relevant authorities such as CIPFA LASAAC for financial reporting across government and the Financial Reporting Advisory Board, to set best practice accounting standards.

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

Review of effectiveness

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

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

5.13 Those that are material to WGA are:

- During 2013-14 the Ministry of Defence performed an impairment review and charged £860 million to the comprehensive statement of net expenditure. The Comptroller & Auditor General was satisfied that the valuation of inventory and stock was now materially correct, but was unable to obtain the necessary assurance on which elements of the £860 million impairment charge should have been accounted for in previous years, resulting in a qualification.

  The accounts were also qualified due to material error arising from adopting policies in relation to accounting for lease-type arrangements which did not fully comply with International Financial Reporting Standards. The Comptroller & Auditor General also qualified the accounts in respect of the impairment of the departments Germany estate in 2012-13, which impacts the comparatives for 2013-14.

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

  The 2013-14 accounts of both departments received a qualified opinion on regularity in relation to these matters. HMRC estimated that in 2012-13 fraud and error resulted in overpayments of between £1.8 billion and £2.2 billion (2011-12: between £1.9 billion and £2.3 billion) and underpayments of between £0.1 billion and £0.3 billion (2011-12: between £0.2 billion and £0.4 billion)[5]. The data for 2013-14 is not yet available.

  DWP estimated in 2013-14 that fraud and error resulted in overpayments of benefits of £3.3 billion (2012-13: £3.5 billion) and underpayments of benefits of £1.4 billion (2012-13: £1.4 billion).

- Without qualifying his opinion on the 2013-14 Department of Health accounts, the Comptroller & Auditor General disclosed an emphasis of matter relating to the uncertainties inherent in "the incidents incurred but not yet reported (IBNR)" claims provision for the clinical negligence scheme for NHS Trusts. Given the long-term nature of the liabilities and the number and nature of the assumptions on which the estimate is based, a considerable degree of uncertainty remains over the value of the liability reported by the NHS Litigation Authority. Significant

[5] Further information is set out in the 2012-13 and 2013-14 accounts of HMRC.

changes to the liability could occur as a result of the subsequent information and events which are different from the current assumptions.

- The Department for Education received an adverse opinion on their 2013-14 accounts, although the Comptroller & Auditor General noted the underlying accounts of the individual bodies making up the group were accurate. The principle reason behind the adverse opinion was the academy year end of August and the increasing divergence between this data and the estimations used by the department to convert to a March year end. In addition, a material and pervasive level of error was identified in the opening balances and prior period comparatives included in the group account. The Department and HM Treasury are working towards a sustainable solution for the academy consolidation that may be suitable for WGA from 2015-16 onwards.
- Without qualifying his opinion on the 2013-14 Department of Business, Innovation and Skills Accounts, the Comptroller & Auditor General included an emphasis of matter relating to the uncertainty inherent in the valuation of student loans. This was due to the long term nature of the recovery of the loans, the number and volatility in the assumptions underpinning their valuation in the accounts.

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

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

5.15 In 2013-14, HM Treasury took a number of steps to strengthen its controls over the accounts production process:

- increased the number of validation in the data collection packs to address recurring data collection issues from previous years
- improved analytical review processes to ensure the quality and robustness of reported balances
- reviewed the eliminations methodology for grants to a top down approach, maintaining the same level of assurance, but delivering process efficiency savings
- improved the feedback given to entities regarding counter-party mismatches

5.16 Further improvements will be made as experience of producing and using WGA grows. These will focus on improving the accuracy of the data collected at the local level to minimise the corrective work in the centre. Plans are being developed to increase the speed of account production to within nine months of the year end.

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

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

(c) Assurance in making this judgement

5.19 I took over as Accounting Officer for WGA from February 2015, having been a member of the WGA Advisory Group for the last three years. I gained assurances over the governance framework in this respect and whilst improvements can be made, the framework ensures that we can accurately process the data that we receive.

5.20 There are issues arising from the fact that we were unable to identify and eliminate all intra-group transactions and balances, although the steps already taken have resulted in a significant reduction in uneliminated balances in the production of the 2013-14 accounts.

5.21 I have considered the evidence that supports this governance statement and I am assured that the Treasury has a strong framework of controls to support the production of the Whole of Government Accounts.

Information and data handling

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

Disclosure of information to auditors

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

Julian Kelly
Accounting Officer
19 March 2015

6 Remuneration Report

6.1 A remuneration report is required to be prepared by individual companies and WGA entities in compliance with the Companies Act 2006 and the 2013-14 Government Financial Reporting Manual. The requirement for a similarly detailed remuneration report does not apply to the Whole of Government Accounts, as the inclusion of all the details of around 5,500 entities would result in an unwieldy and lengthy document that would detract from the overall accounts. This chapter summarises the remuneration arrangements of the main public sector workforces, sets out the government's policy on pay, and provides links to organisations where information on individual arrangements are available.

Civil service pay policy

6.2 Pay policy for civil servants below the Senior Civil Service is delegated to departments, within overall parameters set by HM Treasury. Each year, the Treasury publishes pay guidance which sets out these parameters[6], and it is then for departments to agree their individual settlement with the trade unions, within those parameters. These arrangements also cover many non-departmental public bodies where staff are not technically civil servants.

Pay review bodies

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

6.4 The pay review bodies are:

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

6.5 Pay, for those working in NHS Foundation Trusts and academies, is a matter for those organisations. However, in practice, the majority of these organisations choose to follow the Pay Review Body recommendation. Further information on the pay review body process is available on the website of the Office of Manpower Economics, the secretariat to the review bodies[7].

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[6] https://www.gov.uk/government/publications/civil-service-pay-guidance-2014-15/civil-service-pay-guidance-2014-15

[7] www.ome.uk.com

The devolved administrations

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

Local government

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

Police authorities

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

Health sector

6.9 Pay for those working for NHS Trusts, NHS Foundation Trusts and clinical commissioning groups is a matter for those individual entities. Details can be found in the annual reports of those entities. Statutory requirements are contained in the National Health Service Act 2006 and the NHS Health and Social Care Act 2012, and examples of best practice are provided to NHS Trusts, for example the 'Healthy NHS Board: Principles for Good Governance' guidance. Foundation Trusts must consider the 'NHS Foundation Trust Code of Governance' and guidance, such as 'Your Statutory Duties: A Reference Guide for NHS Foundation Trust Governors'. The main principle contained in the NHS Foundation Trust Code of Governance is that: "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality and with the skills and experience required to lead the NHS Foundation Trust successfully, but an NHS Foundation Trust should avoid paying more than is necessary for this purpose". NHS England has issued guidance on the remuneration of senior roles in clinical commissioning groups.

Public sector remuneration

6.10 The Office for National Statistics (ONS) publishes statistical details of pay in the public sector[8]. These statistics are drawn from pay information provided independently by each entity in accordance with ONS requirements. Details of senior civil servants and senior officials in central government departments, agencies and non-departmental public bodies earning over £150,000 a year are available on the Cabinet Office website[9].

6.11 Details of local government pay in England and Wales are available from the Local Government Association, which publishes an annual local government earnings survey on its website[10]. An overview of English local government pay and workforce figures is published annually by the Department for

[8] http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/stb-ashe-statistical-bulletin-2014.html
[9] https://www.gov.uk/government/publications/senior-officials-high-earners-salaries; http://www.cabinetoffice.gov.uk/resource-library/non-departmental-public-bodies-high-earners-data-release
[10] www.local.gov.uk

Communities and Local Government in their report 'Local Government Financial Statistics England' available on its website[11]. Details of remuneration by local authority are available in their individual accounts and on www.data.gov.uk.

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

6.13 Median earnings across the public sector for the financial year 2013-14 for all employees are shown below. During 2013-14 most central government civil servants were subject to an average pay award of one per cent.

	Median earnings 2013-14 £	Median earnings 2012-13 £	Median earnings 2011-12 £
Central government civil service[12]	24,730	24,380	23,900
Local government[13]	19,582	19,126	19,086
Public sector[14]	24,302	24,147	23,508
Private sector[15]	21,259	21,113	20,617

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

FTE salary levels	Number of civil servants 2013-14	Number of civil servants 2012-13	Number of civil servants 2011-12
Greater than £100,000	1,007	720	755
Greater than £150,000	125	84	97
Greater than £200,000	8	3	9

Source: Annual Civil Service Employment Survey

6.15 Within local government, 48,360 staff (5% of the workforce, on a FTE basis) earned over £42,050 per annum[16]. These numbers exclude teachers.

6.16 The increase in the number of civil servants in 2013-14 being paid above £100,000 is due to the creation of Public Health England on 1 April 2013 and the transfer of 5,100 staff not previously classified as civil servants.

6.17 The 2013-14 WGA includes redundancy payments of £1.8 billion across the public sector workforce. Further details can be found in note 7.3 to these accounts.

[11] https://www.gov.uk/government/organisations/department-for-communities-and-local-government
[12] ONS Statistical Bulletin, Civil Service Statistics, 2014 (www.ons.gov.uk)
[13] Extract from table 3 of 'Earnings survey: Summary 2013-14' (http://www.lga.gov.uk)
[14] Table 13.7a from Annual Survey of Hours and Earnings 2014 Provisional, ONS (www.ons.gov.uk)
[15] Annual Survey of Hours and Earnings 2014 Provisional, ONS (www.ons.gov.uk)
[16] 'Local Government earnings survey: summary report 2013-14' (http://www.lga.gov.uk)

7 Whole of Government Accounts

Consolidated Statement of Revenue and Expenditure

For the year ended 31 March 2014

	Note	2013-14 £bn	2012-13 £bn
Taxation revenue from direct taxes	*3*	(308.9)	(289.1)
Taxation revenue from indirect taxes	*3*	(194.1)	(179.4)
Taxation revenue from local taxes	*3*	(52.8)	(55.9)
Revenue from sales of goods and services	*4*	(39.0)	(42.7)
Other revenue	*5*	(53.7)	(53.6)
Total revenue		**(648.5)**	**(620.7)**
Social security benefits	*6*	213.4	215.0
Staff costs	*7*	185.8	183.6
Purchase of goods and services	*8*	189.8	182.3
Cost of grants and subsidies	*9*	59.8	56.3
Depreciation and impairment charges	*10*	49.5	51.1
Provision expense	*24*	19.7	29.0
Total expenditure		**718.0**	**717.3**
Net expenditure before financing costs		**69.5**	**96.6**
Investment revenue	*11*	(7.0)	(4.8)
Finance costs	*12*	36.7	36.3
Net interest on pension scheme liabilities	*26*	49.1	47.9
Net financing costs		**78.8**	**79.4**
Revaluation of financial assets and liabilities		4.6	(0.6)
Net (profit)/loss on disposal of assets		(4.3)	3.3
Net expenditure for the year		**148.6**	**178.7**

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Note	2013-14 £bn	2012-13 £bn
Net expenditure for the year	*SoRE*	**148.6**	**178.7**
Other comprehensive income			
Net gain on revaluation of property, plant and equipment	*SoCTE*	(13.0)	(7.1)
Net gain on revaluation of intangible assets	*SoCTE*	2.2	-
Net loss/(gain) on revaluation of available for sale financial assets	*SoCTE*	(8.7)	(5.6)
Actuarial loss/(gain) on pension liabilities	*SoCTE*	83.5	97.4
Net other comprehensive income		**64.0**	**84.7**
Total comprehensive expenditure/(income)		**212.6**	**263.4**

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

Consolidated Statement of Financial Position

As at 31 March 2014

	Note	2013-14 £bn	2012-13 Restated £bn
Non-current assets			
Property, plant and equipment	*13*	762.6	746.8
Investment property	*14*	13.0	12.4
Intangible assets	*15*	31.9	34.5
Trade and other receivables	*16*	18.1	16.6
Equity investment in the public sector banks	*17, 21*	43.0	40.0
Other financial assets	*21*	154.6	158.6
Total non-current assets		**1,023.2**	**1,008.9**
Current assets			
Inventories	*19*	12.0	12.1
Trade and other receivables	*16*	131.0	122.3
Cash and cash equivalents	*20*	25.5	24.5
Gold holdings		7.7	10.5
Assets held for sale	*18*	1.7	1.6
Other financial assets	*21*	136.2	117.6
Total current assets		**314.1**	**288.6**
Total assets		**1,337.3**	**1,297.5**
Current liabilities			
Trade and other payables	*22*	(102.0)	(98.3)
Government borrowing and financing	*23*	(212.4)	(214.3)
Provisions for liabilities and charges	*24*	(13.0)	(13.4)
Other financial liabilities	*25*	(429.6)	(408.4)
Total current liabilities		**(757.0)**	**(734.4)**
Net current liabilities		**(442.9)**	**(445.8)**
Total assets less current liabilities		**580.3**	**563.1**

Non-current liabilities			
Trade and other payables	*22*	(56.7)	(55.2)
Government borrowing and financing	*23*	(883.7)	(781.9)
Provisions for liabilities and charges	*24*	(128.8)	(117.6)
Net public sector pension liability	*26*	(1,301.9)	(1,171.9)
Other financial liabilities	*25*	(61.0)	(64.4)
Total non-current liabilities		**(2,432.1)**	**(2,191.0)**
Net liabilities		**(1,851.8)**	**(1,627.9)**
Financed by Taxpayers' Equity:			
Liabilities to be funded by future revenues			
General reserve	*SoCTE*	2,111.7	1,876.6
Revaluation reserve	*SoCTE*	(256.6)	(245.0)
Other reserves	*SoCTE*	(3.3)	(3.7)
Total liabilities to be funded by future revenues		**1,851.8**	**1,627.9**

The financial statements and supporting notes on pages 51 to 160 and annexes 1 to 5 were approved by Julian Kelly as the Accounting Officer for the Whole of Government Accounts on 19 March 2015.

Julian Kelly
Accounting Officer
19 March 2015

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2014

	Note	General reserve £bn	Revaluation reserve £bn	Other reserves £bn	Total £bn
Changes in taxpayers' equity					
At 1 April 2012		**1,588.9**	**(238.8)**	**(3.2)**	**1,346.9**
Net expenditure for the year ended 31 March 2013	*SoRE*	178.7	-	-	178.7
Net gain on revaluation of property, plant and equipment		-	(7.1)	-	(7.1)
Net loss on revaluation of available for sale financial assets		-	(5.6)	-	(5.6)
Actuarial gain on pension liabilities	*26.6*	97.4	-	-	97.4
Receipt of donated and government granted assets		-	-	-	-
Other movements on reserves		19.2	-	0.1	19.3
Transfers between reserves		(2.0)	2.6	(0.6)	-
Balance at 31 March 2013		**1,882.2**	**(248.9)**	**(3.7)**	**1,629.6**
Restatements		(5.6)	3.9	-	(1.7)
Balance at 1 April 2013 (restated)		**1,876.6**	**(245.0)**	**(3.7)**	**1,627.9**
Net expenditure for the year ended 31 March 2014	*SoRE*	148.6	-	-	148.6
Net gain on revaluation of property, plant and equipment and intangible assets		-	(10.8)	-	(10.8)
Net gain on revaluation of available for sale financial assets		-	(8.7)	-	(8.7)
Actuarial loss on pension liabilities	*26.6*	83.5	-	-	83.5
Receipt of donated and government granted assets		1.9	(0.1)	-	1.8
Other movements on reserves		9.3	0.2	-	9.5
Transfers between reserves		(8.2)	7.8	0.4	-
Balance at 31 March 2014		**2,111.7**	**(256.6)**	**(3.3)**	**1,851.8**

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

Consolidated Cash Flow Statement

For the year ended 31 March 2014

	Note	2013-14 £bn	2012-13 Restated £bn
Cash flows from operating activities			
Net expenditure before financing costs	*SoRE*	69.3	96.7
Adjusted for non-cash transactions		(53.3)	(75.5)
Adjusted for non-cash pension transactions		2.7	(21.0)
(Increase)/decrease in trade and other receivables		15.5	(9.2)
Decrease in inventories		0.2	0.7
Increase/(decrease) in trade and other payables		(5.1)	5.3
Use of provisions	*24*	9.7	12.4
Net cash outflow from operating activities		**39.0**	**9.4**
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		40.0	43.7
Proceeds from disposal of non-financial assets		(5.1)	(1.8)
Payments to acquire financial assets		49.1	77.7
Proceeds from disposal of financial assets		(38.4)	(43.0)
Net loans to students		9.1	8.7
Net cash outflow from capital expenditure and financial investment		**54.7**	**85.3**
Net cash outflow before financing activities		**93.7**	**94.7**
Cash flows from financing activities			
Investment revenue	*11*	(7.0)	(4.8)
Finance costs (excluding finance leases and PFI contracts)	*12*	33.6	33.2
Finance charges in respect of finance leases and PFI contracts	*12*	3.1	3.1
Increase in gilt edged stock	*23*	(99.9)	(30.6)
Increase in other non-trade receivables		(2.7)	(1.3)
Other financial liabilities - net cash (inflows)/ outflows		(21.8)	(97.6)
Net cash inflow from financing activities		**(94.7)**	**(98.0)**
Net increase/ (decrease) in cash and cash equivalents	*20*	**1.0**	**3.3**
Cash and cash equivalents at the beginning of the period	*20*	**24.5**	**21.2**
Cash and cash equivalents at the end of the period	*20*	**25.5**	**24.5**

Notes to the Accounts

Note 1. Statement of accounting policies

1.1 Statement of compliance

These financial statements have been prepared by HM Treasury in accordance with the 'Government Resources and Accounts Act 2000 (GRAA)' and the '2013-14 Government Financial Reporting Manual *(*FReM*)*'. The accounting policies contained in the FReM apply EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Chapter 14 of the 2013-14 FReM describes the specific adaptations and interpretations of the accounting standards for WGA. The main adaptations and interpretations of IFRS provided in the FReM are:

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

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

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

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

1.2 Prior period restatements

Material adjustments applicable to prior periods arising from either changes in accounting policy, changes in the WGA boundary or from restatements in the underlying accounts from correcting, restating or reclassifying are accounted for as prior year adjustments. A restated 2013-14 Statement of Financial Position with details of material restatements is provided in Note 38.

1.3 Reporting entities

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

A list of all the entities within the WGA boundary and consolidated in this account, referred to collectively as "WGA entities", is shown in Annex 1. Some entities have not been included in WGA at this time largely for pragmatic and materiality reasons. With regard to the public sector banks, RBS has been included as an investment and has not been fully consolidated, UKAR (Northern Rock Asset

Management and Bradford & Bingley) has been included in 2013-14 for the first time and Lloyds Plc is no longer part of the public sector. Although government retains an equity stake in Lloyds Plc, these accounts do not consolidate Lloyds as an associate as this would deviate from the treatment in the fiscal frameworks and the 2013-14 Financial Reporting Manual (FReM). A few entities that are not controlled by an executive arm of government are also not consolidated. Entities excluded from consolidation are listed in Annex 2. In addition, minor entities have not been included in WGA if they meet certain criteria. The minor entities that have been excluded and key financial numbers are listed in Annex 3. The critical judgements involved in establishing the WGA boundary are outlined in Note 1.22.1.

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

1.4 Basis of preparation

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

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

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

1.5 Basis of consolidation

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

1.6 Going concern

As well as decisions on public spending, the government has the power to set tax rates to meet its funding requirements. For this reason, the Accounting Officer adopts the going concern basis in preparing these financial statements and values assets and liabilities on the basis that the government will continue to exercise its functions.

1.7 Operational and presentational currency

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

1.8 Foreign currency

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

1.9 Use of estimations

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

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

1.10 Disclosures

In line with the 2013-14 FReM requirement on segmental reporting, an additional analysis is set out by sectors (such as central government and local government) and not on the basis of products or services, geographical areas or major customers.

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

1.11 Revenue

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

1.11.1 Taxation revenue

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

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

Taxable events for the material tax streams are as follows:

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

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

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

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

1.11.2 Operating revenue

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

1.11.3 Investment revenue

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

1.12 Expenditure

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

1.12.1 Social security benefits

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

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

The state pension is included within social security benefit expenditure.

1.12.2 Staff costs

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

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

1.12.3 Grants and subsidies

Grants and subsidies are recorded as expenditure during the period that the underlying event or activity giving entitlement to the grant occurs. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Statement of Revenue and Expenditure on the basis of estimates of claims not received and are included in accruals in the Statement of Financial Position.

1.12.4 Research and development

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

1.12.5 Value Added Tax

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

1.12.6 Finance costs

Premium Bond prizes are recognised in the period to which they relate. Other interest income and costs of financing are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. The calculation takes into account premiums or discounts on acquisition or issue of financial assets and liabilities and all the contractual terms of the financial instrument.

The majority of the NLF's financial assets and liabilities have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Liabilities linked to the Retail Prices Index (index-linked gilts and NS&I products) are treated as analogous to floating rate instruments. Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

1.13 Non-current assets

1.13.1 Property, plant and equipment

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

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

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

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

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

1.13.2 Infrastructure assets

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

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

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

Strategic road network

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

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

Local authority infrastructure

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

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

Transport for London (TfL) infrastructure

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

Scottish Water infrastructure

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

1.13.3 Assets under construction

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

1.13.4 Military equipment

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

1.13.5 Heritage assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical value. Heritage assets include historic buildings, archaeological sites, monuments, statues, the National Archives, military and scientific equipment of historic importance, museum and gallery collections and works of art. They are included in 'furniture, fittings and other' in the property, plant and equipment note (Note 13).

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

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

1.13.6 Community assets

Community assets are non-current assets held by an authority in perpetuity that have no determinable useful life and may have restriction on their disposal, such as parks and open spaces, historic buildings, works of art etc. They are primarily held for their historic and cultural value. Local community assets are generally included at cost or a token value in the Statement of Financial Position under 'other assets'. Local authorities value community assets at historical cost. They are included in 'furniture, fittings and other' in the property, plant and equipment note (Note 13).

1.13.7 Donated assets

The category 'donated assets' covers two types of assets: those that have been donated and those for which the WGA entities have continuing and exclusive use but do not own legal title (and for which they have not given consideration in return). They are capitalised at their current valuation on receipt and are revalued, depreciated and subject to impairment review on the same basis as purchased assets. They are included in 'furniture, fittings and other' in the property, plant and equipment note (Note 13).

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

1.13.8 Capital grants and contributions

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

1.13.9 Investment properties

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

1.13.10 Intangible assets

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

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

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

1.13.11 Assets held for sale

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

1.13.12 Depreciation and amortisation charged

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

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

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

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

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

1.13.13 Infrastructure assets depreciation

Strategic road network

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

Local authority infrastructure

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

Transport for London (TfL) infrastructure

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

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

Scottish Water infrastructure

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

1.14 Current assets

1.14.1 Inventories

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

1.14.2 Cash and cash equivalents

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

1.14.3 Gold holdings

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

1.15 Trade and other receivables

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

1.16 Leases

Operating leases

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

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

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

Finance leases

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

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

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

1.17 Private Finance Initiative (PFI) transactions

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

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

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

1.18 Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of a provision is discounted to the present value of the expenditures expected to be required to settle the obligation. Changes were made to the methodology used for determining the discount rate applied to general provisions at 31 March 2013. The short and medium-term discount rates were applied in 2013-14 but the new methodology will not apply to the long-term rate until the next Spending Review period. The new discount rates apply to expenditure within ten years and are based upon the real yield of UK index-linked gilts; discounting of expenditure beyond ten years remains unchanged.

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

1.19 Pension costs and public sector pension liability

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

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

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

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

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

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

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

Further details regarding the principal schemes are disclosed in Note 26 to this Account.

1.20 Financial instruments

1.20.1 Financial assets

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

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale assets

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

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

b) Held-to-maturity investments

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

c) Loans and receivables

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

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

d) Available-for-sale assets

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

Accounting treatment

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

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

1.20.2 Financial liabilities

Financial liabilities are classified into the following categories:

- financial liabilities at fair value through profit or loss
- other financial liabilities

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

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

1.20.3 Fair value

Accounting standard IFRS 7, as applied by the FReM, defines three classifications of fair value measurement, using a fair value hierarchy. The hierarchy reflects the significance of the inputs used in making fair value measurement of financial instruments:

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

1.20.4 Impairments

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

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

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

1.20.5 Student loans

Student loans are held at amortised cost and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. They are recognised when loans are issued to students. The asset is amortised and impaired in the same way as if it were an addition to the student loan book, with a charge to expenditure to reflect the cost to the government of issuing the loans.

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

The valuation of the student loans requires management to make judgements, estimates and assumptions. These are disclosed in 1.22.8.

1.20.6 IMF Special Drawing Rights

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

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

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

1.20.7 Financial guarantees

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

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

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

1.20.8 Derivatives

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

1.20.9 Hedging

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

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

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

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

1.21 Contingent liabilities and contingent assets

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

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

Central government departments are required to report to Parliament contingent liabilities (including financial guarantees) for which the risk of crystallisation is remote. These are disclosed in Note 32. The contingent liabilities reported to Parliament are not contingent liabilities within the meaning of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' since the likelihood of a transfer of economic benefit in settlement is too remote. As they do not fall within the scope of IAS 37, they are measured following the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' for financial instruments. Financial liabilities are measured initially at fair value. Subsequent measurement will depend on the characteristics of the financial liability. This is different from the measurement requirements of IAS 37 as it does not take account of the best estimate of the expenditure required to settle the obligation as set out in IAS 37. The technique used to determine the best estimate will vary depending on the nature of the contingent liability, and the level of uncertainty surrounding the amount to be recognised. Consequently, the best estimate under IAS 37 might represent a percentage of the fair value of a contingent liability, or some measure other than fair value representing the expenditure required to settle the obligation.

1.22 Critical accounting estimates and judgements

1.22.1 WGA boundary

The 'Government Resources and Accounts Act (GRAA)' requires HM Treasury to prepare WGA for "a group of bodies each of which appears to HM Treasury (a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money". When complying with the GRAA, HM Treasury makes a judgement as to whether to consolidate an entity, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics

(ONS). The ONS independently assesses the classification of entities using ESA 10, which is the European standard of classification, derived from the worldwide definitions held in the System of National Accounts. ESA 10 considers the nature of the activity performed by the entity, its funding and its relationship to government. In September 2014 ESA 10 replaced the previous ESA 95 accounting standards and introduced some new control tests, resulting in the classification of Network Rail to the public sector. Aligning the boundary of WGA with the public sector, as defined for the national accounts, is an important principle in driving the usefulness of WGA. The scope of WGA is similar to that included to produce other fiscal measures. This enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances.

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

RBS continues to be held as an available-for-sale financial asset. This entity is not consolidated in WGA because its scale would dwarf other aspects of WGA, distorting the accounts and making it difficult to determine trends. Furthermore, there is no intention for the government to retain the assets and liabilities of RBS in the long term.

In September 2013 the government sold 6% of shares in Lloyds, raising £3.2 billion, in the first of a multi-staged programme of share sales. On 26th March 2014, the government sold further shares equal to 7.8% of Lloyds Banking Group; this reduced the government shareholding to 24.9%. The proceeds of the second sale yielded an additional £4.2 billion for the government. By the end of 2013-14 HM Treasury had disposed of one third of the shares it had held throughout 2012-13, marking an important step in the government's plan for the recovery of Britain's banking system. Following this development, the Office of National Statistics undertook a review of the classification of Lloyds Banking Group and concluded that it was no longer subject to government control and therefore reclassified to the private sector from March 2014. As a result Lloyds no longer satisfies the criteria set out in the GRAA.

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

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

In 2000, the government sold five licences by auction for the use of the electromagnetic spectrum for 3G mobile phone services. The auction raised £22.5 billion and all successful bidders paid for their licences up front in return for access to the spectrum for a period of 20 years. In 2012-13 the government sold five further licences for fourth generation mobile phone services (4G), raising an additional £2.4 billion. In accordance with the requirements of IAS 18 'Revenue', the revenue for both licence sales was recognised in full at the time of cash receipt. This is because there are no additional ongoing performance obligations on the government under the terms of the contracts. As IAS 18 requires the recognition of revenue so as to match the pattern in which obligations are satisfied, it would be inappropriate to defer the revenue. The adoption of IFRS 15 (Revenue Recognition) will require a review of this treatment in 2017-18.

1.22.3 Estimating taxation revenue

The estimates of taxation revenue are calculated using statistical models based on a combination of projections derived from the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what is believed to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not indicative of deficiencies in the models. The maximum overall uncertainty is expected to be around £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1% of the £555.8 billion tax revenue reported in the Statement of Revenue and Expenditure.

1.22.4 Key assumptions in determining the pension liability

The pension liability of £1,302 billion (2012-13 (restated): £1,172 billion) is measured on an actuarial basis using the projected unit method – i.e. an assessment of the future payment that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates and employee turnover rates, and projections of earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. Central government schemes typically use a real discount rate of 1.8% (2012-13: 2.4%) based on yields of high quality corporate bonds, determined by managers of the individual pension fund considering advice from the Government Actuary. Local government schemes use a nominal rate determined by independent actuaries, typically varying between 3.6% and 4.6% (2012-13: 3.9% and 5.1%) Unlike in central government pension schemes, the assumptions used for the local government, police, and firefighters pension schemes vary for each fund. The discount rate is based on the administering authority's judgement as to the rate required under accounting standards. Other key assumptions that determine pension liability includes salary inflation, pension growth and general inflation. These are set on the advice of each schemes actuary and represent the actuary's best estimates of the specific future conditions each scheme will face.

	Central Government[1]		Local Government[2]	
	2013-14	2012-13	2013-14	2012-13
	%	%	%	%
Rate of increase in salaries[3]	4.5	4.0	1.0 - 5.1	1.0 - 5.2
Rate of increase of pensions in payment[4]	-	-	2.3 - 4.6	1.0 - 4.5
Discount rate – real	1.8	2.4	-	-
Discount rate - nominal	-	-	3.6 - 4.6	3.9 - 5.1
Inflation assumption	2.5	1.7	1.0 - 4.5	1.0 - 5.1

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

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

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

1.22.5 Provision for nuclear decommissioning

The financial statements include a provision for the government's obligations in respect of nuclear liabilities of £77.5 billion (2012-13: £69.9 billion), to cover the costs associated with the nuclear decommissioning of sites of radioactive plant and facilities. The majority of this provision is recognised by the Nuclear Decommissioning Authority (NDA).

NDA's provision for nuclear decommissioning represents the best estimate of the costs of delivering its objective of decommissioning the plant and equipment on designated nuclear licensed sites and returning them to pre-agreed end states in accordance with the agency's published strategy. This programme of work will take until 2137. The estimates are necessarily based on assumptions of the processes and methods likely to be used to discharge the obligations, reflecting a combination of the latest technical knowledge available, the requirements of the existing regulatory regime, government policy and commercial agreements. Given the very long timescale involved, and the complexity of the plants and material being handled, considerable uncertainty remains in the cost estimate particularly in the later years (although this is in part mitigated by the impact of discounting for the purposes of provision calculation). As part of the preparation of the financial statements, the principal assumptions and sensitivities around the cost estimates were updated and reviewed by the NDA executive and estimates were updated to reflect changed circumstances and more recent knowledge. However, it is recognised that there remains a significant degree of inherent uncertainty in the future cost estimates. This uncertainty has led the Comptroller & Auditor General to include an Emphasis of Matter statement in his audit opinion on the Nuclear Decommissioning Authority's 2013-14 accounts. Further details of the possible range of outcomes around a central best estimate of provision are available in NDA's 2013-14 accounts[17].

1.22.6 Impairment losses on loans to financial institutions and banking customers

The government has made loans and advances to financial institutions of £7.0 billion (2012-13 restated: £7.7 billion) and UKAR banking customers of £61.2 billion (2012-13 restated: £67.5 billion), which may result in impairment losses. The accounting policy for losses arising on financial assets classified as loans and receivables is described in note 1.20.1. The allowance for impairment losses on loans and receivables from public sector banks is based on an estimate of losses incurred at the reporting date. All loans relating to UK Asset Resolution have been eliminated from WGA.

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

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

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

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

For 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 sales 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 an agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation will differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment would be an estimated £108.7 million lower (2012-13: £174.3 million) or £115.5 million higher (2012-13: £184.1 million).

1.22.7 Impairment losses on equity investments in public sector banks

As at 31 March 2014, equity investments in public sector banks totalled £43.0 billion (2012-13 restated: £40.0 billion). The equity investment in UKAR was eliminated due to the full consolidation of this entities assets and liabilities for the first time in 2013-14. No impairment losses were charged in relation to these investments during 2013-14. In determining whether an impairment loss has been incurred in respect of these investments, an assessment is made as to whether there has been a significant or sustained decline in its fair value below its original cost price. The result of performing the assessment on individual tranches of shares is that only those tranches where the current share price is significantly below the original acquisition cost are impaired. For other tranches, changes in the fair value are recognised through reserves.

1.22.8 Student loans

The government has made loans to students which are valued on the Statement of Financial Position at £39.0 billion (2012-13: £36.0 billion).

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

The valuation requires management to make critical accounting judgements, estimates and assumptions. The key assumptions that impact on the value of the loan book are: the discount rate used, graduate earnings, inflation and the Bank of England interest rate (the bank rate affects the interest subsidy on pre-2012 loans).

During 2013-14, impairments totalling £4.2 billion were made to the carrying value of student loans. These impairments were based on forecasts of future cash flows and the value of loans expected to be written off for policy reasons. As repayments for all loans issued are income contingent, the expected future cash flows are modelled by estimating future earnings and applying the loan terms, which include write off on death, disability or after at least 25 year depending of the type of loan. The estimates of future earnings factor in demographic and behavioural characteristics of borrowers and forecasts of macroeconomic conditions. The key macroeconomic factors are earnings growth, RPI inflation and Bank of England base interest rates.

The assumptions and forecasts are formally reviewed each year and the amounts provided reflect the government’s current estimate as at 31 March 2014. The key assumptions and modelling used to calculate the student loan balance are detailed in the 2013-14 accounts of the Department for Business, Innovation and Skills.

1.23 Accounting standards passed but not yet effective

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2013, that came into effect on 1 April 2013 or earlier. A number of new accounting standards, amendments to standards and interpretations are not yet effective for most of the public sector for the year ended 31 March 2014. They have not been applied in preparing these financial statements. The following are the significant standards and amendments that may need to be adopted in future WGAs:

- IFRS 9 'Financial Instruments' (effective from 1 January 2015) is expected to be adopted by the EU from 2018-19. IFRS 9 is being introduced to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The available-for-sale and held-to-maturity categories currently allowed under IAS 39 are not included in IFRS 9. All equity investments within the scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income. Work is underway to assess the impact of this standard on the financial statements.
- IFRS 10 'Consolidated Financial Statements' and IFRS 12 'Disclosure of Interests in Other Entities' (both effective from 1 January 2014) have been adopted by the EU and will be applied with adaptation in the 2014-15 WGA. These standards have been adapted in the 2014-15 FReM in order to maintain a consolidation boundary based on control criteria used by the ONS.
- IFRS 13 'Fair Value Measurement' (effective from 1 January 2013) has been adopted by the EU. IFRS 13 defines fair value and provides guidance on fair value measurement techniques and disclosure requirements. The FRAB has agreed to adopt this statement from 2015-16. Once adopted in the FReM, IFRS 13 will affect the valuation and disclosure of property, plant and equipment in the WGA.
- IFRS 15 'Revenue Recognition' is expected to be adopted in 2017-18. Work is underway to assess the impact of this standard on the financial statements.

Note 2. Segmental reporting

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

Central government

The central government sector comprises:

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

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

Local government

The local government sector comprises:

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

Non-financial public corporations

Entities are included in this sector where:

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

Financial public corporations

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

Consolidation adjustments

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

Segmental reporting analysis 2013-14

	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2013-14 £bn
Taxation revenue	(600.8)	(52.8)	(0.8)	-	98.6	(555.8)
Other revenue	(123.3)	(107.4)	(16.3)	(0.6)	154.9	(92.7)
Total operating revenues	**(724.1)**	**(160.2)**	**(17.1)**	**(0.6)**	**253.5**	**(648.5)**
Social security benefits	189.3	26.6	0.6	-	(3.1)	213.4
Staff costs	131.9	72.2	6.1	0.2	(24.6)	185.8
Other expenses	510.9	87.7	11.7	0.3	(291.8)	318.8
Net expenditure/(revenue) before financing costs	**108.0**	**26.3**	**1.3**	**(0.1)**	**(66.0)**	**69.5**
Net financing cost	65.8	12.5	0.7	0.0	(0.2)	78.8
Net loss on revaluations and disposals of assets and liabilities	(1.4)	(0.1)	1.7	0.0	0.1	0.3
Net expenditure/(revenue) for the year	**172.4**	**38.7**	**3.7**	**(0.1)**	**(66.1)**	**148.6**
Property, plant and equipment	399.8	303.5	59.0	0.3	0.0	762.6
Other non-current assets	474.1	21.9	3.3	1.0	(239.7)	260.6
Current assets	323.8	48.0	8.9	448.2	(514.8)	314.1
Total assets	**1,197.7**	**373.4**	**71.2**	**449.5**	**(754.5)**	**1,337.3**
Current government borrowing and financing	(212.4)	-	-	-	-	(212.4)
Other current liabilities	(354.6)	(31.9)	(5.7)	(828.2)	675.8	(544.6)
Non-current government borrowing and financing	(883.8)	-	-	-	0.1	(883.7)
Net pension liability	(1,065.6)	(234.2)	(2.1)	0.1	(0.1)	(1,301.9)
Other non-current liabilities	(265.0)	(46.8)	(7.2)	(2.4)	74.9	(246.5)
Total liabilities	**(2,781.4)**	**(312.9)**	**(15.0)**	**(830.5)**	**750.7**	**(3,189.1)**
Net assets/(liabilities)	**(1,583.7)**	**60.5**	**56.2**	**(381.0)**	**(3.8)**	**(1,851.8)**

Segmental reporting analysis 2012-13

	Central government Total £bn	Local government £bn	Non-financial public corporations £bn	Financial public corporations £bn	Consolidation adjustments £bn	Whole of Government 2012-13 £bn
Taxation revenue	(560.3)	(55.9)	(0.7)	-	92.5	(524.4)
Other revenue	(128.9)	(166.3)	(19.0)	(0.5)	218.4	(96.3)
Total operating revenues	**(689.2)**	**(222.2)**	**(19.7)**	**(0.5)**	**310.9**	**(620.7)**
Social security benefits	190.0	27.9	0.6	-	(3.5)	215.0
Staff costs	125.7	71.8	10.1	0.1	(24.1)	183.6
Other expenses	560.1	95.5	12.1	0.2	(349.2)	318.7
Net expenditure/(revenue) before financing costs	**186.6**	**(27.0)**	**3.1**	**(0.2)**	**(65.9)**	**96.6**
Net financing cost	66.5	12.7	0.2	-	-	79.4
Net loss on revaluations and disposals of assets and liabilities	2.4	0.4	(0.2)	0.1	-	2.7
Net expenditure/(revenue) for the year	**255.5**	**(13.9)**	**3.1**	**(0.1)**	**(65.9)**	**178.7**
						-
Property, plant and equipment	388.8	296.9	60.9	0.2	-	746.8
Other non-current assets	487.6	20.1	4.2	1.0	(250.8)	262.1
Current assets	310.7	46.1	11.4	445.1	(524.7)	288.6
Total assets	**1,187.1**	**363.1**	**76.5**	**446.3**	**(775.5)**	**1,297.5**
Current government borrowing and financing	(214.3)	-	-	-	-	(214.3)
Other current liabilities	(315.4)	(33.5)	(8.5)	(799.8)	637.1	(520.1)
Non-current government borrowing and financing	(781.9)	-	-	-	-	(781.9)
Net pension liability	(934.7)	(235.6)	(1.8)	0.3	(0.1)	(1,171.9)
Other non-current liabilities	(261.1)	(101.3)	(8.6)	(2.7)	136.5	(237.2)
Total liabilities	**(2,507.4)**	**(370.4)**	**(18.9)**	**(802.2)**	**773.5**	**(2,925.4)**
Net assets/(liabilities)	**(1,320.3)**	**(7.3)**	**57.6**	**(355.9)**	**(2.0)**	**(1,627.9)**

Note 3. Taxation revenue

	2013-14 £bn	2012-13 £bn
Income Tax	162.1	150.9
Social security and National Health Service contributions	97.3	90.7
Corporation Tax	39.6	38.9
Capital Gains Tax	3.9	3.9
Inheritance Tax	3.8	3.1
Bank Levy	2.2	1.6
Taxation revenue from direct taxes	**308.9**	**289.1**
Value Added Tax	108.2	99.1
Hydrocarbon Oils Duty	26.9	26.5
Excise duties	26.8	26.6
Stamp duties	12.9	9.5
TV licence fee income	3.1	3.1
Insurance Premium Tax	3.0	3.0
Air Passenger Duty	3.0	2.8
Betting and Gaming Duties	2.3	1.8
Lottery income	1.6	2.0
Landfill Tax	1.2	1.2
Climate Change Levy	1.2	0.6
Petroleum Revenue Tax	1.1	1.8
Other indirect taxes	2.8	1.4
Taxation revenue from indirect taxes	**194.1**	**179.4**
Council Tax	28.5	30.4
National Non-Domestic Rates	24.3	25.5
Taxation revenue from local taxes	**52.8**	**55.9**
Total taxation revenue	**555.8**	**524.4**

The above figures are shown net of transactions between WGA entities.

The majority of direct and indirect taxes were collected by HM Revenue and Customs (HMRC). Total revenue reported by HMRC rose by £30.2 billion due to improvements in the economy and reforms to combat avoidance, evasion and non-payment. Further information is available in its 2013-14 accounts which can be found on its website[18].

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

Other indirect taxes include Capital Taxes (UK Swiss Agreement) of £0.5 billion (2012-13: £0.3 billion) and the Aggregates Levy of £0.3 billion (2012-13: £0.3 billion).

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

[18] www.hmrc.gov.uk

Local taxes were collected by local authorities and details are available in their accounts. The change in Council Tax income is due to reforms to the benefits system. From April 2013, local authorities have been delivering locally defined Council Tax Support schemes replacing the previous nationally defined Council Tax Benefit scheme. The cost of this benefit is now incorporated into the calculation of Council Tax.

The majority of tax receivables were estimated by HM Revenue and Customs using a statistical based model as outlined in the accounting policy notes 1.11.1 and 1.22.3. As described in Note 1.22.3, HM Revenue and Customs consider that the overall uncertainty is expected to be some £4 billion in either direction, equivalent to less than one per cent of the total revenue reported in the Statement of Revenue and Expenditure. Further information is set out in the 2013-14 accounts of HM Revenue and Customs.

Note 4. Revenue from sales of goods and services

	2013-14 £bn	2012-13 £bn
Local government	23.8	22.5
Public corporations	10.5	14.8
Central government	4.7	5.4
Revenue from sales of goods and services	**39.0**	**42.7**

The £23.8 billion (2012-13: £22.5 billion) of revenue received by local authorities arose from fees in respect of services delivered to the public such as social care, planning and development, cultural and leisure provision and environmental services. The most significant single item of revenue was £4.4 billion (2012-13: £4.1 billion) collected by Transport for London, mainly relating to fare income (£3.8 billion), congestion charging and advertising income.

Significant revenue streams earned by public corporations from the sale of goods and services included postal revenue received by Royal Mail prior to its sale in October 2014 of £4.5 billion (2012-13: £9.9 billion), revenues earned by the broadcasting public corporations, primarily from advertising and sales of goods and commercial rights of £1.7 billion (2012-13: £1.8 billion), and £1.2 billion (2012-13: £1.1 billion) received by Scottish Water for the supply of waste and water services.

Significant revenue earned by central government entities from the sale of goods and services included £0.9 billion (2012-13: £0.9 billion) received by the Nuclear Decommissioning Authority in relation to waste management and electricity generation contracts.

Central government revenue also includes £1.2 billion (2012-13: £1.6 billion) of revenue earned by entities within the National Health Service.

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

Note 5. Other revenue

	2013-14 £bn	2012-13 £bn
Fees, levies and charges	10.0	8.0
Rental revenue from local government housing	8.2	7.9
EU income	4.7	4.7
Pension scheme employee contribution income	7.7	6.5
Pension scheme employer contribution income	1.4	2.0
Private sector contributions to local services	2.4	2.7
Licence income	0.3	2.7
Charitable income	2.7	4.2
Miscellaneous operating revenue	16.3	14.9
Other revenue	**53.7**	**53.6**

Fees and charges usually reflected the full cost of services being provided. Levies related to licences for operating and using public goods, and are charged by statutory regulators or to support industry specific research foundations. Levies were usually set to recover associated costs, such as costs of supervision by a regulator. Fees and charges have increased by £0.8 billion as a result of the first time inclusion of a number of fee levying entities that have been included in the whole of government accounts for the first time in 2013-14 (The Financial Conduct Authority, The Financial Ombudsman Limited and the Prudential Regulation Authority).

EU income was funding received by WGA entities from the EU for projects supported wholly or partially by the EU. Much of this funding was passed onto third parties, including agricultural subsidies payments to farmers. These grant payments and the contributions paid to the EU as part of the UK's obligations as a member state are disclosed in note 9.

Charitable income included revenue related to private sector academies of £0.9 billion, reflecting the first time recognition of these academies on the government balance sheet.

Licence income has reduced by £2.4 billion. This is due to the inclusion of one off 4G auction fee income in 2012-13.

Pension scheme employer and employee contribution income was the contribution income recognised in the underlying accounts of pension schemes, predominantly the NHS Pension Scheme, Teachers' Pension Scheme, and the Principal Civil Service Pension Scheme. The majority of employer contribution income was eliminated against the employer contribution expense, as most employer entities in these schemes are entities within WGA. The pre-eliminated balance was £15.4 billion (2012-13: £15.0 billion).

The remaining balance related to employers that participate in these schemes, but were outside the WGA boundary. Examples included GPs and charity hospices that contributed to the NHS pension scheme; higher and further education institutions, and independent teaching establishments that contributed to the Teachers' Pension Scheme; and non-WGA entities such as the NAO, Welsh Audit Office, Electoral Commission, Pension Protection Fund, and some minor entities that contributed to the Principal Civil Service Pension Scheme.

Miscellaneous operating income included various types of income across a wide range of public sector entities. The largest components included £1.6 billion (2012-13: £1.6 billion) recognised by the Department for Transport from train operating companies in relation to franchise agreements, £0.4 billion relating to sales of the East Village Olympic Site and £0.5 billion (2012-13: £0.4 billion) income for issuing coinage and the surplus revenue from the Crown Estate. A further £1.0 billion (2012:13: Nil) was received in relation to Coal Pension receipts. The government provided certain guarantees in relation to the pension scheme as part of the privatisation of the British Coal Corporation in 1994, which means that the government is entitled to a portion of any periodic valuation surpluses. An exceptional valuation was undertaken in March 2013 and an additional payment of £0.7 billion was subsequently paid to the government in 2013-14 with a further £0.3 billion due to be paid in the near future. The remaining income was spread across a number of smaller entities with no other material contributor.

Miscellaneous operating income also included income received by entities within the National Health Service for education, training, research and development. Further details can be found in the 2013-14 Department of Health accounts[19].

Note 6. Social security benefits

	2013-14 £bn	2012-13 £bn
State retirement pension	85.0	83.8
Local government housing and other benefits	27.3	28.5
Tax credits	30.9	30.8
Disability Living Allowance	15.6	15.5
Child Benefit	11.5	12.2
Jobseeker's Allowance	4.5	5.4
Employment Support Allowance	10.9	6.7
State pension credit	7.3	7.9
Income Support	4.0	5.7
Attendance Allowance	5.5	5.4
Incapacity Benefit	1.3	3.5
Carer's Allowance	2.2	2.0
Other benefits	7.4	7.6
Total cost of benefits	**213.4**	**215.0**

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

The state retirement pension is the pension paid to the public. This has increased due to annual uprating and an increase in the volume of claimants, reflecting the ageing population. Pension payments to former public sector employees are shown in Note 26.

Jobseeker's Allowance expenditure has fallen due to fewer claimants. The increase in Employment Support Allowance is offset by decreases in other benefits (such as Income Support and Incapacity Benefit), reflecting benefit reforms.

The majority of social security benefits are paid by the Department for Work and Pensions (DWP). In Northern Ireland, these payments, together with the payment of Housing Benefit, are the responsibility of the Department for Social Development (DSD). The 2013-14 accounts of both these departments received qualified opinions on the regularity of benefit expenditure due to fraud and error in benefit payments (both of these qualifications excluded state pension payments). The Department for Work and Pensions estimated that fraud and error for other benefits (excluding state pensions) resulted in overpayments of £3.2 billion and underpayments of £1.3 billion. Similarly, DSD estimated that in respect to non-state pension related benefits, fraud and error resulted in overpayments of £71.9 million

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

and underpayments of £20.8 million. Further information is available in the 2013-14 accounts of each department, which are available on their respective websites.[20]

Tax credits and child benefits are administered by HM Revenue and Customs (HMRC). Tax credits include adjustments to Income Tax as well as direct benefit payments. The HMRC accounts received a qualified opinion on regularity of personal tax credits because no estimate of the total level of fraud and error in 2013-14 was available which meant that the National Audit Office was unable to confirm that personal tax credit awards were in conformity with the Tax Credits Act 2002.

HMRC estimated that in 2012-13 fraud and error resulted in overpayments of between £1.8 billion and £2.2 billion (2011-12: between £1.9 billion and £2.3 billion) and underpayments of between £0.1 billion and £0.3 billion (2011-12: between £0.2 billion and £0.4 billion). Figures for 2013-14 are expected in mid-2015. Further information is set out in the 2012-13 and 2013-14 accounts of HM Revenue and Customs, which are available on their website.

Note 7. Staff costs and numbers

Note 7.1 Staff costs

Staff costs comprise:

	Permanently employed staff	Others	2013-14 £bn	2012-13 £bn
Salaries and wages	136.7	9.5	146.2	147.6
Social security costs	10.3	0.2	10.5	11.0
Staff pension costs	14.3	0.4	14.7	13.9
Pension scheme costs: current service costs	40.5	-	40.5	35.1
Pension scheme costs: past service costs	(0.9)	-	(0.9)	0.3
Pension scheme costs: losses on settlements and curtailments	(0.6)	-	(0.6)	(0.2)
Total staff costs (pre-eliminations)	**200.3**	**10.1**	**210.4**	**207.7**
Less intra-government balances	(24.1)	(0.5)	(24.6)	(24.1)
Total consolidated staff costs	**176.2**	**9.6**	**185.8**	**183.6**

This note has been prepared to show the full cost of the public sector workforce before items internal to the public sector are removed, which are disclosed as intra-government balances. Intra-government balances included National Insurance contributions which would otherwise form part of tax revenue of £10.5 billion (2012-13: £11.0 billion) (see Note 3) and employers' pension contributions of £13.8 billion (2012-13: £13.0 billion) (see Note 5).

'Others' included the cost of ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers and special advisers was £5.4 million (2012-13: £5.1 million) and £10.3 million (2012-13: £9.3 million) respectively in 2013-14. The ministerial salary only includes the additional element on top of the basic salary of an MP.

'Staff pension costs' consisted mainly of employer contributions to pension schemes. 'Pension scheme costs' included public sector pension scheme expenses such as current service costs, past service costs, enhancements, gains/losses on settlements and curtailments. These are detailed in Note 26.

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

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

Note 7.2 Average number of persons employed

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

	Permanently employed staff	Others	2013-14 Total	2012-13 Total
Central government (including Health)	2,340,829	190,828	2,531,657[1]	2,459,033[2]
Local government	1,751,341	65,805	1,817,146	1,921,147
Non-financial public corporations	84,357	18,844	103,201	233,106
Financial public corporations	2,451	-	2,451	2,173
Total	**4,178,978**	**275,477**	**4,454,455**	**4,615,459**

1. 2,231,172 excluding staff working in academies
2. 2,207,725 excluding staff working in academies

The central government total included 1,324,969 (2012-13: 1,293,478) FTE staff working in the health sector and 300,485 (2012-13: 251,308) staff working in academies, some of whom were previously included in local government staff numbers while others were previously in schools not included in local authority accounts.

'Others' included 115 ministers (2012-13: 116) and 157 (2012-13: 127) special advisers working in central government.

Note 7.3 Civil Service and other compensation schemes - exit packages

Exit package cost band 2013-14	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,154	3,525	5,679	0.1
£10,000 - £50,000	13,423	44,565	57,988	1.0
£50,000 - £100,000[1]	1,419	5,521	6,940	0.5
>£100,000	533	1,305	1,838	0.2
Total	**17,529**	**54,916**	**72,445**	**1.8**

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

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

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

Note 8. Expenditure on purchases of goods and services

	2013-14 £bn	2012-13 £bn
Central government	115.8	103.7
Local government	65.2	68.7
Public corporations	8.8	9.9
Expenditure on purchases of goods and services	**189.8**	**182.3**

Central government included entities in the National Health Service, which spent £54.1 billion (2012-13: £52.7 billion) primarily for the purchase of clinical supplies, general medical services, personal medical services, alternative provider medical services and costs of prescriptions. Other entities across government purchased a wide range of goods and services. These amounts did not include expenditure paid to other WGA entities. The increases in central government expenditure are driven by the Department for Health, the Department for International Development and additional Academies.

Auditors' remuneration and expenses of £0.2 billion (2012-13: £0.1 billion) included fees paid to private sector organisations and public sector entities not consolidated, for example the National Audit Office, Audit Scotland, Welsh Audit Office and Northern Ireland Audit Office. Audit fees payable to the Audit Commission have been eliminated on consolidation.

Note 9. Grants and subsidies

	2013-14 £bn	2012-13 £bn
Grants in relation to education including those paid by the Education Funding Agency, Skills Funding Agency and Higher Education Funding Councils	21.9	21.8
UK contribution to the Budget of the European Community	12.1	8.9
EU grants and subsidies to the private sector to spend on EU approved projects, mainly to support agriculture and reduce regional economic disparities	3.3	3.5
Department for International Development grants to developing countries for eliminating poverty	6.7	5.4
Department for Transport grants to the private sector, mainly for investment in and supporting the railways	4.6	4.9
Department for Communities and Local Government arms-length bodies funding to the private sector, mainly for capital investment in social housing	1.4	0.9
Other revenue grants and subsidies	7.0	7.8
Other grants for capital expenditure	2.8	3.1
Total cost of grants and subsidies	**59.8**	**56.3**

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

There are four elements that make up the UK's contribution to the EU: GNI-based contributions (Gross National Income); VAT based contributions; Traditional Own Resources (TOR) based contributions; and the UK abatement. The £12.1 billion paid to the EU for 2013-14 is made up of GNI and VAT based contributions less the UK abatement, with minor adjustments for accruals and prepayments. For further details please see the Consolidated Fund Account 2013-14. TOR contributions comprise custom duties and sugar levies and are excluded because they are collected on behalf of the EU.

In 2012-13, the UK's payment to the EU was £8.9 billion which only included the GNI contribution less the UK abatement, with minor adjustments for accruals and prepayments. Including the VAT element for 2012-13, the £8.9 billion would be uplifted to £11.3 billion with a corresponding increase in tax income. This change in accounting treatment is due to changes to ESA10 where VAT based contributions used to be treated as EU revenue whereas now they are being accounted for as being received by the UK government and then transferred to the EU and are shown as a tax receipt and current expenditure in equal amounts.

EU grants and subsidies were amounts paid to third parties to spend on EU approved projects. The income received from the EU to fund the payments is disclosed in Note 5.

Note 10. Depreciation and impairment charges

Depreciation and impairment charges were made up as follows:

	2013-14 £bn	2012-13 £bn
Depreciation of property, plant and equipment	24.4	25.5
Impairments and revaluations of non-financial assets	8.6	12.0
Impairments of financial assets	6.8	4.3
Impairments of receivables	5.9	5.6
Amortisation of intangible fixed assets	3.8	3.7
Total depreciation and impairment charges	**49.5**	**51.1**

Impairments and revaluations of non-financial assets were distributed across the public sector. It included impairments recognised by the Ministry of Defence of £1.4 billion (2012-13: £1.2 billion) £1.3 billion (2012-13: £1.4 billion) in the Department of Health. Ministry of Defence assets were impaired for a variety of reasons, for example, loss, damage, unforeseen obsolescence, abandonment of assets under construction and those associated with disposals.

Impairments of receivables included £5.5 billion (2012-13: £5.1 billion) in relation to tax revenue losses, of which £1.7 billion (2012-13: £2.0 billion) related to VAT and £1.7 billion (2012-13: £1.3 billion) related to Income Tax. These losses are made up of remissions and write-offs and make up 1% of HMRC's revenue of £505.8 billion for 2013-14. Remissions are debts capable of recovery but HMRC decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability, for example because of insolvencies which limited the ability to recover the tax due.

Impairments of financial assets included £4.2 billion (2012-13: £2.5 billion) relating to the Department for Business, Innovation and Skills' student loan book. These impairments include the expected subsidy on new loans issued in year and adjustments to the value of existing loans following impairment review. The major risk to student loan repayments arises when there is an economic downturn and a reduction in growth. Where earnings growth declines, the risk is that graduate repayments will be lower, resulting in longer repayment periods and higher write-off at the end of the loan terms. During 2013-14, work has been undertaken to improve the modelling of future earnings of borrowers, taking into account the latest data on actual repayments and advice from experts and stakeholders. The new model makes use of historical earnings data, which reduces the volatility in earning paths.

The face value of student loans was reduced by £1.9 billion (2012-13: £1.5 billion) by discounting the loans to the present value and to take account of the impact of inflation and interest rates. A lower Bank of England base rate and a rate of inflation that is comparatively high, results in the base rate cap on loans issued under the pre-2012 system coming in to operation. The interest rate subsidy occurs because students are charged interest equivalent to the lower of the rate of inflation and the Bank of England base rate plus 1%. As such, when the base rate cap is in operation, interest on loans is charged at a lower rate than inflation linked long term cost of issuing the loans.

Note 11. Investment revenue

	2013-14 £bn	2012-13 £bn
Interest revenue from student loans	1.4	1.0
Interest revenue from other sources	5.3	3.6
Dividend revenue	0.3	0.2
Total investment revenue	**7.0**	**4.8**

Interest revenue from student loans has increased by £0.4 billion from the previous year and is calculated using a student loans repayment model based on assumptions that are formally reviewed each year. For further information on the model and underlying assumptions refer to the Department for Business Innovation and Skills accounts[21].

Interest revenue from other sources has increased by £1.7 billion, primarily due to the consolidation of UK Asset Resolution Ltd (UKAR) into WGA.

Note 12. Finance costs

	2013-14 £bn	2012-13 £bn
Interest costs in respect of government borrowing and financing	31.7	31.0
Finance charges in respect of finance leases & PFI contracts	3.1	3.1
Other finance costs	1.9	2.2
Total finance costs	**36.7**	**36.3**

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

Details of the obligations under finance leases are disclosed in Note 28.2. Details of the obligations under PFI contracts are disclosed in Note 29.

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

[21] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329057/BIS_annual_report_and_accounts_2013_-_2014.pdf

Note 13. Property, plant and equipment

Note 13.1 Net book value of property, plant and equipment at 31 March 2014 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2013-14 Total £bn
Cost or valuation:								
At 1 April 2013 (restated)	328.4	254.1	93.9	47.8	39.0	74.3	102.5	940.0
Additions	3.7	4.2	3.4	0.3	19.0	0.2	5.3	36.1
Revaluations and impairments	2.5	(2.8)	0.4	1.2	(1.0)	(0.7)	(0.3)	(0.7)
Reclassifications	1.7	6.2	(0.2)	(0.3)	(14.5)	2.3	1.7	(3.1)
Disposals	(0.3)	(4.1)	(0.7)	(0.3)	-	(3.6)	(7.3)	(16.3)
At 31 March 2014	**336.0**	**257.6**	**96.8**	**48.7**	**42.5**	**72.5**	**101.9**	**956.0**
Depreciation:								
At 1 April 2013 (restated)	(55.0)	(41.1)	(6.7)	-	-	(38.6)	(51.8)	(193.2)
Charged in year	(4.0)	(8.0)	(2.1)	-	-	(3.9)	(6.4)	(24.4)
Revaluations and impairments	0.5	4.8	2.0	-	-	(0.8)	0.1	6.6
Reclassifications	0.4	2.7	0.8	-	-	0.3	1.1	5.3
Disposals	0.3	2.2	-	-	-	3.8	6.0	12.3
Depreciation at 31 March 2014	**(57.8)**	**(39.4)**	**(6.0)**	**-**	**-**	**(39.2)**	**(51.0)**	**(193.4)**
Net Book Value at 31 March 2014	**278.2**	**218.2**	**90.8**	**48.7**	**42.5**	**33.3**	**50.9**	**762.6**

‘Infrastructure assets’ include highways infrastructure assets held by the Highways Agency of £111.0 billion (2012-13: £108.9 billion), and by local authorities of £59.1 billion (2012-13: £56.3 billion). Local authorities prepare their accounts on a historical cost basis for these assets, compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation on a depreciated replacement cost basis for inclusion in the WGA. The best proxy measure available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2013 National Accounts estimated the value of the road network at £291.8 billion (2012-13: £275.3 billion) as at 31 December 2013[22]. On this basis, infrastructure assets are likely to be understated because of this treatment by at least £232 billion.

Infrastructure assets also include £3.0 billion of revaluations and impairments. These mainly comprise revaluations to the National Trunk Road Network for the Department for Transport (£2.1 billion), Scottish Government (£0.2 billion) and Welsh Assembly Government (£0.2 billion). Each financial year the Department for Transport applies an indexation factor to the valuation of the network infrastructure assets to reflect the impact of current prices. In addition, infrastructure assets include assets held by Scottish Water stated at net book value as reported in their individual accounts. Accordingly, the gross book values in these accounts include the net book value of these assets and depreciation is not separately disclosed.

‘Dwellings’ include impairments of £0.2 billion (2012-13: £0.5 billion) and revaluation increases of £2.2 billion (2012-13: £0.2 billion decreases) resulting in a net movement of £2.4 billion. This figure also includes a £1.3 billion revaluation decrease of local authority social housing in Northern Ireland.

‘Buildings’ includes revaluations and impairments of £2.0 billion. This figure is driven by a number of entities undertaking a quinquennial review of assets as required by the Financial Reporting Manual (FReM). Of the £1.8 billion total, £0.7 billion revaluation increases were within the Ministry of Defence, £0.8 billion revaluation decreases recognised by Birmingham Council and £1.4 billion revaluation increase within the English local government sector.

Buildings also include additions of £4.2 billion during 2013-14. Of this amount, £0.9 billion is the net amount attributable to schools transferring to the Department for Education from outside the WGA boundary. A further £1.3 billion of additions is attributable to the Department of Health.

‘Reclassifications’ include assets reclassified between assets under construction to other types of assets, transfers to and from intangible assets and transfers to and from operating expenditure or reserves. Of the £14.5 billion shown within the note, £3.4 billion relates to the Ministry of Defence. £2.3 billion of this amount was transferred into Military Equipment, £0.4 billion transferred into transport equipment and £0.2 billion into dwellings. Other large reclassifications and transfers under assets under construction’ include £1.1 billion relating to the completion of buildings within the Department of Health.

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

[22] UK National Accounts, The Blue Book, 2014, Table 10.9 ‘Other Structures’

'Other' property, plant and equipment consists of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	2013-14 Total £bn
Cost or valuation:					
At 1 April 2013 (restated)	47.0	23.6	12.9	19.0	102.5
Additions	2.7	0.7	1.1	0.8	5.3
Revaluations and impairments	(0.2)	-	-	(0.1)	(0.3)
Reclassifications	0.6	1.0	(0.1)	0.2	1.7
Disposals	(3.5)	(2.0)	(0.9)	(0.9)	(7.3)
At 31 March 2014	**46.6**	**23.3**	**13.0**	**19.0**	**101.9**
Depreciation:					
At 1 April 2013 (restated)	(29.3)	(11.5)	(7.7)	(3.3)	(51.8)
Charged in year	(3.4)	(1.3)	(1.4)	(0.3)	(6.4)
Revaluations and impairments	0.2	-	(0.1)	-	0.1
Reclassifications	0.5	-	0.6	-	1.1
Disposals	2.7	1.9	0.9	0.5	6.0
Depreciation at 31 March 2014	**(29.3)**	**(10.9)**	**(7.7)**	**(3.1)**	**(51.0)**
Net Book Value at 31 March 2014	**17.3**	**12.4**	**5.3**	**15.9**	**50.9**

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

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

Note 13.2 Net book value of property, plant and equipment at 31 March 2013 comprise the following elements:

	Infrastructure assets £bn	Buildings £bn	Dwellings £bn	Land £bn	Assets under construction £bn	Military equipment £bn	Other £bn	2012-13 Total £bn
Cost or valuation:								
At 1 April 2012 (restated)	321.6	247.5	94.0	51.3	43.8	73.0	99.2	930.4
Additions	4.0	8.9	3.0	0.4	18.1	0.9	4.4	39.7
Revaluations and impairments	3.3	(6.2)	(1.9)	(1.2)	0.1	0.9	0.4	(4.6)
Reclassifications	-	3.7	(0.4)	(0.2)	(22.4)	3.9	2.8	(12.6)
Disposals	(0.4)	(1.2)	(0.6)	(0.8)	(0.3)	(4.4)	(4.1)	(11.8)
At 31 March 2013	328.5	252.7	94.1	49.5	39.3	74.3	102.7	941.1
Restatements	(0.1)	1.4	(0.2)	(1.7)	(0.3)	-	(0.2)	(1.1)
At 31 March 2013	**328.4**	**254.1**	**93.9**	**47.8**	**39.0**	**74.3**	**102.5**	**940.0**
Depreciation:								
At 1 April 2012 (restated)	(52.5)	(38.5)	(6.5)	-	-	(38.4)	(50.0)	(185.9)
Charged in year	(3.9)	(8.5)	(2.6)	-	-	(3.7)	(6.8)	(25.5)
Revaluations and impairments	-	2.2	1.2	-	-	(0.6)	(0.2)	2.6
Reclassifications	1.1	2.2	1.0	-	-	1.1	1.1	6.5
Disposals	0.3	1.1	0.1	-	-	3.0	3.8	8.3
At 31 March 2013	**(55.0)**	**(41.5)**	**(6.8)**	**-**	**-**	**(38.6)**	**(52.1)**	**(194.0)**
Restatements	-	0.4	0.1	-	-	-	0.3	0.8
At 31 March 2013 (Restated)	**(55.0)**	**(41.1)**	**(6.7)**	**-**	**-**	**(38.6)**	**(51.8)**	**(193.2)**
At 31 March 2013 (Restated)	**273.4**	**213.0**	**87.2**	**47.8**	**39.0**	**35.7**	**50.7**	**746.8**

'Other' property, plant and equipment consist of:

	Plant and machinery £bn	Transport equipment £bn	IT hardware, software and equipment £bn	Furniture, fittings and other £bn	2012-13 Total £bn
Cost or valuation:					
At 1 April 2012 (restated)	46.7	22.7	12.1	17.7	99.2
Additions	2.4	0.4	0.9	0.7	4.4
Revaluations and impairments	0.2	0.1	0.3	(0.1)	0.5
Reclassifications	0.8	0.9	0.3	0.7	2.7
Disposals	(2.6)	(0.5)	(0.6)	(0.4)	(4.1)
At 31 March 2013	47.5	23.6	13.0	18.6	102.7
Restatements	(0.5)	-	(0.1)	0.4	(0.2)
At 31 March 2013 (Restated)	**47.0**	**23.6**	**12.9**	**19.0**	**102.5**
Depreciation:					
At 1 April 2012 (restated)	(28.9)	(11.2)	(7.0)	(2.9)	(50.0)
Additions	(3.8)	(1.2)	(1.4)	(0.4)	(6.8)
Revaluations and impairments	-	(0.1)	(0.1)	-	(0.2)
Reclassifications	0.9	-	-	0.2	1.1
Disposals	2.1	0.9	0.6	0.2	3.8
At 31 March 2013	(29.7)	(11.6)	(7.9)	(2.9)	(52.1)
Restatements	0.4	0.1	0.1	(0.3)	0.3
At 31 March 2013	**(29.3)**	**(11.5)**	**(7.8)**	**(3.2)**	**(51.8)**
Net Book Value at 31 March 2013 (Restated)	**17.7**	**12.1**	**5.1**	**15.8**	**50.7**

Note 13.3 Asset financing 2013-14

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2013-14 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	271.5	189.5	85.4	45.3	42.0	33.3	46.2	713.2
Finance leased	-	3.5	4.0	1.9	-	-	1.1	10.5
On balance sheet PFI	6.7	25.1	1.4	1.5	0.3	-	3.6	38.6
PFI reversionary interest	-	0.1	-	-	0.2	-	-	0.3
Net book value	**278.2**	**218.2**	**90.8**	**48.7**	**42.5**	**33.3**	**50.9**	**762.6**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2013-14 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.4	11.2	3.7	15.9	46.2
Finance leased	0.7	0.2	0.2	-	1.1
On balance sheet PFI	1.2	1.0	1.4	-	3.6
Net book value	**17.3**	**12.4**	**5.3**	**15.9**	**50.9**

Note 13.4 Asset financing 2012-13

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2012-13 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Owned	266.9	183.0	82.5	46.2	39.1	35.7	46.1	699.5
Finance leased	-	3.4	3.5	2.0	-	-	1.4	10.3
On balance sheet PFI	6.6	24.6	1.3	1.3	0.1	-	3.1	37.0
PFI reversionary interest	-	0.2	-	-	0.1	-	-	0.3
Net book value	**273.5**	**211.2**	**87.3**	**49.5**	**39.3**	**35.7**	**50.6**	**747.1**
Net book value restated	**273.4**	**213.0**	**87.2**	**47.8**	**39.0**	**35.7**	**50.7**	**746.8**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2012-13 Total
	£bn	£bn	£bn	£bn	£bn
Owned	15.7	11.2	3.5	15.7	46.1
Finance leased	1.0	0.3	0.1	-	1.4
On balance sheet PFI	1.1	0.5	1.5	-	3.1
Net book value	**17.8**	**12.0**	**5.1**	**15.7**	**50.6**
Net book value restated	**17.7**	**12.2**	**5.1**	**15.7**	**50.7**

Note 13.5 Impairments 2013-14

	Infrastructure assets	Buildings	Dwellings	Land	Assets under construction	Military equipment	Other	2013-14 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	0.4	(2.4)	0.2	(0.1)	(0.4)	(0.9)	(0.6)	(3.8)
Net impairment costs transferred to Revaluation Reserve	-	(0.4)	-	(0.1)	-	-	-	(0.5)
Total	**0.4**	**(2.8)**	**0.2**	**(0.2)**	**(0.4)**	**(0.9)**	**(0.6)**	**(4.3)**

'Other' consists of:

	Plant and machinery	Transport equipment	IT hardware, software and equipment	Furniture, fittings and other assets	2013-14 Total
	£bn	£bn	£bn	£bn	£bn
Net impairment costs transferred to SoRE	(0.2)	(0.1)	(0.1)	(0.2)	(0.6)
Net impairment costs transferred to Revaluation Reserve	-	-	-	-	-
Total	**(0.2)**	**(0.1)**	**(0.1)**	**(0.2)**	**(0.6)**

Note 14. Investment properties

	2013-14 £bn	2012-13 £bn
As at 1 April	**12.4**	**12.6**
Additions	0.7	1.6
Revaluations and impairments	0.4	(0.6)
Disposals	(0.5)	(1.1)
As at 31 March		**12.5**
Restatements		(0.1)
Total investment properties (restated)	**13.0**	**12.4**

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

Note 15. Intangible assets

Note 15.1 Intangible assets 2013-14

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	2013-14 Total £bn
Cost or valuation:							
At 1 April 2013	30.7	10.2	9.1	6.2	0.7	0.7	57.6
Additions	1.3	0.5	1.1	0.2	0.1	-	3.2
Revaluations and impairments	(2.0)	(0.4)	0.1	-	0.1	-	(2.2)
Reclassifications	(0.3)	0.1	-	0.8	-	-	0.6
Disposals	(0.4)	(0.1)	(0.6)	(0.2)	(0.1)	(0.6)	(2.0)
At 31 March 2014	**29.3**	**10.3**	**9.7**	**7.0**	**0.8**	**0.1**	**57.2**
Amortisation:							
At 1 April 2013	(9.0)	(3.7)	(5.7)	(3.7)	(0.5)	(0.4)	(23.0)
Charged in year	(1.4)	(0.6)	(0.9)	(0.8)	(0.1)	-	(3.8)
Revaluations and impairments	0.1	0.2	(0.1)	-	-	-	0.2
Reclassifications	0.1	(0.1)	-	(0.1)	(0.1)	-	(0.2)
Disposals	0.3	0.1	0.4	0.2	0.1	0.4	1.5
At 31 March 2014	**(9.9)**	**(4.1)**	**(6.3)**	**(4.4)**	**(0.6)**	**-**	**(25.3)**
Net book value at 31 March 2014	**19.4**	**6.2**	**3.4**	**2.6**	**0.2**	**0.1**	**31.9**

Military equipment primarily covers the development of new equipment and the improvement of the effectiveness and capability of existing military equipment by the Ministry of Defence. It included ongoing development costs for the Typhoon Airframe (net book value: £6.7 billion (2012-13: £6.9 billion)) and the Type 45 Destroyer (£1.8 billion (2012-13: £1.9 billion)).

Development expenditure is capitalised as an intangible asset in accordance with the accounting policy on research and development as described in Note 1.12.4. The Ministry of Defence made up a large majority of development expenditure (net book value: £5.5 billion (2012-13: £5.8 billion)). This consisted of development costs on equipment not restricted to military use, such as expenditure on the Merlin helicopter (£2.0 billion (2012-13: £2.1 billion)).

Note 15.2 Intangible assets 2012-13

	Military equipment £bn	Development expenditure £bn	Software licences £bn	Internally developed software £bn	Licences, trademarks and patents £bn	Goodwill £bn	2012-13 restated Total £bn
Cost or valuation:							
At 1 April 2012	30.1	10.4	8.1	5.1	0.9	0.8	55.4
Additions	1.0	0.5	0.9	0.1	0.1	-	2.6
Revaluations and impairments	0.3	-	0.1	-	-	-	0.4
Reclassifications	0.6	(0.4)	0.5	0.2	-	-	0.9
Disposals	(1.3)	(0.3)	0.1	(0.1)	(0.2)	(0.1)	(1.9)
At 31 March 2013	30.7	10.2	9.7	5.3	0.8	0.7	57.4
Restatements	-	-	(0.7)	0.9	(0.1)	-	0.1
At 31 March 2013 (restated)	**30.7**	**10.2**	**9.0**	**6.2**	**0.7**	**0.7**	**57.5**
					-		
Amortisation:							
At 1 April 2012	(7.8)	(4.2)	(4.5)	(2.8)	(0.5)	(0.4)	(20.2)
Charged in year	(1.4)	(0.5)	(1.2)	(0.5)	(0.1)	-	(3.7)
Revaluations and impairments	(0.1)	(0.1)	(0.2)	-	-	-	(0.4)
Reclassifications	(0.8)	0.8	-	-	-	-	-
Disposals	1.0	0.3	(0.1)	0.1	0.1	-	1.4
At 31 March 2013	**(9.1)**	**(3.7)**	**(6.0)**	**(3.2)**	**(0.5)**	**(0.4)**	**(22.9)**
Restatement	0.1	-	0.4	(0.6)	-	-	(0.1)
At 31 March 2013 (restated)	**(9.0)**	**(3.7)**	**(5.6)**	**(3.8)**	**(0.5)**	**(0.4)**	**(23.0)**
Net book value at 31 March 2013	**21.7**	**6.5**	**3.4**	**2.4**	**0.2**	**0.3**	**34.5**

Note 16. Trade and other receivables

	2013-14 £bn	2012-13 £bn
Amounts falling due within one year:		
Accrued tax revenue	89.3	82.4
Taxation and duties due	25.8	22.6
Trade receivables	7.9	8.5
Other receivables	14.4	12.4
Prepayments and other accrued revenue	9.7	9.9
PFI prepayments	0.1	0.1
Sub-total	**147.2**	**135.9**
Provision for irrecoverable debts	(16.2)	(14.2)
Total current trade and other receivables		**121.7**
Restatements		0.6
Total current trade and other receivables	**131.0**	**122.3**
Amounts falling due after more than one year:		
Taxation and duties due	4.8	3.6
Trade receivables	1.0	0.8
Other receivables	15.4	14.1
Prepayments and accrued revenue	0.9	0.7
PFI prepayments	0.3	0.3
Sub-total	**22.4**	**19.5**
Provision for irrecoverable debts	(4.3)	(3.9)
Non-current trade and other receivables		**15.6**
Restatements		1.0
Non-current trade and other receivables (restated)	**18.1**	**16.6**
Total trade and other receivables at 31 March	**149.1**	**138.9**

Provision for irrecoverable debts

	Current £bn	Non-current £bn	Total £bn
Balance at 1 April 2012	**(13.6)**	**(3.5)**	**(17.1)**
Net increase in provision	(0.6)	(0.4)	(1.0)
Balance at 31 March 2013	**(14.2)**	**(3.9)**	**(18.1)**
Restatements	(0.5)	(0.1)	(0.6)
Balance at 1 April 2013	**(14.7)**	**(4.0)**	**(18.7)**
Net increase in provision	(1.5)	(0.3)	(1.8)
Balance at 31 March 2014	**(16.2)**	**(4.3)**	**(20.5)**

Accrued tax revenue comprised accrued Income Tax of £31.4 billion (2012-13: £26.8 billion), VAT of £28.1 billion (2012-13: £25.9 billon), Corporation Tax of £11.4 billion (2012-13: £11.3 billion), National Insurance contributions of £11.1 billion (2012-13: £11.4 billion) and other taxes, duties and levies of £7.3 billion (2012-13: £7.0 billion). These have been estimated by HMRC using statistical modelling, as described in Note 1.11.1. Due to the cycle of tax calculations, these amounts were not due to be notified to the taxpayer until 2014-15 or later. Taxation and duties due comprise amounts due from taxpayers where the liability has been established but payment has not yet been received.

Prepayments and other accrued revenue largely comprised balances held by central government departments.

The largest components within provisions for irrecoverable debt were estimates made to reflect the risk of non-payment of tax of £10.6 billion (2012-13 restated: £9.9 billion); £1.6 billion (2012-13: £1.7 billion) in relation to welfare payments; £1.7 billion for outstanding court fines (2012-13: £1.7 billion) and £4.8 billion (2012-13: £4.3 billion) reflected in local government accounts.

Note 17. Equity investments in the public sector banks

The government had investments in the Royal Bank of Scotland Group Plc and Lloyds Banking Group Plc. UK Asset Resolution Ltd (UKAR) which is the holding company for Bradford & Bingley plc and NRAM Plc is fully consolidated within Whole of Government Accounts. This means that instead of showing UKAR as an equity investment, their assets and liabilities are included in the account.

The remaining equity investments in public sector banks are now included in note 21.

As a consequence of these equity holdings and, where relevant, the related financial interventions, there were a number of related transactions with public sector banks. These included: loans to banks, guarantees and contingent liabilities (see Notes 21, 31 and 32). The overall relationship with each bank, key events in 2013-14, and their financial results in summary can be found in Note 36.

Note 18. Assets held for sale

	Property, plant & equipment £bn	Other non-financial assets £bn	2013-14 Total £bn	2012-13 Total £bn
Value at 1 April	**1.6**	**-**	**1.6**	**2.1**
Reclassifications	1.1	-	1.1	1.1
Disposals	(0.9)	-	(0.9)	(1.2)
Impairments	(0.1)	-	(0.1)	(0.2)
Revaluations	-	-	-	(0.2)
Balance at 31 March	**1.7**	**-**	**1.7**	**1.6**

The majority of assets held for sale comprised land and buildings. Of the £1.7 billion (2012-13: £1.6 billion) total balance, local authorities held £1.1 billion (2012-13: £1.0 billion) of assets and health bodies held about £0.2 billion (2012-13: £0.2 billion).

Note 19. Inventories

Note 19.1 Inventories 2013-14

	Raw materials and consumables £bn	Land, buildings and other work in progress £bn	Goods for resale and finished goods £bn	Land and buildings for resale and finished land and buildings £bn	2013-14 Total £bn
As at 1 April 2013	**8.7**	**0.8**	**1.3**	**1.3**	**12.1**
Additions	8.3	1.8	1.8	0.3	12.2
Disposals	(8.3)	(0.7)	(2.9)	(0.1)	(12.0)
Write-offs	(0.6)	(0.1)	-	-	(0.7)
Revaluation	0.2	-	-	0.1	0.3
Reclassification	0.5	(1.1)	0.7	-	0.1
As at 31 March 2014	**8.8**	**0.7**	**0.9**	**1.6**	**12.0**

Note 19.2 Inventories 2012-13

	Raw materials and consumables £bn	Land, buildings and other work in progress £bn	Goods for resale and finished goods £bn	Land and buildings for resale and finished land and buildings £bn	2012-13 Total £bn
As at 1 April 2012	**8.4**	**0.4**	**1.3**	**1.3**	**11.4**
Additions	4.3	1.8	5.7	0.1	11.9
Disposals	(4.0)	(0.8)	(6.8)	(0.2)	(11.8)
Write-offs	(0.2)	-	-	-	(0.2)
Revaluation	0.2	-	-	-	0.2
Reclassification	-	(0.5)	1.2	-	0.7
As at 31 March 2013	**8.7**	**0.9**	**1.4**	**1.2**	**12.2**
Restatements	-	(0.1)	(0.1)	0.1	(0.1)
As at 31 March 2013 (restated)	**8.7**	**0.8**	**1.3**	**1.3**	**12.1**

Raw materials and consumables

Included in the raw materials and consumables balance was an amount of £7.3 billion (2012-13: £7.6 billion) held for defence purposes. This covered a wide range of material and equipment such as munitions with a limited life. The remaining balances were held by central government entities (£1.1 billion (2012-13: £0.8 billion)), entities within local government (£0.3 billion (2012-13: £0.3 billion)), and public corporations (£0.1 billion (2012-13: £0.1 billion)).

Land, buildings and other work in progress

The balance of £0.7 billion (2012-13 restated: £0.8 billion) was held across a number of central government entities, local government and public corporations.

Goods for resale and finished goods

Goods for resale and finished goods also included £0.7 billion (2012-13: £0.7 billion) held by the BBC and Channel Four, primarily for completed programmes and rights to broadcast acquired programmes and films. The remaining balances were held by a number of entities in central government, and public corporations and local government £0.2 billion (2012-13: £0.6 billion).

Land and buildings for resale and finished land and buildings

This included £0.8 billion (2012-13: £0.7 billion) of land and buildings held by the Department for Communities and Local Government (DCLG). The Department for Transport held buildings for sale of £0.2 billion (2012-13: £0.1 billion) relating to property purchases in relation to the High Speed 2 (HS2) development.

Note 20. Cash and cash equivalents

	2013-14 £bn	2012-13 Restated £bn
Balance at 1 April	**24.5**	**21.2**
Net change in cash and cash equivalent balances	1.0	3.3
Balance at 31 March	**25.5**	**24.5**
The following balances at 31 March were held at:		
Cash at bank	12.2	7.7
Short term deposits	13.3	12.1
Balance at 31 March	**25.5**	**19.8**
Restatements		4.7
Balance at 31 March (restated)	**25.5**	**24.5**

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

Note 21. Other financial assets

Note 21.1 Other financial assets 2013-14

Other financial assets include the following:

Other financial assets	2013-14 £bn	2012-13 (Restated) £bn
Current		
Loans and deposits	74.8	57.3
Debt securities	39.7	40.3
Equity investments	0.6	1.0
IMF Special Drawing rights	9.0	9.5
Other	9.8	7.5
Student loans	2.3	2.0
Total current other financial assets	**136.2**	**117.6**
Non-Current		
Loans and deposits	73.0	78.4
Equity investments (including public sector banks)	66.0	64.1
IMF Quota Subscription	10.0	10.6
Other	11.9	11.5
Student loans	36.7	34.0
Total non-current trade other financial assets	**197.6**	**198.6**
Total other financial assets	**333.8**	**316.2**

Other financial assets comprise the following types of financial instruments as at 31 March 2014:

	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through the SoRE £bn	Held for trading at fair value £bn	Total 2013-14 £bn
Current						
Loans and deposits	73.3	1.5	-	-	-	74.8
Debt securities	-	-	-	-	39.7	39.7
Student loans	2.3	-	-	-	-	2.3
IMF Special Drawing Rights	-	-	-	-	9.0	9.0
Equity investments	-	-	0.1	0.2	0.3	0.6
Other	0.3	0.1	0.5	0.4	8.5	9.8
Total current	**75.9**	**1.6**	**0.6**	**0.6**	**57.5**	**136.2**
Non-current					-	
Loans and deposits	72.9	0.1	-	-	-	73.0
Student Loans	36.7	-	-	-	-	36.7
IMF Quota subscription	10.0	-	-	-	-	10.0
Equity investments	-	-	61.3	4.6	0.1	66.0
Other	0.1	2.4	9.1	0.2	0.1	11.9
Total non-current	**119.7**	**2.5**	**70.4**	**4.8**	**0.2**	**197.6**
Total	**195.6**	**4.1**	**71.0**	**5.4**	**57.7**	**333.8**

Loans and deposits

Loans and deposits include £61.2 billion of mortgage loans made by UKAR, of which £59.3 billion are residential mortgages, £1.3 billion are unsecured loans and £0.6 billion are commercial loans. Further details are available in the 2013-14 accounts of HM Treasury.

£54.4 billion (2012-13 restated: £41.4 billion) of funds were advanced to banks (or bank subsidiaries) and central clearing counterparties under reverse repurchase agreements where securities were held as collateral and returned when the funds are repaid. Reverse sale and repurchase agreements were valued daily, and, depending on whether the value of the collateral rose or fell, collateral were returned to the provider of collateral, or additional securities requested from the provider of collateral. Further details are available in the 2013-14 accounts of the Exchange Equalisation Account, Debt Management Account, and Bank of England.

Loans and deposits with banks also included deposits made by local government to commercial institutions of £16.2 billion (2012-13: £15.6 billion).

It also includes financial assistance provided by the government as part of its financial stability interventions. This comprised a £3.2 billion bilateral loan to Ireland and £3.0 billion of loans and advances from HM Treasury to financial institutions. Further details are available in the 2013-14 accounts of HM Treasury.

Debt securities

£39.5 billion (2012-13: £37.0 billion) of debt securities issued by public bodies, primarily foreign governments, were held by the Exchange Equalisation Account (EEA). EEA investments need to be highly liquid in order to be available for use quickly, whilst minimising the costs of holding the reserves. Inevitably, these investments carry some element of credit risk. In order to reduce this risk and to ensure the necessary liquidity, the EEA predominantly holds securities issued or guaranteed by the national governments of the United States, Euro area countries and Japan. Further details are available in the 2013-14 accounts of the EEA.

Student loans

Student loans were valued at the gross value of the loans issued discounted to net present value and reduced by an estimate of the future cost of policy write offs. Further detail on the valuation of student loans is available in the 2013-14 accounts of BIS[23] and the devolved administrations.

IMF Special Drawing Rights

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

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

Equity investments

Lloyds was reclassified as a private sector bank in March 2014, as a result equity investments in Public Sector banks have been amalgamated with this note. The table below sets out the values included within equity investments in relation to Lloyds and RBS. Equity investments in UKAR have been removed due to the full consolidation of the entities assets and liabilities in 2013-14.

	2012-13 (restated) £bn	Additions/ disposals £bn	Fair value adjustments £bn	Impairments £bn	2013-14 £bn
Royal Bank of Scotland Group plc	26.5	-	3.2	-	29.7
Lloyds Banking Group plc	13.5	(4.8)	4.6	-	13.3
UK Asset Resolution Ltd	-	-	-	-	-
Total investment	**40.0**	**(4.8)**	**7.8**	**-**	**43.0**

During 2013-14, 9.8 billion shares in Lloyds were sold generating sales revenue of £7.4 billion. The sale of the shares generated an accounting gain of £4.1 billion since the cost of the shares when sold (75 pence in September 2013 and 75.5 pence in March 2014) exceeded the value of the shares last measured at the previous financial year end (48.7 pence as at 31 March 2013). However, when taking into account the cumulated impairment losses of £11.2 billion since October 2008 when shares in Lloyds were first bought, a cash loss of £7.1 billion was realised. For more information please see HM Treasury's accounts.

Shares in Royal Bank of Scotland Group plc and Lloyds Banking Group plc have been revalued based on the closing share price at 31 March 2014. Fair value and impairment calculations were completed separately for each tranche of shares purchased to reflect the different acquisition costs over time.

Other equity investments included investments in the European Investment Bank of £7.7 billion (2012-13: £7.5 billion), and investments in international financial institutions held by the Department for International Development of £3.3 billion (2012-13: £3.3 billion).

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

Other

Other investments included the Bank of England's holdings of foreign government securities, foreign currency securities and equity investments of £3.9 billion (2012-13: £3.6 billion). Further details regarding these securities are available in the 2013-14 accounts of the Bank[24].

Other investments included securities held for trading by the Debt Management Office of £4.0 billion (2012-13: £1.1 billion) as part of its lending and borrowing cash management operations. Further details are available in the 2013-14 accounts of the Debt Management Office[25].

Note 21.2 Other financial assets 2012-13

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

	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through the SoRE £bn	Held for trading at fair value £bn	2012-13 £bn	2012-13 restated £bn
Current							
Loans and deposits	55.0	1.3	-	-	-	56.3	57.3
Debt securities	-	-	-	-	40.3	40.3	40.3
Student loans	2.0	-	-	-	-	2.0	2.0
IMF Special Drawing Rights	-	-	-	-	9.5	9.5	9.5
Equity investments	-	-	0.4	0.2	0.4	1.0	1.0
Other			0.8	0.3	6.1	7.2	7.5
Total current	**57.0**	**1.3**	**1.2**	**0.5**	**56.3**	**116.3**	**117.6**
Non-current							
Loans and deposits	54.7	0.1	-	-	-	54.8	78.4
Student loans	34.0	-	-	-	-	34.0	34.0
IMF quota subscription	10.6	-	-	-	-	10.6	10.6
Equity investments	-	-	63.6	3.0	0.2	66.8	64.1
Other	0.3	-	4.8	0.7		5.8	11.5
Total non-current	**99.6**	**0.1**	**68.4**	**3.7**	**0.2**	**172.0**	**198.6**
Total	**156.6**	**1.4**	**69.6**	**4.2**	**56.5**	**288.3**	**316.2**

[24] http://www.bankofengland.co.uk/Pages/home.aspx
[25] http://www.dmo.gov.uk/

Note 22. Trade and other payables

	2013-14 £bn	2012-13 restated £bn
Amounts falling due within one year:		
Accruals and deferred income	38.9	34.9
Refunds of taxation and duties payable	24.8	23.2
Trade payables	14.0	16.2
Other payables	22.6	21.1
Imputed finance lease element of on-balance sheet PFI contracts	1.4	1.3
Obligations under finance leases and hire purchase contracts	0.3	0.4
Current trade and other payables		**97.1**
Restatements		1.2
Current trade and other payables (restated)	**102.0**	**98.3**
Amounts falling due after more than one year:		
Imputed finance lease element of on-balance sheet PFI contracts	36.4	35.3
Trade payables	0.9	0.6
Other payables	9.3	10.0
Obligations under finance leases and hire purchase contracts	4.7	5.1
Accruals and deferred income	5.4	3.8
Non-current trade and other payables		**54.8**
Restatements		0.4
Non-current trade and other payables (restated)	**56.7**	**55.2**
Total trade and other payables at 31 March (restated)	**158.7**	**153.5**

Trade and other payables were held across a wide range of public sector entities and primarily relate to day-to-day business delivery costs. The two most significant payables were £7.6 billion (2012-13: £7.3 billion) being the UK's liability to the IMF and £4.2 billion (2012-13: £4.2 billion) financing of the construction of High Speed 1 (formerly the Channel Tunnel Rail Link). Further details are available in the 2013-14 accounts of the National Loans Fund[26] and the Department for Transport respectively[27].

[26] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/345780/10460-001_National_Loans_Fund_Account.for_web.pdf
[27] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324031/dft-annual-report-2014-web.pdf

Note 23. Government financing and borrowing

	2013-14 £bn	2012-13 £bn
Amounts falling due within 1 year:		
Gilt-edged securities	49.7	51.8
National Savings and Investment products	105.7	102.0
Treasury bills	57.0	60.5
	212.4	**214.3**
Amounts falling due after more than 1 year:		
Gilt-edged securities	883.7	781.8
National Savings and Investment products	-	0.1
	883.7	**781.9**
Total at 31 March 2014	**1,096.1**	**996.2**

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

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Prices Index. As the government's debt manager, the Debt Management Office (DMO) sells gilts to the market to ensure sufficient funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, with the exception of gilts held by funded public sector pension schemes. Further details regarding gilts are available in the 2013-14 Debt and Reserves Management Report and the 2013-14 accounts of the National Loans Fund.

NS&I products are a range of secure savings and investments (primarily bonds) offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. Further details of these products, and NS&I's 2013-14 accounts, can be found on the NS&I website[28].

Treasury bills are issued by the DMO and, along with other money market operations, are used to meet the government's daily cash requirements. Further details on these operations can be found in the 2013-14 Debt and Reserves Management Report.

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

Note 24. Provisions for liabilities and charges

	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total restated £bn
At 1 April 2012	**63.8**	**19.4**	**29.8**	**113.0**
Provisions arising during the year	8.0	7.1	17.9	33.0
Provisions utilised during the year	(2.4)	(1.5)	(8.8)	(12.7)
Borrowing costs	1.4	1.4	0.8	3.6
Provisions not required written back	(1.0)	(2.7)	(2.1)	(5.8)
Transfers in-year	-	0.3	(0.7)	(0.4)
At 31 March 2013	**69.8**	**24.0**	**36.9**	**130.7**
Restatements	0.1	(0.4)	0.6	0.3
At 1 April 2013 (restated)	**69.9**	**23.6**	**37.5**	**131.0**
Provisions arising during the year	9.8	5.5	10.2	25.5
Provisions utilised during the year	(2.7)	(1.3)	(5.7)	(9.7)
Borrowing costs	1.0	(0.2)	0.4	1.2
Provisions not required written back	(0.6)	(1.0)	(4.4)	(6.0)
Transfers in-year	-	-	(0.2)	(0.2)
At 31 March 2014	**77.4**	**26.6**	**37.8**	**141.8**

Expected timing of discounted cash flows:	Nuclear decommissioning £bn	Clinical negligence £bn	Other types of provision £bn	Total £bn
Within 1 year	2.6	1.2	9.2	13.0
Between 1 and 5 years	13.8	9.1	18.4	41.3
Thereafter	61.0	16.3	10.2	87.5
Total future payments	**77.4**	**26.6**	**37.8**	**141.8**
Current provisions	2.6	1.2	9.2	13.0
Non-current provisions	74.8	25.4	28.6	128.8

Provision for nuclear decommissioning

The majority of this provision is recognised by the Nuclear Decommissioning Authority. The provision represents the best estimate of the cost of decommissioning the plant and equipment on each designated nuclear licensed site and returning the sites to pre-agreed end states in accordance with its published strategy and objectives. This programme of work will take until 2137 to complete. The estimates are based on assumptions of the processes and methods needed to discharge its obligations, and reflects the latest technical knowledge available. The government's obligations are reviewed on a continual basis and provisions are updated accordingly. The provision and recoverable balances were expressed at current price levels and discounted to take account of the time value of money for the very long timescales over which work will be carried out. Certain expenditure required to discharge nuclear provisions was recoverable from third parties under commercial agreements. Provision charges in the Statement of Revenue and Expenditure are shown net of changes in the amount recoverable from third parties. The amount recoverable at 31 March 2014 was £5.9 billion (2012-13: £5.7 billion).

The decommissioning provision has increased by £5.1 billion as a result of increased costs at the Sellafield site. The ongoing comprehensive review of the life time plan for Sellafield has resulted in a substantial increase in costs, partly as a result of extending the timescales, and partly because some efficiencies in previous plans will no longer be realised. It is likely that the provision will increase significantly as NDA completes their scrutiny of the plan and better understands the range of uncertainties within it. It is also clear that it may take several iterations of the plan before this level of uncertainty can be reduced to a level where cost estimates become more stable.

The provision for nuclear decommissioning was subject to an emphasis of matter on uncertainties inherent in the provisions relating to the costs of dealing with nuclear decommissioning and coal liabilities in the Audit Opinion of the Comptroller & Auditor General. Further details are available in the 2013-14 accounts of the Nuclear Decommissioning Authority.

A further £1.8 billion increase in the provision can be attributed to the Nuclear Liabilities Fund, which covers British Energy's decommissioning liabilities. Although now owned by EDF Energy the government have underwritten the liabilities to the extent that the assets of the Fund fall short. The increase in provision was a one-off charge to reflect a review carried out by EDF which increased the provision to £7.2 billion (2013: £5.4 billion).

Provision for clinical negligence

These financial statements included provisions made for future costs where health service entities were the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence. Clinical negligence claims which may succeed, but which are less likely or cannot be reliably estimated, were accounted for as contingent liabilities and disclosed in Note 31.

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

In 2013-14, the Department for Health reported that the value of known provisions increased by £3.0 billion since 2012-13. The number of new claims is an unprecedented 11,945, with more than 1,000 claims per month received for six months of the year. The significant increase in claims coincided with the Legal Aid, Sentencing and Punishment of Offenders Act (LAPSO) coming into place. This legislation reformed the funding arrangements for civil litigation, and will stop claimant lawyers charging 100% success fees on their costs. As a result, the vast majority of claims reported throughout the year have been conducted under the pre-LASPO arrangements, but the longer term impact of the changes should see legal costs reducing over time.

Other provisions

Other provisions included £4.2 billion (2012-13: £3.9 billion) relating to the Financial Assistance Scheme (FAS). FAS was announced in 2004 to provide assistance to members of defined benefit occupational pension schemes that wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005, before the introduction of the Pension Protection Fund. Since 2004, the scope of the scheme and the levels of assistance have been expanded through additional legislation. Details are available in the 2013-14 accounts of the Department for Work and Pensions.

Other provisions also included a £3.1 billion provision in respect of the tax costs of oil and gas field decommissioning against Her Majesty's Revenue and Customs. These costs have been planned over a 5 year period so that industry estimates of costs are assumed to be the best available. This five year period corresponds with Budget 2014 forecasts of revenue as produced by the Office of Budget Responsibility. The total costs of decommissioning for this period are estimated to be £6.9 billion at today's prices. The impact on tax receipts is estimated to be a cost to the Exchequer of £3.1 billion (split between Petroleum Revenue Tax at £0.5 billion (2012-13: £1.2 billion) and Corporation Tax at £2.6 billion (2012-

13: £2.6 billion)) and since this estimate is seen as relatively reliable, a provision for this amount has been included. The provision estimate is 20% lower than was provided in the 2012-13 accounts. This is due to lower estimates of tax relief that companies are able to realise on their decommissioning costs. There is considerable uncertainty in the amount and timings of decommissioning costs beyond 2018. The main areas of uncertainty are future costs, timing, and future changes to fiscal regimes. For these reasons it is not possible to provide a reliable estimate of the tax costs of decommissioning beyond 2018-19.

A provision of £0.5 billion (2012-13: £1 billion), relates to fee paid judicial office holders who have claimed retrospective pension rights. On 6 February 2013 the UK Supreme Court ruled that a fee paid judicial office holder is entitled to a pension on terms equivalent to those applicable to a salaried circuit judge. The matter was referred back to the Employment Tribunal for remedy. In August 2013 the Employment Tribunal ruled that the claimant should receive pension benefits from his date of appointment. This was overturned by the Employment Appeal Tribunal (4 March 2014) and the current ruling is that pension rights are due from 7 April 2000 when the Part Time Workers Regulations 2000 should have been transposed.

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

Note 25. Other financial liabilities

Note 25.1 Other financial liabilities 2013-14

Other financial liabilities include the following:

	2013-14 £bn	2012-13 (Restated) £bn
Current		
Deposits by banks	355.1	334.2
Banknotes issued in circulation	60.2	58.0
IMF Special Drawing Rights allocation	9.4	10.0
Bank and other borrowings	3.5	5.6
Debt securities	0.4	0.5
Other	1.0	0.1
Total current	**429.6**	**408.4**
Non-current		
Bank and other borrowings	27.2	29.8
Debt securities	25.5	26.3
Financial guarantees	4.0	4.2
Other	4.3	4.1
Total non-current	**61.0**	**64.4**
Total	**490.6**	**472.8**

Other financial liabilities comprise the following types of financial instruments as at 31 March 2014:

	Carried at amortised cost £bn	Designated at fair value £bn	Held for trading at fair value £bn	2013-14 Total £bn
Current				
Deposits by banks	335.4	13.0	6.7	355.1
Banknotes issued in circulation	60.2	-	-	60.2
IMF SDR allocation	-	-	9.4	9.4
Bank and other borrowings	3.5	-	-	3.5
Debt securities	0.4	-	-	0.4
Other	-	-	1.0	1.0
Total current	**399.5**	**13.0**	**17.1**	**429.6**
Non-current				
Bank and other borrowings	27.2	-	-	27.2
Debt securities	25.5	-	-	25.5
Financial guarantees	4.0	-	-	4.0
Other	1.5	2.4	0.4	4.3
Total non-current	**58.2**	**2.4**	**0.4**	**61.0**
Total	**457.7**	**15.4**	**17.5**	**490.6**

Deposits by banks

Deposits by banks and other financial institutions included £318.7 billion (2012-13: £297.1 billion) held by the Bank of England and other deposits repayable on demand of £3.0 billion (2012-13: £25.3 billion). The increase since 2009 reflects the fact that the Bank of England Asset Purchase Facility Fund purchased gilts from financial institutions totalling £375 billion as at March 2014 as part of the Bank of England's policy of quantitative easing.

Deposits by banks included sales and repurchase agreements, where an entity sells securities and receives a deposit, with the understanding that it will buy the securities back at a specified time and price. The largest balance was made up of deposits by banks under sales and repurchase agreements of £12.8 billion (2012-13: £13.3 billion) entered into by the Debt Management Office (DMO) as part of its cash management operations, reflecting the government's daily cash flows. During 2013-14, the DMO continued to hold large asset and liability balances, as it sought to manage historically large aggregate Exchequer borrowing requirements.

Deposits by banks also included sale and repurchase agreements of £3.7 billion (2012-13: £4.2 billion) entered into by the Exchange Equalisation Account (EEA) to preserve the liquidity and security of the foreign currency reserves and to ensure that the government maintains its capability to intervene in the foreign exchange market if required, while also minimising the overall cost of holding the foreign currency reserves and ensuring exposure to financial risk is limited. Further details are available in the 2013-14 accounts of the DMO and the EEA.

Banknotes issued in circulation

Banknotes are issued by the Bank of England Issue Department. The Bank of England is responsible for maintaining confidence in the currency, by meeting demand with good-quality banknotes that the public can readily exchange. The average value of notes in circulation over the year ended 28 February 2014 was £60.2 billion (2012-13: £58.0 billion). Further details are in the 2013-14 accounts of the Bank of England.

Bank and other borrowings

Bank and other borrowings included balances held by entities across central and local government. It included £1.1 billion (2012-13: £1.5 billion) of bank overdrafts held by local authorities. Local authorities have wide powers to borrow which are enshrined in statute. Their ability to borrow is controlled under a regulatory framework and through the application of the Prudential Code for Capital Finance in Local Authorities and the Code of Practice for Treasury Management in the Public Services. Both have been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

IMF Special Drawing Rights allocation

International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation comprised a liability to the IMF (£9.4 billion (2012-13: £10.0 billion)) for those SDRs that have been allocated to the UK when the country became a participant in the Special Drawing Rights Agreement and that have been allocated subsequently. The UK's SDR allocation was recognised as a liability and the resultant holding of SDRs by the UK was recognised as an asset. Further details are available in the 2013-14 accounts of the EEA.

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

Financial guarantees

The government's financial guarantees included those provided by the Department for Transport to Network Rail (£3.7 billion (2012-13: £3.7 billion)). Further guarantees have been issued by HM Treasury in relation to the National Loans Guarantee Scheme totalling £0.2 billion (2012-13: £0.2 billion) and BIS in support of Small Firms Loan Guarantee Scheme, Enterprise Finance Guarantee and Automotive Assistance Programme totalling £0.2 billion (2012-13: £0.2 billion).

Further details are available in the 2013-14 accounts of HM Treasury and BIS. These valuations are held in accordance with IAS 39 and IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' with the remaining value of the guarantees held as contingent liabilities and disclosed in Notes 31 and 32. As well as guarantees, the government provided indemnities as described in Notes 31 and 32.

Debt securities

Debt securities relate to UKAR and include securitised notes and covered bonds issued by Bradford & Bingley, and Northern Rock Asset Management. The issuance of debt securities are used to securitise loans to customers and to raise unsecured medium term funding. These have been reducing as UKAR buys back securities. Further details are in the 2013-14 accounts of HM Treasury.

Other

Other financial liabilities included £3.6 billion (2012-13: £4.0 billion) of foreign currency bonds issued by the Bank of England.

Note 25.2 Other financial liabilities 2012-13

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

	Carried at amortised cost	Designated at fair value	Held for trading at fair value	2012-13 Total	2012-13 Restated Total
	£bn	£bn	£bn	£bn	£bn
Current					
Deposits by banks	315.2	12.4	6.6	334.2	334.2
Banknotes in circulation	58.0	-	-	58.0	58.0
IMF SDR allocation	-	-	10.0	10.0	10.0
Bank and other borrowings	5.6	-	-	5.6	5.6
Debt securities	-	-	-	-	0.5
Financial guarantees	-	-	-	-	-
Other	-	0.3	0.8	1.1	0.1
Total current	**378.8**	**12.7**	**17.4**	**408.9**	**408.4**
Non-current					
Debt securities	-	-	-	-	29.8
Bank and other borrowings	26.3	-	-	26.3	26.3
Financial guarantees	4.5	-	0.2	4.7	4.2
Other	0.3	2.8	-	3.1	4.1
Total non-current	**31.1**	**2.8**	**0.2**	**34.1**	**64.4**
Total	**409.9**	**15.5**	**17.6**	**443.0**	**472.8**

Note 26. Net public sector pension liability

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

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

26.1 Pension scheme liability

Total net pension scheme liability at 31 March 2014

	Unfunded schemes £bn	Funded schemes £bn	2013-14 Total £bn	2012-13 Restated Total £bn
Gross liability	1,205.8	324.0	1,529.8	1,392.3
Gross assets	-	(227.9)	(227.9)	(220.4)
Net liability	**1,205.8**	**96.1**	**1,301.9**	**1,171.9**

Analysis of movement in the total net pension scheme liability

	Note	2013-14 Unfunded (gross) £bn	2013-14 Funded (net) £bn	2013-14 Total £bn	2012-13 Unfunded (gross) £bn	2012-13 Funded (net) £bn	2012-13 Restated Total £bn
Liability at 1 April		**1,070.0**	**101.9**	**1,171.9**	**917.7**	**88.1**	**1,005.8**
Current service costs	*26.5*	31.9	8.6	40.5	28.2	6.9	35.1
Past service costs	*26.5*	0.2	(1.1)	(0.9)	0.2	0.1	0.3
Settlements/curtailments	*26.5*	-	(0.6)	(0.6)	-	(0.2)	(0.2)
Net financing costs	*26.5*	44.2	4.9	49.1	45.7	2.2	47.9
Contribution by scheme participants		(0.1)	(7.9)	(8.0)	0.6	(7.8)	(7.2)
Actuarial loss/(gain)	*26.6*	95.2	(11.7)	83.5	84.1	13.3	97.4
Benefits paid		(35.9)	(0.1)	(36.0)	(34.5)	-	(34.5)
Transfers in/(out)		0.3	2.1	2.4	30.3	(3.3)	27.0
Liability at 31 March					**1,072.3**	**99.3**	**1,171.6**
Restatement					(2.3)	2.6	0.3
Liability at 31 March (restated)		**1,205.8**	**96.1**	**1,301.9**	**1,070.0**	**101.9**	**1,171.9**

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

Current service costs were the increase in the present value of the scheme liabilities arising from current members' service in the current period. They were determined by the individual scheme actuaries and were calculated using the discount rate at the start of the year, i.e. as at 31 March 2013. The rate decreased from 2.8% as at 31 March 2012 to 2.4% as at 31 March 2013, resulting in an increase in costs compared to the previous year. Increases in contribution rates payable by employees in public sector pension schemes also lead to an increase in current service costs.

Past service costs were changes in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change, or improvement to retirement benefits. The reform of the Royal Mail Pension Plan was a plan amendment meeting the definition of a past service cost, resulting in a one-off, non-cash, specific adjustment of £1.4 billion.

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

Actuarial gains and losses reflect changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities. This includes changes in the assumptions used to calculate the pension liability such as financial assumptions, market expectations, mortality rates and projected salary increases. Further detail is set out in Note 26.6 below. There was an actuarial loss of £83.5 billion in 2013-14 (2012-13: loss of £97.4 billion).

Note 1.22.4 sets out the key assumptions in determining the pension liability.

26.2 Unfunded schemes

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

Public sector pension schemes carry out full actuarial valuations periodically. Between full valuations, annual updates are made to the liabilities to reflect current conditions. Previous actuarial valuations set contribution rates 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. The latest actuarial valuations were carried out as at 31 March 2012 to determine employer contribution rates payable from 2015-16.

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

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

26.3 Funded schemes

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

The Local Government Pensions Scheme (LGPS) was the largest funded scheme. The LGPS (England and Wales) consisted of 81 separately administered funds, with the LGPS (Scotland) having a further 11 funds. Under the LGPS regulations each fund is subject to an independent actuarial valuation every three years. The individual local authority employers that contributed to these funds recognised their proportion of the scheme liabilities in their statement of accounts. The local government funded schemes balance disclosed in Note 26.4 below included the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

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

Analysis of movement in the funded pension schemes' gross obligations

	Note	**2013-14** **£bn**
Gross liability at 1 April		**322.3**
Current service costs	*26.1*	8.6
Past service costs	*26.1*	(1.1)
Interest on scheme liabilities	*26.1*	14.4
Contribution by scheme participants		2.3
Actuarial (gains)/losses		(10.0)
Benefits paid		(10.2)
Settlements/curtailments		(1.1)
Transfers in/out		(1.2)
Gross liability at 31 March		**324.0**

Analysis of movement in the funded pension schemes' gross assets

	Note	**2013-14** **£bn**
Gross assets at 1 April		**(220.4)**
Expected rate of return on scheme assets		(9.5)
Actuarial gains and losses	*26.6*	(1.7)
Contributions by employers and scheme participants		(10.2)
Benefits paid		10.1
Assets distributed on settlements	*26.5*	0.5
Transfers in/out		3.3
Gross assets at 31 March		**(227.9)**

Of the 618 (2012-13: 624) bodies that participated in funded schemes, 14 (2012-13: 7) have reported a net pension asset, which collectively amounted to £0.9 billion (2012-13: £1.9 billion). The funded pension schemes held a range of assets including gilts as part of their investment portfolio. Gilts held by these pension schemes have not been eliminated during the consolidation process outlined in Note 1.5.

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

Analysis of funded pension scheme assets

Due to changes in IAS 19, bodies are no longer required to disclose their expected long-term rates of return. Where actuaries have calculated a rate of return or where a rate has been disclosed, it is included in the analysis below.

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

	2013-14 Value £bn	2012-13 Value £bn	2013-14 Expected rate of return %	2012-13 Expected rate of return %
Equities	119.6	117.9	2.6 - 8.0	4.5 - 8.4
Bonds	27.1	29.0	2.2 - 8.4	2.1 - 7.9
Other	34.2	25.4	0.5 - 8.9	0.5 - 9.0
Total market value	**180.9**	**172.3**		

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

	2013-14 Value £bn	2012-13 Value £bn	2013-14 Expected rate of return %	2012-13 Expected rate of return %
Equities	20.2	19.6	4.0 - 7.8	4.2 - 8.0
Bonds	15.3	16.0	3.2 - 6.3	2.3 - 6.7
Other	11.5	10.5	0.5 - 7.6	0.5 - 8.9
Total market value	**47.0**	**46.1**		

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

26.4 Analysis of the pension liability by type of scheme

	2013-14 £bn	2012-13 Restated £bn	2013-14 Percentage of liability	2012-13 Percentage of liability
Unfunded schemes (gross)				
Teachers (UK)	288.1	258.5	22	22
NHS (UK)	391.6	325.1	30	28
Civil Service	193.2	176.5	15	15
Armed Forces	129.6	118.1	10	10
Police	123.0	118.0	9	10
Fire	25.5	22.9	2	2
Other unfunded	54.8	53.2	4	4
	1,205.8	**1,072.3**	**92**	**91**
Funded schemes (net)				
Local government	85.6	90.5	7	8
Other funded	10.5	8.8	1	1
	96.1	**99.3**	**8**	**9**
Restatements		0.3		
Total	**1,301.9**	**1,171.9**	**100%**	**100%**

The police and fire balances include the amounts reported by designated police and fire authorities, the Northern Ireland Police Pension Scheme, and the Northern Ireland Fire and Rescue Service. A number of local authorities that are not specifically police or fire authorities had staff in the Police and Fire Pension Schemes, and recognised their proportion of the scheme liabilities in their Statement of Financial Position. This is included in the other unfunded balance above and makes up £7.7 billion (2012-13 £10.4 billion) of this balance.

Other significant amounts included in other unfunded schemes also include amounts accounted for by the Royal Mail Statutory Pension Scheme at £36.8 billion (2012-13: £33.4 billion), the Department for Business, Innovation & Skills: UKAEA Pension Scheme at £6.2 billion (2012-13: £5.8 billion), and the Research Councils Pension Scheme at £3.9 billion (2012-13: £3.5 billion).

The other funded balance includes net pension liabilities for the Department for Education of £2.6 billion (2012-13: £2.1 billion), Department for Transport of £2.3 billion (2012-13: £2.3 billion), BBC of £1.5 billion (2012-13: £1.6 billion), the Ministry of Justice of £1.2 billion (2012-13: £1.3 billion), and the Department for Environment, Food and Rural Affairs of £1.2 billion (2012-13: £1.1 billion).

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

26.5 Amounts recognised in the Statement of Revenue and Expenditure

	2013-14 £bn	2012-13 £bn
Current service cost	40.5	35.1
Past service cost	(0.9)	0.3
Losses on settlements and curtailments	(0.6)	(0.2)
Net financing costs	49.1	47.9
Total recognised in the Statement of Revenue and Expenditure	**88.1**	**83.1**

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

	2013-14 £bn	2012-13 £bn
Actual return less expected return on scheme assets	(1.7)	(15.0)
Experience gains and losses arising on liabilities	62.7	54.9
Changes in assumptions underlying the value of liabilities	22.5	57.5
Actuarial loss/(gain) on pension liabilities	**83.5**	**97.4**

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

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

Changes in underlying assumptions are driven by a range of factors such as mortality rates and salary increases, and the discount rate for central government schemes which decreased from 2.4% in 2012-13 to 1.8% in 2013-14. As set out in the Financial Reporting Manual (FReM), and required by IAS 19, the discount rate for central government schemes is determined by those responsible for the management of the individual pension fund based on yields of high quality corporate bonds (in practice a AA corporate bond rate). HM Treasury advises funded schemes in central government of the discount rate to be used in valuing public sector pension liabilities. The Treasury's methodology is reviewed by the Government Actuary's Department for relevance and reasonableness.

Note 27. Capital commitments

Capital commitments comprise future commitments to capital expenditure that are contracted for but not provided for in the financial statements. Capital commitments for the acquisition of property, plant and equipment and intangible assets for which no provision has been made in these financial statements amounted to £34.6 billion (2012-13: £37.7 billion).

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

Entity	Description of contracted capital commitment	2013-14 Commitment £bn	2012-13 Commitment £bn
Ministry of Defence	Commitments in relation to property, plant and equipment were £11.7 billion (2012-13: £14.4 billion) and for intangible fixed assets £2.8 billion (2012-13: £2.3 billion).	14.5	16.7
Transport for London	Contracts placed for transport and infrastructure projects.	2.4	3.7
Entities within the National Health Service and the Department of Health Group	Core department commitments of £0.3 billion relate to modernising IT systems within the National Health Service (NHS). In addition capital commitments totalling £1.3 billion relate to Public Health England, NHS Trusts and NHS Foundation Trusts.	2.3	2.6
Department for Education	Commitments in relation to school projects.	1.2	0.7
Birmingham City Council	Various contracts for the construction or enhancements of property, plant, furniture and equipment.	1.1	1.0
Scottish Government	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	1.0	1.5
Welsh Government	Commitments in relation to network assets, buildings and local health boards.	0.9	0.4
Department for Transport	Commitments in relation to the purchase of property, plant and equipment and intangible assets.	0.6	0.5

Note 28. Commitments under leases

28.1 Operating leases

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

	Land £bn	Buildings £bn	Other leases £bn	2013-14 Total £bn
Obligations under operating leases comprised:				
Total payments within 1 year	-	1.7	0.7	2.4
Total payments between 1 and 5 years	0.1	4.5	1.5	6.1
Total payments thereafter	0.7	7.7	0.9	9.3
Total future minimum lease payments under operating leases	**0.8**	**13.9**	**3.1**	**17.8**

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

28.2 Finance leases

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

In respect of finance leases as at 31 March 2014:

	Land £bn	Buildings £bn	Other leases £bn	2013-14 Total £bn
Obligations under finance leases comprised:				
Total payments within 1 year	0.1	0.3	0.2	0.6
Total payments between 1 and 5 years	0.2	1.0	0.7	1.9
Total payments thereafter	8.8	12.2	0.5	21.5
Total	**9.1**	**13.5**	**1.4**	**24.0**
Less interest element	(8.2)	(10.5)	(0.3)	(19.0)
Total future minimum lease payments under finance leases	**0.9**	**3.0**	**1.1**	**5.0**

In respect of finance leases as at 31 March 2013:

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

Current year finance charges in respect of finance lease are disclosed in Note 12 alongside PFI interest. Finance leases are predominately in defence and broadcasting.

Note 29. Commitments under PFI contracts

PFI assets were recognised on the Statement of Financial Position where the government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract. Where WGA entities had entered PFI contracts but did not meet the control criteria, the assets provided as part of the contract are not recognised in these accounts and the costs are recognised when they are incurred. Further detail of PFI projects with central government support is available on the Treasury website[29]. The website currently includes data provided by central government departments as at March 2014.

Note 29.1 PFI contracts recognised on the Statement of Financial Position

The net book value of PFI assets included in the Statement of Financial Position was £38.6 billion (2012-13: £37.0 billion) as at 31 March 2014. The assets were accounted for in a manner consistent with other assets of that type. The PFI liability for the present value of capital amounts payable included in the Statement of Financial Position was £37.8 billion (2012-13: £36.6 billion).

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

Obligations for future periods arise in the following periods:	2013-14 £bn	2012-13 £bn
No later than one year	4.5	4.2
Later than one year and not later than five years	16.8	15.7
Later than five years	60.8	61.6
Gross present value of future obligations	**82.1**	**81.5**
Less interest charges allocated to future periods	(41.8)	(42.2)
Net present value of future obligations	**40.3**	**39.3**
Plus: service charges due in future periods	110.3	117.3
Total future obligations	**150.6**	**156.6**

[29] https://www.gov.uk/government/publications/private-finance-initiative-projects-2014-summary-data

Future obligations arising 'later than five years' may arise for another 30 to 40 years, depending on the individual contract. The net present value of future obligation of £40.3 billion (2012-13: £39.3 billion), excluding service charges, was different from the liability recognised on the Statement of Financial Position of £37.8 billion (2012-13: £36.6 billion) for a number of reasons. Some WGA entities included costs such as contingent rents and lifecycle replacement costs in future obligations but not in the liability figure. Some WGA entities also reported future obligations but had not recognised a liability in their accounts as the related PFI asset had not yet been commissioned.

The gross present value obligations by segment were:

	2013-14 £bn	2012-13 £bn
Central government departments and entities within the NHS	44.3	44.7
Local authorities	36.3	35.3
Public corporations	1.5	1.5
Gross present value of future finance lease obligations	**82.1**	**81.5**

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

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

Entity	Description of PFI contract	Contract start date	Contract end date
Greater Manchester Waste Authority	PFI contract for the construction maintenance and operation of 43 new waste disposal facilities in the Greater Manchester area.	Apr-2009	Mar-2034
Department for Transport	Maintain and operate the M25 Orbital route, including the widening of two sections (around 40 miles) and provide congestion solution for a further two sections (around 25 miles).	May-2009	Apr-2039
Department for Work and Pensions	Maintenance and management of the departmental estate.	Apr-1998	Mar-2018
Department of Health	Redevelopment, maintenance and operation of the cardiac and cancer facilities at Barts and the London NHS Trust	Mar-2010	Apr-2048
Department of Health	Provision of acute hospital facilities and maintenance and operation of University Hospitals Birmingham NHS Foundation Trust.	Jun-2006	Aug-2046
Department of Health	Construction, maintenance and operation of the new Saint Mary's Hospital in Greater Manchester.	May-2009	Apr-2047
Ministry of Defence	PFI to provide and maintain air-to-air refuelling and passenger air transport capabilities.	Mar-2008	Mar-2035
Ministry of Defence	Skynet 5: Range of satellite services, including management of existing Skynet 4 satellites.	Oct-2003	Aug-2022

Ministry of Defence	Rebuild, refurbishment, management and operation of facilities for Service accommodation at Aldershot, Tidworth, Bulford, Warminster, Larkhill and Perham Down.	Mar-2006	Apr-2041
Ministry of Defence	Redevelopment and maintenance of Colchester Garrison to provide accommodation and associated services.	Feb-2004	Feb 2039
Nottingham City Council	PFI for the construction, maintenance and running of 2 new tram lines.	Dec-2011	March-2034
Halton Borough Council	PFI for the design, build, operation and maintenance of the Mersey Gateway bridge linking Runcorn and Widness by a six-lane toll bridge.	Mar-2014	Mar-2044

Note 29.2 PFI contracts not recognised on the Statement of Financial Position

During the 2013-14 financial year, a number of WGA entities had PFI contracts which were not recognised on the Statement of Financial Position because the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these contracts in their accounts in different ways, as the FReM allows flexibility as to how to present the information. Therefore, it is not possible to provide a summary of all these PFI contracts.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in 2013-14 WGA that are not already consolidated.

The most significant PFI contract not recognised in this account, in line with the policy above, was an arrangement to design, build and operate a secure national digital radio network for the use of the UK's emergency and public safety services, to run for 19 years from 2000. The total service charges payable by the Home Office over the entire life of the initiative are estimated to be £1.2 billion (2012-13: £1.4 billion). It is not recognised on the Statement of Financial Position under IFRIC 12 Service Concession Arrangements, as the department does not control access to the Service or use all but an insignificant amount of the output. Further details are available in the 2013-14 accounts of the Home Office, which can be found on their website[30].

Note 30. Other financial commitments

Some WGA entities entered into other non-cancellable contracts that were not leases or PFI contracts. These financial commitments were made by a range of public sector entities. Future payments in relation to these commitments totalled £58.7 billion (2012-13: £49.3 billion) and consisted of £46.7 billion (2012-13: £37.7 billion) for central government, £6.6 billion (2012-13: £6.3 billion) for local government and £5.4 billion (2012-13: £5.3 billion) for public corporations.

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

[30] https://www.gov.uk/government/.../ARA_web_enabled_18_June.pdf

Entity	Description of commitment	2013-14 Commitment £bn	2012-13 Restated Commitment £bn
Department for Transport	Amounts payable to Network Rail in accordance with a Deed of Grant and to train operating companies under rail franchise agreements.	20.5	4.7
HM Treasury	Undrawn working capital facility provided to Bradford & Bingley Plc and Northern Rock (Asset Management) Plc	-	7.2
Higher Education Funding Council for England	Grant commitments for the period April to July 2014 and the next academic year.	5.3	6.2
Department of Health Group	Service contracts entered into by NHS Informatics, formally known as the NHS National Programme of Information Technology, as well as commitments relating to the purchase of childhood and adult vaccines and research and development for improved health care.	4.8	4.6
British Broadcasting Corporation	Long term outsourcing arrangements for information technology, finance support and facilities management; as well as programme acquisitions and sports rights.	3.4	3.5
Department for Environment, Food and Rural Affairs	Facilities management costs associated with the occupation of buildings, contracts related to information technology maintenance and agreements with local authorities for Waste Infrastructure Grant projects.	2.5	2.3
Scottish Government	Amounts payable by Transport Scotland to Network Rail and First Scotrail in accordance with a Deed of Grant and rail franchise agreement	2.4	1.3
Engineering and Physical Sciences Research Council	Research and training grants.	2.2	2.1
Ministry of Justice	Commitments in respect to a number of non-cancellable contracts for contracted out services including the management of prisons.	1.3	1.2
CDC Group (formerly Commonwealth Development Corporation)	Subscriptions to debentures, loans and shares.	1.3	1.0
Welsh Government	Commitments for the operation of a rail franchise and provision of information technology services.	0.9	1.1
Medical Research Council	Forward commitments on research awards to higher education research institutes.	0.9	0.9
Department for Work and Pensions	Commitments in respect of contracts for the provision of goods and services.	0.8	0.9
Home Office	Non-cancellable contracts for: the procurement of new accommodation and transport services for asylum	0.7	0.9

	applicants; for the management of visa applications; the case working of immigration offenders; and for information technology systems for the UK borders.		

Note 31. Contingent assets and liabilities disclosed under IAS 37

31.1 Quantifiable contingent assets

A number of WGA entities had quantifiable contingent assets discloseable under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', which totalled £0.2 billion (2012-13: £0.3 billion). The contingent assets were individually not material to WGA. Details of those contingent assets are available in the individual accounts of WGA entities.

31.2 Quantifiable contingent liabilities

The government has a number of quantifiable contingent liabilities discloseable under IAS 37. Total quantifiable contingent liabilities reported by category are as follows:

	2013-14 £bn	2012-13 £bn
Financial stability interventions	0.3	9.9
Export guarantees and insurance policies	12.1	12.7
Clinical negligence	11.9	10.5
Taxes subject to challenge[1]	29.2	14.5
Supporting international organisations[2]	0.5	32.1
Transport infrastructure projects	5.4	3.8
Military contracts	1.3	1.2
Other	2.3	3.2
Total quantifiable contingent liabilities	**63.0**	**87.9**

[1]HM Revenue and Customs' contingent liabilities increased during 2013-14 by £14.7 billion. Of this increase, £10.4 billion relates to a revision to the estimates of cases currently in litigation and taking into account court decisions during the year. In addition, new cases have been identified with an estimated value of £4.3 billion.

[2] The substantial decrease in the contingent liability associated with supporting international organisations is due to the reclassification of the liability pertaining to European Investment Bank (EIB) callable capital subscription as a remote contingent liability now disclosed in Note 32.

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

	Quantifiable contingent liabilities	2013-14 Potential liabilities £bn	2012-13 Potential liabilities £bn
Financial stability intervention: 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 annum. This commitment was in place for 5 years, until 22 December 2014, but was ended early by the bank with the consent of the regulatory authorities during 2013-14.	-	8.0

	Quantifiable contingent liabilities	2013-14 Potential liabilities £bn	2012-13 Potential liabilities £bn
Financial stability intervention: Northern Rock Asset Management (NRAM) plc	HM Treasury has confirmed to the regulatory authorities its intention to take appropriate steps (should they prove necessary) to ensure that Northern Rock (Asset Management) plc will continue to operate above the minimum regulatory capital requirements. This is now a zero figure for 2013-14 because from 1 April 2013 UK Asset Resolution Ltd (UKAR) was designated to the HM Treasury Group. UKAR includes Northern Rock Asset Management (NRAM) plc. This entity is now consolidated within the HM Treasury Group accounts. Therefore, this contingent liability relating to NRAM now eliminates, as the obligation and resolution arise with HM Treasury as a single group entity.	-	1.6
Virgin Money	Under the terms of the sale of Northern Rock plc, HM Treasury has provided a time-limited tax indemnity to Virgin Money. The maximum potential liabilities under this indemnity are estimated at £310 million as at 31 March 2014.	0.3	0.3
Export guarantees and insurance policies	The Export Credits Guarantee Department supported exports and investments through issuing and renewing guarantees and insurance policies. It issues guarantees and insurance against loss for, or on behalf of, exporters of goods and services and overseas investors from the UK, and supports the provision of fixed-rate export finance.	12.1	12.7
Clinical negligence	The Department of Health is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the Department's accounts. In other cases, there is a large degree of uncertainty as to the department's liability and amounts involved.	11.9	10.5
HM Revenue and Customs (HMRC) legal and other disputes	HMRC is engaged in a number of legal and other disputes which can result in claims by taxpayers against HMRC. This covers a range of cases, including Corporation Tax, Income Tax and VAT. Contingent liabilities are cases where it is probable that HMRC will be required to settle an obligation but it is not able to estimate the amount reliably.	29.2	14.5
Crossrail funding and delivery	To support the delivery of the Crossrail project, the Department for Transport has provided indemnities to parties carrying risks that they would otherwise be unable to bear.	3.4	3.4

	Quantifiable contingent liabilities	2013-14 Potential liabilities £bn	2012-13 Potential liabilities £bn
Supporting International organisations	The Department for International Development has reported contingent liabilities in respect of contributions it expects to pay to international organisations that have been subject to formal approval by Parliament but which are not yet supported either by promissory notes or cash payments.	0.5	1.9
European Investment Bank (EIB) – callable capital subscription	Under Article 5 of the EIB Statute, the Board of Directors may call upon each member state to pay its share of the balance of the subscribed capital should the bank have to meet its obligations. As at 31 March 2014 this contingent liability now falls outside the scope of IAS 37 as the likelihood of member states being called upon to pay the remaining capital is now judged to be remote. Therefore, this item has been reclassified and is now reported in Note 32 of these accounts.	-	30.2

31.3 Non-quantifiable contingent liabilities

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

Legal claims

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

Commitments in relation to pension scheme deficits

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

Compensation schemes

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

Contingent liabilities for reinsurance arising from acts of terrorism

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

Civil nuclear liabilities

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

Financial Assistance Scheme

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

Contingent liability in relation to the Channel Tunnel

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

Service Life Insurance

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

Note 32. Remote contingent liabilities reported to Parliament

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

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

32.1 Remote quantifiable contingent liabilities reported to Parliament

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

	1 April 2013 Restated £bn	Increase in year[2] £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2014 £bn
Guarantees[1]	28.7	30.1	(0.6)	(0.3)	**57.9**
Indemnities	40.9	18.6	0.3	(16.8)	**43.0**
Letters of comfort	4.0	-	-	-	**4.0**
Total	**73.6**	**48.7**	**(0.3)**	**(17.1)**	**104.9**

	1 April 2012 Restated £bn	Increase in year £bn	Liabilities crystallised in year £bn	Obligation expired in year £bn	31 March 2013 £bn	Restated 31 March 2013 £bn
Guarantees[1]	66.0	6.3	(1.1)	(31.1)	**40.1**	**28.7**
Indemnities	92.4	11.8	-	(63.2)	**41.0**	**40.9**
Letters of comfort	4.0	-	-	-	**4.0**	**4.0**
TOTAL	**162.4**	**18.1**	**(1.1)**	**(94.3)**	**85.1**	**73.6**

[1] The government's guarantee in relation to notes in circulation is included as a financial liability on the Statement of Financial Position and disclosed in Note 25 other financial liabilities – banknotes issued in circulation.

[2] The figure in the table above for 2013-14 for 'increase in year' includes £29.5 billion for the European Investment Bank (EIB), which was previously reported in 2012-13 as a £30.2 billion contingent liability disclosed under IAS 37 in Note 31. This item is now judged as too remote to be reported under IAS 37.

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

	Remote quantifiable contingent liabilities: Guarantees	**2013-14 Potential liabilities £bn**	**2012-13 Potential liabilities £bn**
European Investment Bank (EIB) – callable capital subscription	The EIB financial statements at 31 December 2013 show the UK is liable for £29.5 billion of callable capital to the EIB. Under Article 5 of the EIB Statute, the Board of Directors may call upon each member state to pay its share of the balance of the subscribed capital should the bank have to meet its obligations. As at 31 March 2014 this contingent liability is now reported in this table as the likelihood of member states being called upon to pay the remaining capital is now judged to be remote. Therefore, this item has been reclassified, having previously been reported in Note 31 of these accounts as a contingent liability within the scope of IAS 37.	29.5	-

	Remote quantifiable contingent liabilities: Guarantees	2013-14 Potential liabilities £bn	2012-13 Potential liabilities £bn
Financial guarantees issued to certain depositors with public sector banks	This is now a zero figure for 2013-14 because from 1 April 2013 UK Asset Resolution Ltd (UKAR) was designated to the HM Treasury group. UKAR includes both Bradford & Bingley plc and Northern Rock Asset Management (NRAM) plc. Both these entities are now consolidated within the HM Treasury group accounts. Therefore, the contingent liabilities relating to both now eliminate, as the obligation and resolution arise with HM Treasury as a single group entity.	-	10.2 (restated)
International financial institutions	Contingent liabilities in respect of callable capital on investments in international financial institutions.	10.7	11.0
Coins that are returned from circulation	Contingent liabilities representing government's potential obligations in respect of coins returned from circulation.	4.3	4.2
Loans to EU Member States and third countries	This represents the UK's maximum liability from current outstanding loans to EU Member States and Third Countries for which the risk is ultimately borne by the EU Budget. Loans are issued under the following initiatives: the European Financial Stabilisation Mechanism (EFSM); the Balance of Payments Facility; and the Guarantee Fund to Third Countries.	9.8	9.6

	Remote quantifiable contingent liabilities: Indemnities and letters of comfort	2013-14 Potential liabilities £bn	2012-13 Potential liabilities £bn
Network Rail	Indemnity: The Department for Transport has provided a financial indemnity in support of Network Rail's Debt Issuance Programme. The measures of financial support of Network Rail's borrowing are recognised as financial guarantees within the financial liabilities elements of Note 35 (financial instruments), with a market value of £3.6 billion, payable by Network Rail over the life of the debt issuance programme.	33.0	30.4
	Letter of comfort: The Department for Transport has issued a standby credit facility for Network Rail, with a term of 50 years, to act as a long-term contingency buffer. This has not been used to date.	4.0	4.0
Government Indemnity Scheme	The Government Indemnity Scheme indemnifies lenders to museums, galleries and other institutions when mounting exhibitions or taking long-term loans for study or display.	6.6	7.0

32.2 Remote non-quantifiable contingent liabilities reported to Parliament

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

Nationalised industries

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

Regional development banks and funds

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

National Health Service

The Department of Health reported that it has 22 indemnities which represent remote unquantifiable contingent liabilities, with various health bodies and private companies. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Nuclear matter

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

Guarantee to protect British Telecom's pension liabilities

When BT was privatised in 1984, the government gave a guarantee (contained in the Telecommunications Act 1984) in respect of certain liabilities of the privatised company. The Trustee of the BT Pension Scheme undertook legal proceedings to clarify the terms and scope of the Crown Guarantee. This guarantee now only applies if BT were ever to be wound up. The High Court proceedings have now concluded with the main findings in favour of the Trustee and BT. The government appealed some of these findings, and the appeal was heard at the beginning of May 2014. The appeal judgement was handed down on 16 July 2014, with the Court of Appeal finding in favour of the Trustee and BT in respect of the scope of the guarantee and in favour of the department in respect of another issue.

Note 33. Third party assets

	2013-14 £bn	2012-13 £bn
Monetary assets	3.3	3.3
Investments	0.5	0.5
Total third party assets	**3.8**	**3.8**

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

The Office of the Accountant General (Previously the Court Funds Office), part of the Ministry of Justice, manages money held in court on behalf of clients who may be involved in a civil legal action; individuals who, under the Court of Protection, are not able to manage their property and affairs; and children under the age of 18. The market values of these assets as at 28 February 2014 (the financial reporting period end date for the Court Funds Office) were: £2.9 billion (2012-13: £2.7 billion) of cash; and £0.1 billion (2012-13: £0.2 billion) of securities.

Further information regarding funds in court is available in the 2013-14 Ministry of Justice accounts.

Other significant third party assets are held by the Northern Ireland Court of Justice and the Scottish Government.

Note 34. Financial instruments

Financial instrument

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

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

34.1 Carrying value of financial instruments

Financial assets, as at 31 March 2014, are categorised at their carrying values as follows:

	Note	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through SoRE £bn	Held for trading at fair value £bn	2013-14 Total £bn
Cash and cash equivalents	*20*	25.5	-	-	-	-	-	25.5
Trade and other receivables	*16*	-	149.1	-	-	-	-	149.1
Loans and deposits with banks	*21*	-	146.2	1.6	-	-	-	147.8
Other equity investments	*21*	-	-	-	61.4	4.8	0.4	66.6
Debt securities	*21*	-	-	-	-	-	39.7	39.7
Student loans	*21*		39.0	-	-	-	-	39.0
IMF quota subscription	*21*	-	10.0	-	-	-	-	10.0
IMF Special Drawing Rights	*21*	-	-	-	-	-	9.0	9.0
Other	*21*	-	0.4	2.5	9.6	0.6	8.6	21.7
Total financial assets		**25.5**	**344.7**	**4.1**	**71.0**	**5.4**	**57.7**	**508.4**

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

	Note	Cash & cash equivalents £bn	Loans and receivables at amortised cost £bn	Held to maturity investments at amortised cost £bn	Available for sale at fair value £bn	Designated as FV through SoRE	Held for trading at fair value £bn	2012-13 Total £bn	2012-13 restated Total £bn
Cash and cash equivalents	*20*	19.8	-	-	-	-	-	19.8	24.5
Trade and other receivables	*16*	-	137.3	-	-	-	-	137.3	138.9
Loans and deposits with banks	*21*	-	109.7	1.4	-	-	-	111.1	135.7
Equity investments in banks	*21*	-	-	-	45.2	-	-	45.2	40.0
Other equity	*21*	-	-	-	18.8	3.2	0.6	22.6	25.1
Debt securities	*21*	-	-	-	-	-	40.3	40.3	40.3
Student loans	*21*	-	36.0	-	-	-	-	36.0	36.0
IMF quota subscription	*21*	-	10.6	-	-	-	-	10.6	10.6
IMF Special Drawing Rights	*21*	-	-	-	-	-	9.5	9.5	9.5
Other	*21*	-	0.3	-	5.6	1.0	6.1	13.0	19.0
Total financial assets		**19.8**	**293.9**	**1.4**	**69.6**	**4.2**	**56.5**	**445.4**	**479.6**

Financial liabilities, as at 31 March 2014, are categorised at their carrying values as follows:

	Note	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2013-14 Total £bn
Government financing and borrowing	*23*	1,096.1	-	-	1,096.1
Trade and other payables	*22*	158.7	-	-	158.7
Deposits by banks	*25*	335.4	13.0	6.7	355.1
Bank and other borrowings	*25*	30.7	-	-	30.7
Banknotes in circulation	*25*	60.2	-	-	60.2
Debt Securities	*25*	25.9	-	-	25.9
IMF SDR allocation	*25*	-	-	9.4	9.4
Financial guarantees	*25*	4.0	-	-	4.0
Other	*25*	1.5	2.4	1.4	5.3
Total financial liabilities		**1,712.5**	**15.4**	**17.5**	**1,745.4**

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

	Note	Carried at amortised cost £bn	Carried at fair value £bn	Held for trading at fair value £bn	2012-13 Total £bn	2012-13 restated Total £bn
Government financing and borrowing	*23*	996.2	-	-	996.2	996.2
Trade and other payables	*22*	151.9	-	-	151.9	153.5
Deposits by banks	*25*	315.2	12.4	6.6	334.2	334.2
Bank and other borrowings	*25*	31.9	-	-	31.9	35.4
Banknotes in circulation	*25*	58.0	-	-	58.0	58.0
Debt securities	*25*	-	-	-	-	26.8
IMF SDR allocation	*25*	-	-	10.0	10.0	10.0
Financial guarantees	*25*	4.5	-	0.2	4.7	4.2
Other	*25*	0.3	3.1	0.8	4.2	4.2
Total financial liabilities		**1,558.0**	**15.5**	**17.6**	**1,591.1**	**1,622.5**

34.2 Fair value of financial instruments

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

	Note	Carrying value 2013-14 £bn	Carrying value 2012-13 £bn	Fair value 2013-14 £bn	Fair value 2012-13 £bn
Cash and cash equivalents	*20*	25.5	19.8	25.5	19.8
Loans and receivables at amortised cost	*21*	344.7	293.9	344.7	293.9
Held to maturity investments at amortised cost		4.1	1.4	4.1	1.4
Available for sale financial assets		71.0	69.6	71.0	69.6
Designated as fair value through SoRE		5.4	4.2	5.4	4.2
Financial assets held for trading	*22*	57.7	56.5	57.7	56.5
Total			**445.4**		**445.4**
Total financial assets (restated)		**508.4**	**485.1**	**508.4**	**485.1**

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

	Carrying value 2013-14 £bn	Carrying value 2012-13 £bn	Fair value 2013-14 £bn	Fair value 2012-13 £bn
Financial liabilities at amortised cost	1,712.5	1,558.0	1,828.1	1,740.2
Financial liabilities at fair value	15.4	15.5	15.4	15.5
Financial liabilities held for trading	17.5	17.6	17.5	17.6
Total		1,591.1		1,773.3
Total financial liabilities (restated)	**1,745.4**	**1,622.5**	**1,861.0**	**1,805.2**

Financial instruments measured at fair value use the valuation techniques described in Note 1.20.3. The remaining financial instruments were carried at cost or amortised cost which approximated to fair value, with one exception. Gilt-edged securities were carried at amortised cost at £933.4 billion (2012-13: £833.6 billion) and had a fair value of £1,024.4 billion (2012-13: £980 billion).

The valuation hierarchy of financial instruments that were carried at fair value for 2013-14 was:

	Level 1[1] £bn	Level 2 £bn	Level 3 £bn	Total £bn
Financial assets at fair value				
Equity investments	37.9	28.2	0.5	66.6
Debt securities	39.7	-	-	39.7
IMF special drawing rights	9.0	-	-	9.0
Other	6.0	12.8	-	18.8
Financial liabilities at fair value				
Deposits by banks	(3.0)	(16.7)	-	(19.7)
IMF SDR allocation	(9.4)	-	-	(9.4)
Financial guarantees	-	-	-	-
Other	(2.4)	(1.4)	-	(3.8)

[1]Further details on levels are provided in paragraph 1.20.3

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

	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn	Total Restated £bn
Financial assets at fair value					
Equity investments	38.9	27.3	1.6	67.8	65.1
Debt securities	40.3	-	-	40.3	40.3
IMF special drawing rights	9.5	-	-	9.5	9.5
Other	7.6	4.6	0.5	12.7	24.5
Financial liabilities at fair value					
Deposits by banks	(6.6)	(12.4)	-	(19.0)	(19.0)
IMF SDR allocation	(10.0)	-	-	(10.0)	(10.0)
Financial guarantees	(0.2)		-	(0.2)	(0.2)
Other	(0.8)	(3.1)	-	(3.9)	(9.7)

The movement in level 1 equity investments between 2012-13 and 2013-14 was driven by the upward revaluation of shares in Lloyds Banking Group.

34.3 Financial guarantees

Details of the government's significant financial guarantees are disclosed in Note 25. The accounting treatment of financial guarantees is provided in Note 1.20.7.

34.4 Hedging

The UK had official reserves of gold and currencies (including IMF Special Drawing Rights) of £66.4 billion (2012-13: £68.1 billion), of which £40.2 billion (2012-13: £36.8 billion) was hedged for currency and interest rate risk. The hedged reserves comprised portfolios of eligible US dollar, euro, Canadian dollar and yen-denominated assets and holdings of Special Drawing Rights (SDR). Assets in the hedged reserves are hedged for currency risk either by being denominated in the same currency as the liabilities that finance them or by using currency swaps. The hedged reserves were also hedged against interest rate risk, through the use of swaps. The increase in official reserves was primarily caused by the investment of additional financing provided by the government plus appreciation of the euro and dollar against the pound.

Where foreign currency reserves are financed by foreign currency borrowing, the debt is issued by, and is an obligation of, the government. Financing of the hedged reserves in 2013-14 included sterling swapped into foreign currencies of £29.7 billion (2012-13: £23.2 billion) and the SDR allocation of £9.4 billion (2012-13: £10.0 billion). The EEA did not have or issue any foreign currency securities during the year. The Bank of England held £3.9 billion of listed foreign government and other foreign currency securities (2012-13: £3.6 billion), funded by the Bank's issuance of medium-term securities.

The EEA provided foreign currency services to government departments and agencies. Foreign currency was sold to departments with foreign currency obligations and foreign currency was purchased from departments with foreign currency receipts, in aggregate totalling £12.1 billion (2012-13: £12.4 billion). These purchases and sales, both spot and forward, were hedged through offsetting trades with the market.

The other notable participants in hedging activity were HM Treasury and the Rural Payments Agency. HM Treasury's UKAR uses derivatives in relation to the mortgage business to support strategic and operational business activities as well as to reducing the risk of loss arising from changes to interest rates and exchange rates. UKAR had total derivative financial assets of £4.6 billion (2012-13: £6.4 billion), and total derivative financial liabilities of £0.4 billion (2012-13: £0.8 billion).

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

34.5 Financial risk management

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

34.5.1 Risk management policies and financial risk factors

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

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

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

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

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

Local authorities adopt independent liquidity and interest rate risk management, and this is done within a statutory framework. Local authorities are required by the Local government Finance Act 1992 to provide a balanced budget, which ensures sufficient funds are raised to cover annual expenditure. Medium term plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day to day cash flow need and can access longer term funds from the Public Works Loan Board (PWLB) which acts as a lender of last resort to ensure their financing needs are met.

The government's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the government's financial performance and play an enhanced role in wider financial stability. Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed, identifying and evaluating financial risks.

34.5.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the government by failing to discharge the obligation. The government was exposed to credit risk through a number of its financial assets.

The government's material credit risk was centred in the central funds (particularly the DMO and EEA), HM Treasury, the Bank of England, the Department for Business, Innovation and Skills (BIS) and the Department for Transport (DfT). The main credit risks arose from the loans and guarantees provided by the Treasury to the financial institutions, the purchases of assets from the financial institutions, including reverse sale and repurchase agreements ('reverse repos') entered into by DMO and the Bank of England, and student loans provided by BIS.

Granting financial guarantees results in a credit risk exposure, which is the maximum amount an entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability. The tables below do not include contingent liabilities that give rise to credit risk, guarantees to the European Investment Bank of £30.2 billion in 2012-13 and guarantees to support Network Rail's Debt Issuance Programme of £33.0 billion (2012-13: £30.4 billion). Further information is available in Notes 31, 32 and 36.

The government's material exposures to credit risk are analysed below:

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2013-14 Total £bn
Cash and cash equivalents	2.2	0.1	0.4	-	0.6	**3.3**
Loans and receivables	-	7.5	32.2	3.2	117.5	**160.4**
Available for sale financial assets	-	-	-	-	2.1	**2.1**
Financial assets held for trading	38.3	8.6	6.8	0.1	9.2	**63.0**
Total material exposure	**40.5**	**16.2**	**39.4**	**3.3**	**129.4**	**228.8**

	AAA or equivalent £bn	AA or equivalent £bn	A or equivalent £bn	Not strong £bn	Not rated £bn	2012-13 Total £bn
Cash and cash equivalents	2.0	0.3	0.4	-	1.4	**4.1**
Loans and receivables	-	0.5	69.5	2.5	53.8	**126.3**
Available for sale financial assets	-	-	-	-	2.1	**2.1**
Financial assets held for trading	32.5	9.5	6.5	0.5	9.7	**58.7**
Total material exposure	**34.5**	**10.3**	**76.4**	**3.0**	**67.0**	**191.2**

The tables above do not include a credit analysis of financial assets held by the Bank of England of £16.9 billion (2012-13: £16.6 billion). As explained in Note 2 to the Bank's accounts, where the Bank considers certain disclosures inappropriate to its central banking functions, it discloses less detail of certain disclosures (such as information on credit risk) than would be required under adopted IFRS or the Companies Act.

The reduction in loans and receivables classed as A reflects the continuing repayment of loans which HM Treasury provided to financial institutions during and following the 2008 financial crisis.

Financial assets that are 'not rated' included UKAR's loans and advances to banking customers of £61.1 billion (2012-13: £68.7 billion), student loans of £39.0 billion (2012-13: £36.0 billion) and the government's holdings and quota subscription of IMF Special Drawing Rights of £19.0 billion (2012-13: £20.1 billion). The increase in the 'not rated' category was driven mainly by the consolidation of UKAR into HM Treasury.

UKAR loans to banking customers

	Residential Loans £bn	Commercial Loans £bn	Unsecured Loans £bn	2013-14 Total £bn
Neither past due nor impaired	55.9	0.4	1.2	57.5
Past due, but not impaired				
- less than 3 months	2.3	-	0.1	2.4
- 3 to 6 months	0.9	-	-	0.9
- over 6 months	0.6	-	0.1	0.7
Impaired	0.8	0.3	-	1.1
Total loans to customers	**60.5**	**0.7**	**1.4**	**62.6**
Impairment allowances	(1.2)	(0.1)	(0.2)	(1.5)
Total loans to customers net of impairment allowances	**59.3**	**0.6**	**1.2**	**61.1**

The government's material exposures to credit risk are analysed below, by geographic area:

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2013-14 Total £bn
Cash and cash equivalents	2.5	0.1	0.1	0.5	0.1	**3.3**
Loans and receivables	142.5	3.7	2.0	-	12.2	**160.4**
Available for sale financial assets	2.1	-	-	-	-	**2.1**
Financial assets held for trading	6.0	26.8	19.3	1.9	9.0	**63.0**
Total material exposure	**153.1**	**30.6**	**21.4**	**2.4**	**21.3**	**228.8**

	UK £bn	Europe £bn	North America £bn	Asia £bn	Other £bn	2012-13 Total £bn
Cash and cash equivalents	3.4	-	0.1	0.5	0.1	**4.1**
Loans and receivables	109.7	3.5	-	0.1	13.0	**126.3**
Available for sale financial assets	2.1	-	-	-	-	**2.1**
Financial assets held for trading	4.6	21.6	19.8	3.2	9.5	**58.7**
Total material exposure	**119.8**	**25.1**	**19.9**	**3.8**	**22.6**	**191.2**

Management of credit risk

The government has adopted a policy of dealing only with highly creditworthy counterparties and issuers, with two exceptions for student loans and the financial interventions. The government's approach to student loans is described separately below. The government's financial interventions involved transactions with financial institutions that were rated 'not strong', on the basis that the costs of inaction would have been far greater for the economy as a whole. Otherwise, the following comments describe the government's general approach to credit risk management.

The creditworthiness of potential counterparties and security issuers is monitored on an ongoing basis. The government generally transacts only with counterparties who meet a minimum long-term credit rating requirement, and purchases securities issued only by issuers who meet such a requirement, both of which are considered on a transaction-by-transaction basis. The government regularly monitors its exposure to credit risk. Credit risk measurement takes into account both current fair value and a risk weighting based on an estimate of potential future changes in value. In measuring credit exposure, different risk weightings are applied to different transaction types. Limits are applied to total unsecured lending and on holdings of debt securities issued by financial institutions and corporate entities, and on the maximum maturity of loans made and securities held.

Exposure to credit risk is managed through collateral arrangements in some areas of government, in particular the DMO, EEA and the Bank of England. These entities take collateral in the form of high quality securities against funds advanced under reverse repo arrangements. They also take US dollar denominated cash or securities as collateral for derivative transactions (including cross currency swaps and forward foreign exchange transactions).

Student loans

The Department for Business, Innovation and Skills (BIS) has a statutory obligation to issue student loans and seek repayments. It is not permitted to withhold loans on the basis of poor credit rating of the student nor is it able to seek collateral. This supports the government's policy aim of encouraging students to enter higher and further education. There is no obligation to repay the loan until the borrower's income reaches a certain income threshold. BIS is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by HM Revenue & Customs (HMRC) through the PAYE tax collection process.

BIS estimates the value of future write-offs when loans are issued using the Student Loan Repayment Model. The department's estimate as at 31 March 2014 was that £10.7 billion (2012-13: £6.9 billion) (around 11%) of the total face value of the loans issued would not be recovered and this amount was deducted from the face value of the loans to arrive at the carrying amount. However, this was not "credit risk" in the normal sense, as it relates to write off policies due to death, disability, and age of the student or loan.

BIS works together with the Student Loans Company (SLC) and HMRC, to manage the collection of student loan repayments and the associated credit risks. There is a memorandum of understanding in place between the department and the devolved administrations (who jointly own the loan book), the SLC (who administers the loan book) and HMRC. This sets out the responsibilities of the all parties and contains performance targets and indicators, which are revised annually. The accounting officers of HMRC and the SLC report quarterly to the department's accounting officer on progress towards the agreed targets and performance indicators.

34.5.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated with financial liabilities as they fall due.

Key financial liabilities where the government was exposed to liquidity risk include gilt-edged securities, Treasury Bills and National Savings and Investment products, totalling £1,096.1 billion (2012-13: £996.2 billion), and other financial liabilities such as deposits by banks and other financial institutions, held by the Bank of England of £318.7 billion (2012-13: £297.1 billion).

Central government departments' net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament. Accordingly, future financing of liabilities held by departments are met by future grants of supply, voted annually by Parliament and funded primarily by tax receipts or borrowing by the NLF and the DMO. Departments are not, therefore, exposed to significant liquidity risks in the same way that a private sector organisation is. Therefore there is minimal liquidity risk associated with the government's trade and other payables.

The following table shows the maturity of the government's contractual undiscounted cash flows from those financial liabilities with liquidity risk.

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2013-14 Total £bn
Non-derivative liabilities	638.7	86.4	203.4	241.2	538.6	12.1	1,720.4
Derivative liabilities	4.6	0.5	-	0.9	-	-	6.0
Total in 2013-14	**643.3**	**86.9**	**203.4**	**242.1**	**538.6**	**12.1**	**1,726.4**

	0-12 months £bn	1-2 years £bn	2-5 years £bn	5-10 years £bn	>10 years £bn	undated £bn	2012-13 Total £bn
Non-derivative liabilities	604.4	64.2	209.6	201.5	449.3	12.7	1,541.7
Derivative liabilities	4.3	0.2	0.2	-	-	-	4.7
Total in 2012-13	**608.7**	**64.4**	**209.8**	**201.5**	**449.3**	**12.7**	**1,546.4**

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the government can be required to pay. The majority of non-derivative financial liabilities with a maturity of less than 12 months are gilts, Treasury Bills, National Savings and Investment products, and deposits from banks and other financial institutions held at the Bank of England. The majority of non-derivative financial liabilities with a maturity of more than 10 years are gilts. The increase in risk since 2012-13 was as a result of issuing more gilts to non-government bodies during 2013-14.

The government's liquidity risk profile has shifted from more short-term risk, to risks categorised as greater than 10 years, this has been as a result of Quantitative Easing (QE). QE involves the purchase of gilts, predominantly from financial institutions, which serves to supplement the liquidity of those entities.

Management of liquidity risk

The government manages its exposure to liquidity risk in various ways, primarily by:

- monitoring cash flows to ensure that daily cash requirements are met
- holding a sufficient stock of UK government securities in the DMO which can be used as collateral against cash borrowings
- arranging the issue of Treasury Bills, National Saving and Investment products, and gilts to raise funds

The Debt Management Office (DMO) manages liquidity risk on behalf of central government. DMO maintains a minimum prudent level of highly liquid quality securities at all times to ensure that commitments, as forecast by HM Treasury, are met. The risk is minimised through the diversification of its portfolio. At individual entity level, liquidity risk is managed by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring forecast and actual cash flows and reassessing the net cash requirement on a regular basis.

34.5.4 Market risk

Market risk is the risk that fair values and future cash flows will fluctuate due to changes in market prices. Market risk generally comprises: interest rate risk, foreign exchange risk, and price risk.

34.5.5 Interest rate risk

There are two types of interest rate risk: cash flow and fair value. They both arise from risk that the future cash flows from a financial instrument or its value will fluctuate because of changes in market interest rates. Cash flow interest rate risk arises on variable rate loans. Fair value interest rate risk arises on fixed interest rate loans.

The government's interest rate risk is concentrated mainly in the National Loans Fund (NLF), the Debt Management Office (DMO), Exchange Equalisation Account (EEA), National Savings and Investments (NS&I), the Bank of England, HM Treasury and the Department for Business, Innovation and Skills (BIS). Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk. The assets and liabilities which are exposed to significant cash flow interest rate risk are those assets and liabilities applying a variable interest rate. The main examples are index-linked gilts, and student loans which are linked to RPI, bank and other borrowings and deposits by banks that are affected by changes in LIBOR and the Bank of England base rate. The assets and liabilities that are exposed to significant fair value interest rate risk are those assets and liabilities applying a fixed interest rate, such as debt securities. Cash and cash equivalent balances earn negligible interest and so are not exposed to significant interest rate risk.

Where the government is exposed to material interest rate risk, the interest rate profile is as follows:

	Non-interest bearing £bn	Fixed rate £bn	Floating rate £bn	2013-14 Total £bn
Financial assets - in sterling	2.9	47.3	39.8	90.0
Financial assets - in other currencies	13.5	46.5	11.3	71.3
Financial liabilities - in sterling	(61.9)	(794.5)	(319.0)	(1,175.4)
Financial liabilities - in other currencies	(8.7)	(4.4)	(9.8)	(22.9)
Net financial assets/(liabilities)	**(54.2)**	**(705.1)**	**(277.7)**	**(1,037.0)**

	Non-interest bearing £bn	Fixed Rate £bn	Floating rate £bn	2012-13 Total £bn
Financial assets - in sterling	6.6	33.4	79.0	119.0
Financial assets - in other currencies	13.6	43.7	10.7	68.0
Financial liabilities - in sterling	(66.3)	(699.8)	(314.4)	(1,080.5)
Financial liabilities - in other currencies	(0.3)	(4.9)	(10.9)	(16.1)
Net financial assets/(liabilities)	**(46.4)**	**(627.6)**	**(235.6)**	**(909.6)**

The increase in liabilities in the 'fixed rate' category has been driven primarily by increased gilt issuance during the reporting period.

Management of interest rate risk

The entities exposed to interest rate risk measure and monitor their risk exposure using different sensitivity analysis techniques, including the value at risk method (VaR). The interest rate risk across these entities is sensitive to a number of factors including RPI, LIBOR and the Bank of England base rate. Therefore it is not possible to summarise this meaningfully in one sensitivity analysis. Instead the significant sensitivities are described below. Further details are available in the underlying accounts.

In relation to index-linked gilts and NS&I products, the NLF has calculated that an increase in RPI by 100 basis points would result in an increase in expenditure of £3.4 billion (2012-13: £3.1 billion) on its total balance, including those held by other WGA entities. The DMO enters into cash and securities contracts at fixed interest or discount rates and uses the present value of a basis point to measure the sensitivity to a 0.01% shift in interest rates when all other risk factors are held constant. The EEA hedges interest rate risk through interest rate swaps. Typically, it pays fixed rate interest on currency it acquires and generates fixed interest income in the same currency through purchasing an asset such as a bond. By swapping the fixed interest receipts for floating interest receipts through an interest rate swap, the EEA acquires an income stream that matches its interest payment liability and thus minimises its interest rate risk exposure.

In relation to student loans, BIS relies on the Office for Budget Responsibility (OBR) forecast assumptions to determine the impact of interest rate changes both on the borrower's ability to pay, and the department's forecasts of future payment streams. The impact of the risk on student loans is quantified in the impairment provision which models the impact of interest rate rises on expected future cash flows. For students entering higher education before the 2013-14 academic year income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1% above the Bank of England base rate nor can it be less than 0%. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. If the UK continues to experience interest rates that are lower than RPI the student loan book may be over-valued, as the modelling assumes that in the long term interest is added in line with RPI.

For students entering higher education from the 2012-13 academic year onwards a new loan scheme, known as post HE reform loans is in operation. Under this scheme loan repayments are 9% of income above the repayment threshold (£21,000 from April 2016). Interest is charged based on the borrower's income level, with RPI charged for income below £21,000, rising to RPI plus 3% for income over £41,000.

34.5.6 Foreign-exchange rate risk

The government undertakes transactions denominated in foreign currencies and it holds international monetary reserves including foreign currency assets and IMF Special Drawing Rights. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising derivatives, such as forward foreign exchange contracts.

Foreign-exchange rate risks are concentrated in the central funds such as the Exchange Equalisation Account (EEA), the National Loans Fund (NLF) and the Consolidated Fund. A lower level of exposure exists with entities such as the Ministry of Defence and the Department for International Development. Exposure to foreign currency risk during the year was insignificant from a WGA perspective for other central government departments, local authorities, entities within the National Health Service, and public corporations. Foreign currency income was negligible and foreign currency expenditure was a very small percentage of total expenditure (less than 1).

Presented below is the sterling equivalent of the government's foreign currency assets and liabilities, analysed by their underlying foreign currencies, which give rise to a material level of foreign-exchange rate risk.

The government's material exposures to foreign-exchange risk are analysed below:

Foreign currency denominated financial assets/liabilities	Euro	USD	YEN	Other	2013-14 Total
	£bn	£bn	£bn	£bn	£bn
Financial assets					
Cash and cash equivalents	2.3	0.7	0.1	-	3.1
Loans and receivables	1.2	0.2	-	12.2	13.6
Available for sale financial assets	8.8	2.1	-	0.5	11.4
Financial assets held for trading	19.8	13.5	2.9	0.9	37.1
Total	**32.1**	**16.5**	**3.0**	**13.6**	**65.2**
Financial liabilities					
Financial liabilities at amortised cost	16.7	6.6	-	8.3	31.6
Financial liabilities at fair value	0.7	-	-	-	0.7
Financial liabilities held for trading	-		-	0.4	0.4
Total	**17.4**	**6.6**	**-**	**8.7**	**32.7**

Foreign currency denominated financial assets/liabilities	Euro £bn	USD £bn	YEN £bn	Other £bn	2012-13 Total £bn
Financial assets					
Cash and cash equivalents	0.7	0.5	0.1	0.1	1.4
Loans and receivables	1.0	0.2	-	13.0	14.2
Available for sale financial assets	8.6	2.2	-	0.6	11.4
Financial assets held for trading	6.2	8.2	3.1	0.1	17.6
Total	**16.5**	**11.1**	**3.2**	**13.8**	**44.6**
Financial liabilities					
Financial liabilities at amortised cost	1.2	0.8	-	7.4	9.4
Financial liabilities at fair value	0.5	0.1	-	-	0.6
Financial liabilities held for trading	-		-	0.5	0.5
Total	**1.7**	**0.9**	**-**	**7.9**	**10.5**

Where the government is exposed to material foreign-exchange rate risk, its sensitivity to movements in GBP exchange rates is as follows:

Change in GBP exchange rates	2013-14 Impact on revenue and expenditure £bn	2012-13 Impact on revenue and expenditure £bn	2013-14 Impact on net liabilities £bn	2012-13 Impact on net liabilities £bn
Strengthen by 10%	(0.6)	(1.3)	0.8	(2.9)
Weaken by 10%	(1.2)	1.0	3.4	3.1

The UK's official reserves of foreign currency and gold are held by the EEA and NLF and can be split into reserves that are hedged for currency and interest rate risk and the remaining reserves that are unhedged.

The hedged reserves comprise portfolios of eligible US dollar, euro, Canadian dollar and yen denominated assets and holdings of SDRs. The reserves that are exposed to foreign-exchange rate risk comprise dollar and euro denominated bonds, IMF lending and yen exposure normally obtained through forward yen purchases. The unhedged reserves are in the main financed out of sterling through accumulated retained earnings and sterling financing provided by the NLF.

Assets in the hedged reserves are managed on a day-to-day basis by the Bank of England, and are hedged for currency risk to reduce exposure either by being denominated in the same currency as the liabilities which finance them or by using currency swaps. The hedged reserves are also hedged against interest rate risk, through the use of swaps. Financing of the hedged reserves in 2013-14 included sterling swapped into foreign currencies of £29.7 billion (2012-13: £23.2 billion) and the SDR allocation of £9.4 billion (2012-13: £10.0 billion).

The NLF is directly exposed to foreign exchange movements through the UK's transactions with the International Monetary Fund (IMF).The UK's quota subscription and lending to the IMF are both denominated in Special Drawing Rights (SDR) and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

The UK's capital investment in the European Investment Bank (EIB) of £7.7 billion (2012-13: £7.5 billion) was reported on the basis of a certain share of the EIB's net assets in euros. Therefore there was an exposure to foreign exchange rate risk affecting the fair value of the equity investment.

Management of foreign-exchange rate risk

As described above, foreign-exchange rate risks are concentrated mainly in the Exchange Equalisation Account (EEA). For the hedged part of the reserves, the EEA uses currency swaps to mitigate foreign-exchange rate risk, through an initial exchange of sterling principal for foreign currency at the spot rate, receiving back the same amount of sterling principal at maturity, and regular exchanges of interest payments on the principal amounts.

34.5.7 Price risk

The government is exposed to equity securities price risk through investments held by HM Treasury and classified on the consolidated Statement of Financial Position as available-for-sale. Of HM Treasury's available-for-sale assets, ordinary shares in Lloyds Banking Group and The Royal Bank of Scotland are listed on the London Stock Exchange. In addition, RBS's B-shares are considered to be equivalent in market value to RBS's ordinary shares. No market exists for the remaining investments, which are primarily other government entities, some of which are never intended for sale. Such investments are primarily accounted for at historical cost and thus not exposed to price risk.

The analysis below shows the Statement of Revenue and Expenditure impact of a 10% and 25% increase/(decrease) in the market price of investments in Lloyds Banking Group and The Royal Bank of Scotland. These variances were considered reasonably possible at the balance date.

Variance in market price	Impact on revenue and expenditure	
	2013-14 £bn	2012-13 £bn
Increase of 10%	-	-
Increase of 25%	-	-
(Decrease) of 10%	-	(1.4)
(Decrease) of 25%	(3.4)	(5.8)

Note 35. Related party transactions

WGA consolidates entities that are judged by HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. No one entity appears to have the ability to control all the entities that are consolidated, and as a consequence, for the purposes of WGA, there is no parent company disclosed in this account. Instead, related parties, as defined in the FReM for WGA purposes, are those public sector entities in Annex 2 that have not been consolidated into the 2013-14 WGA. Entities within the WGA boundary have varying levels of activities with these related parties; material transactions are described below.

The most significant WGA related party is the Royal Bank of Scotland Group plc. In the course of normal business, WGA entities entered into arms-length banking transactions with this institution, including loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions made comprehensive disclosure impractical.

As set out in para 1.22.1 Lloyds Banking Group plc has been reclassified to the private sector and no longer falls into the scope of WGA. Bradford and Bingley plc, and Northern Rock (Asset Management) plc were consolidated into WGA for the first time this year and any intra-group transactions relating to the entities have been removed from these accounts.

Due to the nature of HM Revenue and Customs' business, it had a large number of transactions relating to taxation income with other public sector entities not within the WGA boundary.

Local government entities had transactions with municipal ports, airports and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and record their share of the schemes assets and liabilities in their accounts. Further details are available in the 2013-14 accounts of the individual entities.

The Department for Business, Innovation and Skills, through the Skills Funding Agency, and local authorities, provided funding to further education colleges in England and Wales for research and provision of further education courses. Through the Higher Education Funding Council, it provided funding for research and higher education courses. In Scotland and Northern Ireland, the Scottish Funding Council and the Department for Employment and Learning provided funding to further education colleges.

Note 36. Significant financial assets and liabilities that are not consolidated in the account

As at 31 March 2014, the government had investments in the Royal Bank of Scotland Group Plc (RBS). Lloyds Banking Group Plc (LBG) has been reclassified back to the private sector and UK Asset Resolution Ltd which is the holding company for Bradford and Bingley Plc (B&B) and Northern Rock (Asset Management) Plc (NRAM) is now fully consolidated into WGA.

As reported in their published accounts	31 December 2013			31 December 2012		
	Total assets £bn	Total liabilities £bn	Net asset/ (liability) £bn	Total assets £bn	Total liabilities £bn	Net asset (liability) £bn
NRAM[1]	-	-	-	48.6	(45.9)	2.7
B&B[1]	-	-	-	38.5	(35.9)	2.6
LBG[2]	-	-	-	924.5	(879.0)	45.5
RBS[2]	1,027.9	(968.7)	59.2	1,313.3	(1,241.8)	71.5
Total	1,027.9	(968.7)	59.2	2,324.9	(2,202.6)	122.3
WGA total	**1,337.3**	**(3,189.1)**	**(1,851.8)**	**1,297.5**	**(2,925.4)**	**(1,627.9)**

[1] Source: accounts of NRAM and B&B for the year ended 31 December 2012
[2] Source: accounts of RBS and LBG for year ended 31 December 2013

UK Asset Resolution Limited (UKAR) is the holding company established on 1 October 2010 to bring together the government-owned businesses of Northern Rock (Asset Management) plc (NRAM) and Bradford & Bingley plc (B&B). In September 2012, UKAR was designated for consolidation with the HM Treasury Group accounts from 2013-14. As a result, UKAR's financial statements have been fully consolidated into WGA for the first time this year and the significant assets and liabilities for NRAM and B&B are shown in notes 21 and 25 to this account. More details on UKAR are available on its website[31].

On 13 October 2008, HM Treasury acquired ordinary shares of £8.5 billion in HBOS and £4.5 billion in Lloyds TSB, and preference shares of £3 billion in HBOS and £1 billion in Lloyds TSB. On 19 January 2009, HBOS and Lloyds TSB merged to form the Lloyds Banking Group (LBG) and this resulted in HM Treasury holding 43.4% of the share capital and £4 billion of preference shares in LBG, later converted to ordinary shares. In March 2014 the UK Government reduced their stake in Lloyds Banking Group to 24.9%. As result Lloyds has been reclassified back to the private financial corporation sector with effect from March 2014 and is not within the scope of the WGA consolidation boundary. The remaining £13.3 billion equity investment in Lloyds Banking Group is disclosed in Note 21.

RBS will continue to be held as an equity investment. This entity is not consolidated in WGA in 2013-14, because its scale dwarfs other aspects of WGA, distorting the accounts, and making it difficult to

[31] www.ukar.co.uk

determine trends. Furthermore, there is no intention for the government to retain the assets and liabilities of RBS in the long term and, in due course, it will return to the private sector. Finally, it would be costly to carry out the consolidation (mostly because of differing year ends), which would not represent good value for the taxpayer, given the expected temporary nature of their ownership.

36.1 Royal Bank of Scotland Group plc

In December 2008, HM Treasury acquired approximately £15 billion of ordinary shares in the Royal Bank of Scotland Group plc (RBS), plus £5 billion of preference shares which were later converted into ordinary shares. On 22 December 2009 the government injected a further £25.5 billion of capital in the form of B shares. In addition, the government has agreed to provide up to £8 billion of additional capital in return for B shares in the event that the bank's core Tier 1 capital ratio deteriorates sufficiently, breaching a threshold of 5%. In December 2009, RBS acceded to the Asset Protection Scheme (APS), insuring an initial asset pool of £282 billion. On 18 October, RBS reached the minimum fee of £2.5 billion and with no pay out under the scheme deemed likely, the government agreed with RBS to allow its exit.

The government's shareholdings give it 80.87% economic ownership of RBS as at 31 March 2014.

RBS published its 2013 results showing a loss on continuing operations of £8.2 billion before tax (2012-13: £5.2 billion). An extract showing the key figures is provided below. For further details, refer to the accounts of Royal Bank of Scotland Group plc, which are available on its website[32].

Extracts from Royal Bank of Scotland Group plc's accounts for the year ended 31 December 2013

	2013 £bn	2012 £bn
Total income	19.7	17.9
Loss before taxation	(8.2)	(5.2)
Tax credit/(charge) on profit/(loss) of ordinary activities	(0.4)	(0.5)
Loss from discontinued operations	0.1	(0.1)
Loss for the year after tax	**(8.5)**	**(5.8)**
Total assets	1,027.9	1,312.3
Total liabilities	(968.7)	(1,241.8)
Net assets and shareholder funds	**59.2**	**70.5**

36.2 Network Rail

Network Rail has been reclassified to central government from September 2014 and will be consolidated in WGA from 2014-15.

Network Rail Limited owns and operates the main rail network in Great Britain. Its primary aim is to provide a safe, reliable and efficient rail infrastructure. The main focus of Network Rail is on the operation, maintenance and renewal of Britain's railway, and facilitating enhancements. Whilst operating on a commercial basis, Network Rail is a not-for-dividend company and all profits made are reinvested in the industry. Its members include the train operating companies and other stakeholders.

[32] www.rbs.com

The Department for Transport has the lead responsibility for the government's relationship with Network Rail, and the Secretary of State for Transport is a special member but has no rights to any dividend or other distribution.

The Department for Transport's principal financial interest in Network Rail arises from indemnities issued in support of Network Rail's debt. Agreements were made between the Department and Network Rail in connection with the acquisition of Railtrack plc by Network Rail, which relate to the financial support provided to Network Rail, together with its output and enhancement obligations. These agreements operate alongside the contractual arrangements that exist between the department and Network Rail. The department considers that the likelihood of Network Rail having to rely upon these letters for financial support is remote. The department has also provided a financial indemnity in support of Network Rail's Debt Issuance Programme which amounted to £33.0 billion (2012-13: £30.4 billion) at 31 March 2014. The indemnity is available until 2052. It also covers guarantees provided by Network Rail in respect of certain financial obligations.

The summary results of Network Rail for 2013-14 are shown below. Further information on Network Rail is available in its accounts which can be viewed at www.networkrail.co.uk.

In 2013-14, £49.8 billion (92%) of the total assets for Network Rail relate to property, plant and equipment compared to £46.4 billion (88%) in 2012-13.

Bonds issued under the Debt Issuance Programme amounting to £33.2 billion formed 73% of the total liabilities in 2013-14. The Debt Issuance Programme is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052.

Extracts from Network Rail Infrastructure Limited's accounts for the year ended 31 March 2014:

Balance sheet as at 31 March 2014

	2013-14 £bn	2012-13 £bn
Non-current asset		
Property, plant and equipment - the railway network	49.8	46.4
Other	1.7	1.5
Total non-current assets	**51.5**	**47.9**
Current assets		
Cash and equivalents	1.3	3.5
Other	1.1	1.2
Total current assets	**2.4**	**4.7**
Total assets	**53.9**	**52.6**
Current liabilities		
Trade and other payables	(3.9)	(3,4)
Borrowings	(2.7)	(4.1)
Other	(0.4)	-
Total current liabilities	**(7.0)**	**(7.5)**
Non-current liabilities		
Borrowings	(31.3)	(29.3)
Other payables	(3.3)	(3.0)
Retirement benefit obligation	(1.2)	(1.3)
Deferred tax liabilities	(2.5)	(2.9)
Derivative financial instruments	(0.4)	(0.6)
Total non-current liabilities	**(38.7)**	**(37.1)**
Total liabilities	**(45.7)**	**(44.6)**
Net assets	**8.2**	**8.0**
Equity	**(8.2)**	**(8.0)**

Income statement for the year ended 31 March 2014

	Results pre debt and derivative revaluations 2014 Group £bn	Debt and derivative revaluations 2014 Group £bn	2013-14 Group £bn	2012-13 Group £bn
Revenue	6.3	-	6.3	6.2
Net operating costs	(4.3)	-	(4.3)	(4.0)
Operating profit	**2.0**	**-**	**2.0**	**2.2**
Property revaluation movements and profits on disposal	0.1	-	0.1	-
Total profit from operations	**2.1**	**-**	**2.1**	**2.2**
Other gains and losses	-	0.3	0.3	-
Finance costs	(1.4)	-	(1.4)	(1.4)
Profit before tax	**0.7**	**0.3**	**1.0**	**0.8**
Tax	0.3	(0.1)	0.2	(0.1)
Profit after tax for the year	**1.0**	**0.2**	**1.2**	**0.7**

Note 37. Events after the reporting period

In accordance with IAS 10 'Events after the reporting period', reporting entities are required to disclose any event between the date at the end of the reporting period and the date when the financial statements are authorised for issue that may affect the financial statements. The standard classifies these events as either 'adjusting' or 'non-adjusting'. Adjusting events refer to conditions that existed during the reporting period, and if the conditions change the statements should be adjusted accordingly. Non-adjusting events are significant conditions that arise after the reporting period, but do not require the statements to be adjusted. The FReM modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the consolidated entity's reporting date and the WGA reporting date do not apply, and therefore all such events are non-adjusting.

The following events that have occurred after the reporting period have been identified as significant to WGA.

British Business Bank

The Department for Business, Innovation and Skills (BIS) transferred a number of its investment funds to both British Business Investments Limited (BBIL) and another newly formed partner organisation, British Business Finance Limited (BBFL), in the period between 30 June and 31 October 2014. Subsequently, on 31 October 2014 BIS transferred its 100% shareholdings in both BBIL and BBFL to the British Business Bank plc at fair value for consideration of £374 million and £103 million respectively. On 1 November 2014, the operations of the British Business Bank plc began after it was granted State Aid approval to operate.

Final Investment Decision enabling for Renewables (FIDer) Contract

In the Department of Energy and Climate Change's Main Estimate £28.8 billion was provided for the fair value of liabilities incurred for Contracts for Difference expected to be signed under the Electricity Market Reform programme. In practice there may be no net liability to government because the matching receipts from electricity suppliers are classified as future taxation and they cannot be recognised as an offsetting asset in these accounts. Accounting rules mean that the estimated net present value of future payments to generators may have to be recognised as a provision by the government counterparty company. The amount of £28.8 billion included all contracts which may be entered into during 2014-15, including contracts under the Final Investment Decision enabling Renewables programme signed in April 2014 and the Enduring Contracts for Difference and Hinckley Point C, which have yet to be signed.

Contributions to the EU

Following the removal of long standing reservations on UK's Gross National Income (GNI) estimates and other ONS revisions to the UK National Accounts, the UK is making a one off additional contribution to the EU of £0.9 billion. This figure is net of the rebate and will be paid in two instalments in 2015-16, but accrued for in the 2014-15 accounts. Further details are available in the OBR Economic and Fiscal Outlook (December 2014)[33] and European Union Finances: 2014 (published by HM Treasury)[34].

Sukuk

On 25 June 2014, the government cemented Britain's position as the western hub for Islamic finance by becoming the first country outside the Islamic world to issue sovereign Sukuk, the Islamic equivalent of a bond. The government sold £200 million of Sukuk, maturing on 22 July 2019, to investors based in the UK and in the major hubs for Islamic finance around the world.

Dissolution of Probation Trusts

All Probation Trusts ceased operations on 1 June 2014. The operations of the Trusts were divided between the National Probation Service (NPS) and 21 Community Rehabilitation Companies (CRCs).

On 1 June 2014 a property transfer scheme and staff transfer scheme, under the Offender Management Act 2007 Schedule 2, effected the transfer of existing assets, liabilities and staff of the Trusts to the NPS and CRC public sector bodies in a practical way that reflects the services that each provides. All land and building assets used by the Probation Trusts were managed and owned centrally by the National Offender Management Service (NOMS) and recorded on their Statement of Financial Position. These assets continue to be managed and owned by NOMS post transfer.

With respect to pension liabilities of the Probation Trusts, from 1 June 2014 responsibility for funding the past service liabilities and all future contributions associated with those original employees who are active members of the Local Government Pension Scheme (LGPS) have transferred with the employee (to the CRCs or the NPS). The Ministry of Justice (MoJ) ensures that the past service liabilities that transfer to the CRC are 100% funded on an ongoing basis from the date the employees transfer. The responsibility for funding past service liabilities associated with the original employees who are deferred or pensioner members of the LGPS has transferred to the NPS.

A tender process recently concluded which has resulted in successful bidders taking ownership of the CRCs from 1 February 2015. The 21 CRCs will deliver services under contract to NOMS. The NPS will be a delivery arm of NOMS and will deliver services under a service level agreement. CRCs will manage the majority of offenders in the community sentenced to community orders, suspended sentence orders, and those subject to licence conditions or supervision requirements and will offer innovative rehabilitative support to offenders. The NPS will be responsible for advice to courts, management and rehabilitation of Multi-Agency Public Protection Arrangements cases, high risk of serious harm and other public interest offenders, and delivery of their sentences. The NPS will also manage approved

[33] http://cdn.budgetresponsibility.independent.gov.uk/December_2014_EFO-web513.pdf
[34] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388882/EU_finances_2014_final.pdf

premises that were previously managed by Probation Trusts, Victim Liaison, and accredited programmes for sex offenders as well as bespoke interventions for some of the NPS cohort.

Defence Equipment and Support

Defence Equipment & Support (DE&S) was launched as a bespoke trading entity on 1 April 2014 with the remit of equipping and supporting the UK's armed forces for operations now and in the future. It has an annual operating budget of some £1.3 billion and spends approximately £14.7 billion annually to purchase new military equipment and provide the ongoing support that the Royal Navy, British Army and Royal Air Force need to operate effectively. DE&S is responsible for delivering complex projects which often involve innovative technologies, sophisticated supply chains, a mix of market sourcing strategies and outputs. It works closely with industry, including through partnering agreements and private finance initiatives.

Sale of shares in Lloyds Bank

Equity investments in these accounts include £13.3 billion of available for sale assets, being the value of the government's shareholdings in Lloyds Banking Group as at 31 March 2014. In December 2014, the government launched a trading plan designed to reduce the publicly-owned stake in Lloyds over a six-month period. A trading plan involves gradually selling shares in the market over time, in an orderly and measured way. Up to 9 March 2015, the government had sold about £1 billion of Lloyds Banking Group shares through the trading plan, reducing the government's stake in the bank to 23%.

Sale of shares in Eurostar

These accounts include £0.3 billion of equity investments, being the value of the government's 40% shareholding in Eurostar International Ltd as at 31 March 2014. On 4 March 2015, the government accounted that it had agreed to sell its stake for £0.6 billion to a consortium in the private sector. Eurostar also agreed, as part of the sale of the government shareholding, to redeem the government's preference share, providing a further £0.2 billion. The sale is expected to complete in April 2015.

Royal Mail disposal

The Department for Business, Innovation and Skills included £1.6 billion of Post Office Holdings Limited assets in their group revaluation reserve that had been sold in 2013-14. In accordance with IAS 16 and the FReM, these balances should have been transferred to the Statement of Comprehensive Net Expenditure upon the disposal of assets. The WGA 2013-14 figures in these financial statements have not been adjusted for this in line with section 14.2.4 of the FReM. The 2014-15 financial statements will be restated to reflect the correction. However, there will be a £nil impact on net assets when this adjustment is made.

Note 38. Prior period adjustments

Prior period adjustments in WGA arose from WGA bodies restating, reclassifying or correcting figures in their 2012-13 accounts. These restatements have no material impact on the Statement of Revenue and Expenditure. The impact of the restatements on the Statement of Financial Position is shown below.

With effect from 1 April 2013 UK Asset Resolution Ltd (UKAR) has been consolidated within HM Treasury's group resource account. UKAR includes NRAM plc, Bradford and Bingley plc and subsidiaries. The accounts therefore include the transactions and opening and closing balances from UKAR for the current year and have restated the balances for 2012-13 accordingly. A total of £0.7 billion net assets have been included for the restatements in 2012-13. £38.9 billion of the total value has been included as financial assets, with a further £3.1 billion of cash. This has primarily been offset by £35.6 billion of additional financial liabilities, with a reduction of £4.8 billion in equity in public sector banks and minor movements in a number of other categories. The contingent liability relating of £1.6 billion to NRAM has been removed, as the obligation and resolution arise within HM Treasury as a single group entity. Further details are available in the HM Treasury 2013-14 accounts.

In 2013-14 a number of public corporations including the Prudential Regulation Authority, the Financial Conduct Authority and the Financial Ombudsman Service have been included within the WGA for the first time. The balances for 2012-13 have been restated accordingly. Whilst the overall restatement is immaterial, there has been a £0.2 billion restatement to short term receivables, and a £0.7 billion restatement to short term payables.

The restatement of £0.3 billion in the net pension liability relates to the Police Service of Northern Ireland Pension Scheme. The Government Actuary's department (GAD) identified an adjustment to their calculations to the 2012-13 liability for the closed Pension Scheme while preparing the 2013-14 disclosures. This error has not affected the amount that employers or employees currently pay into the scheme or payments from the scheme to individual pensioners. Further details are available in the Police Service of Northern Ireland Pension Scheme 2013-14 accounts.

Following the incorporation of Royal Mail plc and the disposal of 70% of its shares by the Postal Services Holding Company, the ONS retrospectively classified the Postal Services Holding Company to the central government sector and its financial results are included within the Department of Business, Innovation and Skills reporting boundary. The reclassification led to the inclusion of an escrow cash account of £1.25 billion within the boundary as at 31 March 2013.

A number of local authorities restated their opening balances within the property, plant and equipment note. Under the CIPFA Code of Practice on Local Authority Accounting, local authorities are not required to report land and buildings separately within their own financial statements, and therefore report a combined balance within buildings for the Whole of Government Accounts submission. A number chose to report the balances for land and buildings separately for 2012-13, resulting in a £1.7 billion decrease to land for the prior year, with a corresponding £1.7 billion increase to buildings. These adjustments had no effect on the PPE note overall, nor the Statement of Financial Position.

The 1 April 2013 saw the inception of two new Scottish national bodies, the Scottish Fire and Rescue Service and the Scottish Policing Authority. These two bodies were classified by ONS to the central government sector. At the same time the regional police and fire bodies (classified to the local government sector) ceased to exist, with all assets and liabilities transferring to the national bodies. This resulted in some revaluations on recognition of the assets in the new bodies.

Changes of accounting policy also included a number of small adjustments which were not significant for these accounts but were material to underlying accounts and reflected in the balances making up these accounts.

Restatement of the Consolidated Statement of Financial Position
As at 31 March 2013

	Note	2012-13 reported £bn	Restatement adjustment £bn	2012-13 restated £bn
Non-current assets				
Property, plant and equipment	*13*	747.1	(0.3)	746.8
Investment property	*14*	12.5	(0.1)	12.4
Intangible assets	*15*	34.5	-	34.5
Trade and other receivables	*16*	15.6	1.0	16.6
Equity investment in the public sector banks	*17*	45.2	(5.2)	40.0
Other financial assets	*21*	126.8	31.8	158.6
Total non-current assets		**981.7**	**27.2**	**1,008.9**
Current assets				
Inventories	*19*	12.2	(0.1)	12.1
Trade and other receivables	*16*	121.7	0.6	122.3
Cash and cash equivalents	*20*	19.8	4.7	24.5
Gold holdings		10.5	-	10.5
Assets held for sale	*18*	1.6	-	1.6
Other financial assets	*21*	116.3	1.3	117.6
Total current assets		**282.1**	**6.5**	**288.6**
Current liabilities				
Trade and other payables	*22*	(97.1)	(1.2)	(98.3)
Government borrowing and financing	*23*	(214.3)	-	(214.3)
Provisions for liabilities and charges	*24*	(12.5)	(0.9)	(13.4)
Other financial liabilities	*25*	(408.9)	0.5	(408.4)
Total current liabilities		**(732.8)**	**(1.6)**	**(734.4)**
Non-current liabilities				
Trade and other payables	*22*	(54.8)	(0.4)	(55.2)
Government borrowing and financing	*23*	(781.9)	-	(781.9)
Provisions for liabilities and charges	*24*	(118.2)	0.6	(117.6)
Net public sector pension liability	*26*	(1,171.6)	(0.3)	(1,171.9)
Other financial liabilities	*25*	(34.1)	(30.3)	(64.4)
Total non-current liabilities		**(2,160.6)**	**(30.4)**	**(2,191.0)**
Net liabilities		**(1,629.6)**	**1.7**	**(1,627.9)**
Liabilities to be funded by future revenues:				
General reserve	*SoCTE*	1,882.2	(5.6)	1,876.6
Revaluation reserve	*SoCTE*	(248.9)	3.9	(245.0)
Other reserves	*SoCTE*	(3.7)	-	(3.7)
Total liabilities to be funded by future revenues		**1,629.6**	**(1.7)**	**1,627.9**

Note 39. Date authorised for issue

The financial statements were authorised for issue on 23 March 2015.

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

I certify that I have audited the financial statements of the Whole of Government Accounts (the Account) for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. These comprise the Consolidated Statements of: Revenue and Expenditure, Comprehensive Income, Financial Position and Changes in Taxpayers' Equity; Cash Flow Statement; the related notes; and Annexes 1 to 4. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of a consolidated account for a group of entities each of which appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money, which presents a true and fair view of the state of affairs of the whole of Government. My responsibility is to audit, certify and report on the accounts with a view to satisfying myself that they present a true and fair view. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HM Treasury; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword, Performance Report, Comparison to National Accounts, Governance Statement and Remuneration 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.

Basis for qualified opinion on financial statements

Qualification arising from disagreements on the definition and application of the Account boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the Account should present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context. HM Treasury has adopted a framework for this Account which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.22 to this Account, HM Treasury defines the accounting boundary for the Account by reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with reference to the accounting standards. By applying such accounting standards, I consider that the Account should include Network Rail.

I also consider that HM Treasury's accounting policy has not been applied consistently in 2013-14 as a number of significant bodies, including Royal Bank of Scotland, have not been included in the Account, even though they are classified by the Office for National Statistics as being in the public sector and which I also consider should be included in the Account in line with applicable accounting standards.

I cannot quantify the effect of these omissions from the Account with certainty as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view. The most significant impact would be on the Account's Statement of Financial Position. The exclusion of the following categories of bodies would affect this Statement, illustrating the potential impact:

- Network Rail which has gross assets of £53.9 billion and gross liabilities of £45.7 billion;
- publicly-owned banks which have gross assets £1,027.9 billion and gross liabilities of £968.7 billion; and
- other bodies which have estimated gross assets of £16.6 billion and gross liabilities of £5.9 billion.

Qualification arising from disagreement relating to inconsistent application of accounting policies

HM Treasury's accounting policies state that the WGA is prepared on an International Financial Reporting Standards (IFRS) basis, as adapted or interpreted for the public sector context. A number of bodies consolidated in the WGA do not adopt the same framework under which the Account is prepared. These bodies fall under the following categories:

- bodies in the local Government sector follow the Code of Practice on Local Authority Accounting in the UK for 2013-14;
- bodies that follow either pure IFRS or UK GAAP; and
- bodies that follow the Charities Statement of Recommended Practice.

Accounting standards require that, where the effect of such inconsistent accounting policies are material, adjustments should be made on consolidation. HM Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2013-14. This inconsistency is where infrastructure assets included in the Account are valued on an inconsistent basis. Assets held by local authorities are valued at historic cost, whereas those held by central Government bodies are valued at depreciated replacement cost. HM Treasury's estimate of the understatement of assets due to the difference in valuation between historic cost and depreciated replacement cost for local authority assets could be at least £232 billion (Note 13 to the accounts). I do not have the information to fully quantify the effect of all inconsistent applications of accounting policies.

Qualification arising from disagreement in the accounting for 3G and 4G licences

In April 2000, the Government issued licences to access the 3G telecommunications spectrum. Each licence was awarded for 20 years and the total raised was £22.5 billion. This was recognised as £22.5 billion of income in 2000-01. In March 2013, the Government issued further licences to access the 4G telecommunications spectrum. As with 3G, each licence was issued for 20 years and the total payments were £2.4 billion which was recognised as income in the 2012-13 financial statements. In respect of both sets of licences I consider that it would be more appropriate to recognise this income over the life of the licences as the licence holders have the right to access the spectrum for 20 years and the Government has an on-going obligation to ensure that the spectrum remains available to licence holders, exercised by the Office of Communications. The impact of this difference is that income would be £1.3 billion higher; liabilities would be £8.9 billion greater (£10.2 billion in 2012-13); and the value of the general fund would be £8.9 billion less (£10.2 billion in 2012-13).

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts

Local authority maintained schools are required to be included in the Account. There is insufficient evidence over the completeness and accuracy of the valuation of assets held by these schools. Local authority maintained schools' assets, which are estimated to be up to £21.8 billion (2012-13: £23.0 billion) of assets from voluntary aided and foundation schools and £7.7 billion (2012-13: £8.1 billion) of assets from voluntary controlled schools, have been omitted from these Accounts.

Qualification arising from disagreement and limitation in audit scope from underlying statutory audits of bodies falling within the Accounts.

The external auditors of the financial statements of 4 bodies that are consolidated into this Account qualified their audit opinion. Of these, two are of material significance to this Account, qualifications of the Departmental Accounts of the Ministry of Defence and the Department for Education.

- **Ministry of Defence Resource Accounts:** The Department has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17, Leases. Consequently, I have concluded that the Department has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2012, 31 March 2013 and 31 March 2014. This has also led to a material misstatement of the Statement of Comprehensive Net Expenditure for 2012-13 and 2013-14; and Statement of Parliamentary Supply for 2012-13 and 2013-14. I am unable to quantify the impact on the financial statements because the Department has not maintained the records or obtained the information required to comply with International Financial Reporting Standards in this respect.

In 2012-13, I qualified my opinion in respect of the valuation of inventory and certain non-current assets in the form of capital spares recorded in the financial statements. During 2013-14 the Department performed an adequate impairment review and charged impairments of £860 million to the Statement of Comprehensive Net Expenditure. I have therefore been able to obtain sufficient, appropriate audit evidence to support the valuation of £6.4 billion of non-current asset Capital Spares and £3.3 billion of non-explosive inventory, held on inventory systems subject to previous qualification, at 31 March 2014. My opinion on the financial statements is qualified in respect of the corresponding figures for the asset values at 31 March 2013.

- **Department for Education Resource Accounts:** The Department consolidated 3,905 academies using a number of data sources with different reporting periods. This has resulted in a level of misstatement and uncertainty that I consider to be material and pervasive to the group financial statements.

  In addition, the Departmental Group has recognised academy trust land and buildings of £31 billion in its Statement of Financial Position. The audit evidence available to me was limited in respect of this balance because the Group was unable to demonstrate that these all met the recognition criteria for a non-current asset under International Accounting Standard 16 Property, Plant and Equipment.

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness of the elimination of intra-Government transactions and balances

Accounting standards require that balances and transactions held and made between bodies consolidated into this Account shall be eliminated in full. HM Treasury has a process in place to identify intra-Government balances and transactions between bodies consolidated into the Account, and most balances and transactions have been eliminated. However, there remain significant values of intra-Government transactions and balances which have not been eliminated and the effect of not adjusting for these could lead to a potential overstatement of up to £7.3 billion (£9.1 billion in 2012-13) in gross income and expenditure and up to £2.2 billion (£3.7 billion in 2012-13) in gross assets and liabilities.

I have reviewed the impact of this uncertainty and have assessed that the maximum uncertainty resides within the gross figures in the individual primary statements rather than on the net deficit or net liabilities. The totals reported for the net deficit and the net liabilities are subject to a maximum uncertainty of some £0.5 billion (£1.3 billion in 2012-13). This information is derived from where only one body has reported an intra-Government transaction or balance or there is a mismatch on the amounts reported. There is also uncertainty about whether there are amounts which both bodies involved in a relationship have not reported, leading to further overstatement.

Qualified opinion on financial statements

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above:

- the financial statements give a true and fair view of the state of the affairs of the Whole of Government Accounts as at 31 March 2014 and of its net deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000.

Emphasis of matter – nuclear decommissioning provisions

In forming my opinion on the truth and fairness of these financial statements, I have considered the adequacy of the disclosures made in areas where there is significant uncertainty in the values reported in Note 1.22.5 to the financial statements, which concerns the uncertainties inherent in estimating the likely costs of the liabilities of the Nuclear Decommissioning Authority. As explained in the Note, the lengthy timescales, final disposition plans for waste and spent fuel, timing of final site clearance and the confirmation of site end states mean that the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustment over time to the value of the provision, which currently stands at £64.9 billion (£58.9 billion in 2012-13).

Opinion on other matters

In my opinion, the information given in the Foreword, Performance Report, Comparison to National Accounts, Remuneration Report and Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitations on audit scope referred to in the basis for qualified opinion paragraphs above:

- the financial statements are not in agreement with the accounting records or returns; and
- I have not received all of the information and explanations I require for my audit.

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

- returns adequate for my audit have not been received from component bodies not visited by my staff; or
- the Governance Statement does not reflect compliance with HM Treasury's

guidance.

My Report includes more details of the matters leading to my qualified opinion.

Amyas C E Morse
Comptroller and Auditor General
23 March 2015

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

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

Summary

1 The Whole of Government Accounts (WGA) is a single set of accounts consolidating the financial activities of the UK public sector. The WGA for 2013-14 is the fifth such set of audited accounts to be published by HM Treasury (the Treasury).

2 The WGA consolidates the financial activities of over 5,400 organisations from across the public sector into a single set of audited accounts showing the overall public sector financial position. It includes both central and local Government bodies as well as public corporations such as the Bank of England.

3 The WGA is now a key part of the Treasury's framework for improving public financial management and accountability to Parliament for the Government's financial position. The WGA is increasingly being used within and outside of the Treasury to inform decisions which affect public finances. As such, improvements to the quality and timeliness of the WGA help to increase its value to the Treasury in its own management of the public finances; and improve accountability to Parliament and the public.

4 Since the 2009-10 WGA was first published, the Treasury has made continuous improvements to its processes for compiling these accounts, to data quality and to its commentary published alongside the accounts. As a result, the Treasury has been able to reduce the publication time after the year end from 20 months in 2009-10 to producing the 2013-14 WGA within one year of the reporting date, meeting a major milestone in its aim of delivering WGAs within nine months of the year end.

Scope of my financial audit

5 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 accurate, prepared fairly and accord with an applicable financial reporting framework. Under the Government Resources and Accounts Act 2000, I am required to audit, certify and report on the WGA.

6 I applied the concept of materiality in planning and performing my audit; and in evaluating the effect of misstatements on my audit opinion 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. Part 2 provides more detail on my approach to determining materiality and the materiality levels applied to my audit of the WGA

7 My audit approach is risk based, informed by my understanding of the Government's activities and my assessment of the risks associated with the WGA. This focusses my audit on the areas of highest risk, such as those affected by significant accounting estimates or management judgement. In this context, risk solely relates to the risk of material misstatement in the presentation of the financial statements, 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.

8 The main risks for my audit of the WGA relate to the past qualifications, which are set out in Part 2 of this report. These relate to four broad themes: the boundary of the WGA and its application; areas of inconsistency in accounting treatments; disagreement over accounting treatments; and the quality of the data that forms the financial statements. I am also required to consider the following by International Standards on Auditing:

- The risk of material fraud arising from the approach to recognising revenue, which I addressed through my understanding and assessment of the Government's approach to recognising the main revenue streams via my audit of HM Revenue and Customs; and

- The risk of management using its influence to override the embedded controls that support the production of the financial statements and manipulate the financial results within the WGA. This risk is a particular challenge for the WGA, due to the range of sources of figures that constitute the accounts and level of adjustments that the Treasury processes to produce the consolidated figures. I addressed this through my audit of these adjustments and my assessment of how the transactions streams and balances within the underlying accounts that form the WGA are reflected within the consolidated financial statements.

9 My audit opinion on the financial statements considers the truth and fairness of the presentation of the WGA but does not consider whether the activities 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. I exercise these functions through my programme of value for money reports.

Conclusions

10 I completed my audit in line with my planned audit approach. I have qualified my audit opinion on six counts this year, relating to: the application of the WGA accounting boundary; inconsistencies in the underlying accounting treatments within the WGA; disagreement on the accounting treatment of 3G/4G mobile licences; lack of evidence in support of the completeness and valuation of school assets; underlying material qualifications of the Department for Education and Ministry of Defence accounts; and inaccuracies in the elimination of intragroup transactions and balances.

11 In reaching these opinions I am satisfied that I have obtained sufficient appropriate evidence in relation to these qualification areas and the additional risks related to the risk of fraud in revenue recognition and the potential for override of the accounts production process controls by management.

12 My Report covers:

- In **Part 1**, the context for my audit of the 2013-14 WGA; and the progress the Treasury has made in taking forward recommendations made in previous years by the National Audit Office and the Committee of Public Accounts; and
- In **Part 2**, why I qualified my audit opinion on the 2013-14 WGA, and the progress made by the Treasury in resolving my qualifications.

Key findings

13 The WGA shows the UK public sector's overall financial position, as defined by accounting standards. In 2013-14, the WGA net expenditure (the shortfall between income and expenditure) decreased by £30.1 billion to £148.6 billion largely due to an increase in taxation revenues and stabilisation of overall expenditure. Direct expenditure (monies incurred in the direct delivery of the Government's policies) fell for the first time since 2010-11, by £2.0 billion in 2013-14 to £663.8 billion, mainly due to a reduction in provision expenses offset by increases in the purchase of goods and services. Within this overall expenditure, the overall cost of benefits has fallen for the first time to £213.4 billion from £215 billion and staff salaries have also fallen to £146.4 billion from £147.6 billion.

14 The Government's net liabilities (the shortfall between asset and liabilities) increased to £1,851 billion as at 31 March 2014 from £1,627.9 billion at 31 March 2013, largely due to increases in public sector pension liabilities of £130 billion and Government borrowing of £99.9 billion.

15 The 2013-14 WGA is a true and fair account of the use of public resources, but my opinion remains qualified. My audit opinion on the 2013-14 WGA is similar to that for 2012-13 and previous years as significant issues remain with the boundary of the financial statements and quality and consistency of the data. However, the Treasury is progressing with its plans to address the issues that have led me to qualify my audit opinion, particularly with regard to eliminations of intra-Government transactions. If these plans are successful, I may be able to remove a number of my qualifications within the next four years.

16 The Treasury published the 2013-14 WGA within one year of the reporting date for the first time, which is a significant achievement. This will allow for

more effective transparency and accountability for how public finances are managed. The 2013-14 WGA was published 12 months after the reporting date compared to 20 months for the 2009-10 WGA. This improvement is part of the Treasury's aim of delivering the WGA within nine months of the year end. It also reflects the fact that the data collection and accounts production processes supporting the WGA have become much more embedded and better controlled since it was first published. To achieve further improvements in delivery, the Treasury needs to work with the bodies that provide data to support the accounts to improve the timeliness and accuracy of the information that it receives.

17 WGA is one part of a wider set of processes which the Treasury uses to manage risks to the public finances. The Treasury has improved its analysis of the trend data within WGA, which is starting to reveal the impact of the process of reducing the budgetary surplus and improvements in the performance of the economy. For example, the 2013-14 WGA shows the effect of increases in revenue flowing through from the emerging economic recovery; the process of restructuring the benefits regime; and reductions of public sector staffing on salaries. The Treasury's analysis of trends in the Government's assets and liabilities can, however, still be enhanced to demonstrate the full financial impact of changes in the delivery of public service in the next Parliament

18 The Treasury is taking steps to make disclosures in WGA more detailed and transparent. However, there is more to be done in this regard, particularly in relation to the disclosures on: the purchase of goods and services; the risks related to borrowing; and fraud and losses across Government. Enhancing disclosures in these areas will help the reader to see how Government spends taxpayers' money; assess the impact of the Government's management of the economy on borrowing; and understand the main sources of financial loss.

Recommendations

19 Although responsibility for the underlying transactions lies with the various bodies included in the WGA, my recommendations are aimed at the Treasury, because it has ultimate responsibility for preparing the WGA. The Treasury should:

- **Continue its work in improving the quality and timeliness of the data within the WGA so that it is a true and fair account in all respects**. The Treasury should review the causes of late and erroneous data within the component bodies making up the WGA and set out an action plan for resolving them at an individual component level.
- **Build on developments in financial management across Government to improve the consistency of accounting and financial reporting across the public sector.** This will improve the comparability of data within the WGA and the Treasury's ability to analyse trends across Government.
- **Continue to raise the profile of the WGA within Government and embed it**

in the routine monitoring of risks to public finances. As use of the WGA within Government increases, the Treasury should seek to provide greater insight into the continued process of reducing the budgetary surplus, termed fiscal consolidation, within the next Parliament and monitor the risks to the delivery of this programme. As the process of fiscal consolidation evolves, the Treasury should build on its analysis of in year spend to demonstrate the impact of Government policy on the assets and liabilities it is responsible for, to illustrate its approach to managing the increasing net liability position.

Part One: The context for my audit of the WGA

The Whole of Government Accounts

1.1 The Whole of Government Accounts (WGA) is a single set of audited accounts consolidating the financial activities of over 5,400 bodies, representing most of the UK public sector. It is the largest consolidation of public sector accounts in the world and includes central and local Government and public corporations such as the Bank of England; but not independent public sector organisations such as Parliament, the Crown Estate or the National Audit Office (**Annexes 2** and **3** to the WGA set out entities that have not been consolidated). The WGA sets out what the Government owns (assets), owes (liabilities), spends (expenditure) and receives (revenue).

1.2 The Treasury compiles the WGA and has overall responsibility for delivering it as a "true and fair" representation of the financial position and performance of Government as a whole. It has also provided a detailed Performance Report (**Chapter 2**) which sets out the Government's financial performance for 2013-14.

The context for my audit of the 2013-14 WGA

1.3 Statistics on the Government's financial position are routinely published in the *National Accounts*, monthly *Public Sector Finances Report*, the *Public Expenditure Statistical Analyses* and other sources. These produce two main measures which HM Treasury use for fiscal management: C*urrent Deficit* and *Public Sector Net Debt*.

1.4 The WGA provides a broader view of public finances based on accounting standards. The Treasury sets out the key differences between the two approaches and the reported financial position in **Chapter 3** to the WGA. Between 2009-10 and 2013-14, net expenditure as shown in the WGA has fluctuated whereas the ONS's Current Deficit fell year on year[1]. The WGA also shows that the Net Liability has fluctuated over the same time period whereas Public Sector Net Debt has increased[2].

WGA Net Expenditure

1.5 The WGA shows that net expenditure, the shortfall between income and expenditure as defined by accounting standards, was £148.6 billion in 2013-14

[1] Paragraph 3.28 and Public Sector Current Budget Deficit Table in Chapter 3

[2] Paragraph 3.14 and Public Sector Net Debt Table in Chapter 3

(**Figure 1**). This compares to £178.7 billion reported in 2012-13. The reduction is largely due to increases in revenue against broadly stable overall expenditure.

Figure 1

Key elements of the Whole of Government Accounts 2013-14

	Examples	2009-10	2010-11	2011-12	2012-13 (restated)	2013-14
Assets	Land and buildings, student loans, taxes due.	1,249.5	1,234.3	1,270.6	1,297.5	1,337.3
Liabilities	Public sector pension schemes, Government borrowing.	2,477.4	2,420.0	2,617.5	2,925.4	3,189.1
Net Liability		**1,227.9**	**1,185.7**	**1,346.9**	**1,627.9**	**1,851.8**
Revenue	Taxation, rental from local Government housing.	(583.4)	(614.0)	(616.6)	(620.7)	(648.5)
Direct Expenditure **(Paragraph 1.6)**	Benefit payments, staff costs, grants, contributions to the EU.	619.5	663.3	647.8	665.8	663.8
Other Operating Expenditure	Pension scheme costs and impairment of assets.	47.7	(38.4)	67.3	51.5	54.2
Net Financing Cost	Interest paid on borrowing.	78.6	83.2	88.1	79.4	78.8
Other assets on	Revaluation of financial and liabilities and net loss disposal of assets.	0.3	0.3	(1.3)	2.7	0.3
WGA Net Expenditure for the year		**162.7**	**94.4**	**185.3**	**178.7**	**148.6**

All figures are in £ billions

Sources

2009-10 - NAO analysis of restated prior year values in 2010-11 WGA

2010-11 - NAO analysis of restated prior year values in 2011-12 WGA

2011-12 - NAO analysis of restated prior year values in 2012-13 WGA

2012-13 - NAO analysis of restated prior year values in 2013-14 WGA

2013-14 - NAO analysis of 2013-14 WGA

1.6 In the 2011-12 WGA, the Treasury introduced a new way of explaining the trend in public spending, called Direct Expenditure. The Treasury's definition of Direct Expenditure is monies incurred in the direct delivery of the Government's policies. This uses items in the WGA's Consolidated Statement of Revenue and Expenditure but excludes those that result from the revaluation of assets or are actuarially determined, as these are outside the direct control of individual entities within the WGA, and finance costs. Performance using this measure shows that in 2013-14, Direct Expenditure fell to £663.8 billion from £665.8 billion last year[3]. This reflects falls in:

- provision expenses to £19.7 billion from £29 billion;
- social security benefits to £213.4 billion from £215 billion;
- depreciation to £28.2 billion from £29.2 billion; and
- staff costs to £147.0 billion from £148.4 billion.

1.7 These reductions were offset by:

- increases in grants to £59.8 billion from £56.3 billion; and
- the costs of goods and services and other costs to £189.8 billion from £182.3 billion.

The WGA Net Liability

1.8 Since the WGA was first produced covering 2009-10, the net liability has increased to £1,851.8 billion from £1,227.9 billion (Figure 1). Over this five year period, the most significant factor was the issuance of £314.3 billion of Government debt to finance the deficit. An increase of £167.2 billion to public sector pension liabilities was mainly due to actuarial assumptions, current service costs and financing costs, offset by a significant decrease caused by increasing payments in line with the consumer price index instead of the retail price index in 2011-12.

1.9 In 2013-14, the Government's net liability increased by £223.9 billion to £1,851.8 billion. The mainly was due to a £130 billion increase to public sector pension liabilities and £99.9 billion increase to Government borrowing. This increase in the overall net liability position is likely to continue in the coming years due to continued deficits in the public finances.

Improvements made since the 2012-13 WGA

1.10 The Treasury continues to improve the WGA and take forward recommendations made by both the National Audit Office and the Committee of Public Accounts. Since I last reported, the Treasury has taken forward a number of initiatives which aim to improve the robustness, timeliness and quality of the WGA, and use the WGA to help inform the Government's financial position.

[3] (**Figure 1** above**, Table 2.2 in the WGA Performance Report**).

Reflecting the Government's fiscal consolidation measures within the trend analysis in the Performance Report section of the WGA

1.11 The 2013-14 WGA shows the initial financial impacts of the Government's major fiscal consolidation and growth programmes during this Parliament. This demonstrates the valuable contribution the WGA can make to the transparency agenda and in demonstrating the overall impact of this consolidation.

1.12 There are three areas where economic growth and fiscal consolidation measures can be seen within the WGA: increases in taxation revenue; revisions to the social security benefits regime under the control of the Department for Work and Pensions; and reductions in the employment in the public sector. These are set out below.

Taxation revenue

1.13 The WGA shows a significant increase in the Government's revenue arising from taxation to £555.8 billion from £524.4 billion[4], which represents 6 per cent of revenue. This increase is broad based but mainly arises from: increases in income tax receipts of £11.2 billion, which is the first increase in such receipts in the WGA since 2010-11 and reflects the improved employment position since the 2012-13 WGA; VAT of £9.1 billion reflecting an increase in consumer spending; and stamp duties of £3.4 billion, reflecting the increased activity in the housing market since the 2012-13 WGA.

1.14 The only major taxation stream that has not increased is local taxation, which fell to £52.8 billion from £55.9 billion, mainly due to the effect of changes to the benefits regime which impacted on council tax and changes to the regime for non-domestic rates.

Social security benefits

1.15 Total social security benefits have fallen in the WGA for the first time this year, to £213.4 billion from £215 billion[5].

1.16 This reflects:

- increases to state pension payments, which are the largest benefit stream, to £85.0 billion from £83.8 billion, reflecting the uprating of pensions by 2.5 per cent;
- increases in the Employment Support Allowance to £10.9 billion from £6.7 billion;
- falls in housing and local Government benefits to £27.3 billion from £28.5 billion, reflecting the revisions to the housing benefit regime;
- falls in child benefit to £11.5 billion from £12.2 billion, reflecting the removal of

[4] Note 3 to the *Whole of Government Accounts 2013-14*.

[5] Note 6 to the *Whole of Government Accounts 2013-14*

the benefit from higher rate tax payers;

- falls in income support payment to £4.0 billion from £5.7 billion, reflecting the revisions to the benefit regime; and
- falls in incapacity benefit to £1.3 billion from £3.5 billion reflecting the revisions to the benefit regime.

Reductions in public sector wages and salaries

1.17 Public sector wages and salaries have fallen to £146.4 billion from £147.6 billion[6], reflecting the initial impact of the reduction in public sector staff numbers which can be seen in the WGA this year. Overall staff numbers within the public sector have fallen to 4.45 million from 4.62 million, a reduction of some 157,000 staff. This reflects the transfer of employment from the public to private sector, arising mainly from the sale of Royal Mail in October 2013, and the balance of changes in staffing rates across the public sector.

1.18 The WGA, in note 7.3, shows 72,445 compensation packages arising from staff leaving the public sector during the year, at a total cost of some £1.8 billion. These costs are expected to fall during 2014-15.

1.19 In the 2014-15 WGA the impacts of the fiscal consolidation should be more clearly identifiable in the Performance Report as the trends in revenues, benefits, staff reductions and changes to pension contribution rates within public sector pension schemes become more prominent and wide ranging.

Earlier delivery

1.20 The most significant step forward this year has been the timeliness of the delivery of the WGA. For the first time, HM Treasury has published the 2013-14 WGA within a calendar year of the reporting date. Given the scale and complexity of the consolidation, this represents a significant achievement. However, the Treasury is still suffering delays and problems with the quality of the data it receives from its component bodies

1.21 The Treasury is aiming to accelerate the WGA timetable even further and is working towards the delivery of the WGA within 9 months of the year end. To achieve this, it will need to ensure that the components within the WGA are able to provide more accurate and timely information.

[6] Note 7 to the *Whole of Government Accounts 2013-14*

Using the WGA to help inform the Government's financial position and enhance decision making

1.22 The WGA is one part of a wider set of processes that the Treasury uses to manage risks to public finances. In the main, financial risk management in Government centres on the fiscal; budgeting and spending; and estimates frameworks. While these frameworks were designed for different purposes, they are connected and, in many cases, draw on the same data, such as Government departments' monthly reporting of spend to date and forecasts in OSCAR[7].

1.23 The WGA has the potential to help the Treasury manage longer-term risks to the Government's assets and liabilities. These do not feature as prominently in these other frameworks as they tend to focus on Government spending, cash requirements or individual, rather than overall, financial assets and liabilities. The WGA is already being used to help manage these longer terms risks. For example, the Office for Budget Responsibility draws on the WGA, among other sources, in its consideration of the risks to the sustainability of public finances when developing its long-term projections of Government spending and receipts[8]. The Institute of Fiscal Studies has also used WGA recently to support its analysis of the public finances in advance of the upcoming budget[9].

1.24 There are two areas where the 2013-14 WGA reflects developments in the Government's balance sheet. These are the cost of financing the Government's debt; and the reporting of the risks to the Government's finances.

The cost of financing the Government's debt

1.25 Government borrowing financed mainly by the issuance of Government debt instruments, called Gilts, has increased to £1,096.1 billion from £996.2 billion during 2013-14[10], but the costs of financing this debt have only increased to £31.7 billion from £31.0 billion during the year. Therefore, the cost of financing this debt overall has fallen to 2.9 per cent from 3.1 per cent[11]. The reduction in financing costs is due to the refinancing of Gilts at more favourable rates. The Debt Management Office is responsible for managing the issuance of Gilts on behalf of the Treasury, which

[7] OSCAR, the Online System for Central Accounting and Reporting, is the Treasury's financial reporting and management system which captures and monitors central Government spend and is used to prepare the WGA.

[8] Office for Budget Responsibility, *Fiscal Sustainability Report*

[9] http://www.ifs.org.uk/uploads/gb/gb2015/gb2015.pdf

[10] Note 23 of the *Whole of Government Accounts 2013-14*

[11] Note 12 of the *Whole of Government Accounts 2013-14*

includes financing the in-year deficit and refinancing previously issued debt. During the year the Debt Management Office sold £153.4 billion of Gilts[12].

1.26 The level of Government debt will rise again in 2014-15. This reflects the continuing deficit in the public sector finances, which is likely to be in place until the end the middle of the next parliamentary session and the recognition within the WGA of Network Rail's debt of £33 billion for the first time[13]. As the level of Government debt increases, the risks associated with financing it also increase. Therefore, the Treasury should provide greater disclosure on its approach to managing the costs of financing this debt within the WGA for 2014-15.

Risks to the Government's finances

1.27 The WGA shows the most complete picture of the risks to the Government's finances, through the disclosure of contingent liabilities, guarantees and letters of comfort. The overall exposure to such liabilities fell to £167.9 billion from £173.0 billion in 2013-14[14]. The most significant increase in potential liabilities arises in HM Revenue and Customs, which has seen an increase of £14.7 billion in legal and other disputes that can result in claims against Government.

1.28 The WGA also discloses a range of unquantifiable contingent liabilities in note 32.2. These relate to residual interests and exposures to nationalised industries within the Department for Business, Innovation and Skills; regional development funds; health trusts and private sector companies engaged in health care; and risks arising from the transport of nuclear matter.

1.29 As the process of fiscal consolidation continues, the impact of changes in the operations of Government will start to be reflected in assets and liabilities in the WGA. The Treasury should look to build on its analysis of in-year transactions and include further illustrations of the impact of the changing nature of Government on assets and liabilities within the WGA as the next parliamentary session progresses.

Raising the profile of the WGA

1.30 I have previously recommended that the profile of the WGA should be raised within Government and for it to be used more effectively to help decision making. In its report on the 2012-13 WGA, the Committee of Public Accounts also recommended that the Treasury sets out how it will ensure that the Government makes much better use of the WGA to inform decisions, particularly in areas that involve long term

[12] *United Kingdom Debt Management Office Annual Report and Accounts 2013-14* Session 2014-15 HC391 July 2014

[13] Note 19 to the *Network Rail Annual Report and Accounts 2014*

[14] Notes31 and 32 to the *Whole of Government Accounts 2013-14*, excluding restatements caused by the consoldidation of UK Asset Resolution Ltd

liabilities[15]. The WGA is being used increasingly across Government in the following ways:

- The data collected for public corporations is shared with the Office of National Statistics every year to feed into the annual national statistics publication.
- The Department for Communities and Local Government publishes a version of WGA for English Local Government on its website.
- The control total for Public Private Partnerships under the Private Finance 2 regime will be implemented in 2014-15 through WGA.
- WGA is being used to assess the public sector fixed asset base with a view to identifying areas for scrutiny and rationalisation.
- WGA is the only place that reconciles accounting information to the National Accounts adding to the transparency of public finances.

1.31 The Treasury has started to take steps to embed the role of the WGA, and its underlying data, in helping to inform further areas of focus and financial risk management. Now the WGA is in its fifth year of publication, the Treasury has useful trend data which it is able to share. Specifically, the Treasury highlighted that:

- income analysis is being used to identify areas of Government where significant charging takes place, to assess whether charging regimes are operating effectively (or could be revised);
- asset data is being used as part of an assessment of how the Government can incentivise departments to make more efficient use of their land and buildings;
- contingent liabilities in WGA are being used in the Treasury's risk management processes to provide a broader view of spending risks and the consequences on public finances;
- it is working with policy teams to assist them in modelling fiscal risks across Government better (e.g. how do common factors affect overall risk);
- cross-Government staffing and redundancy information, that is only collected through the WGA, is being used by policy teams to inform their advice to ministers; and
- Treasury spending teams are using WGA data to enhance their understanding of departments' activities, which will help to inform allocation decisions in the forthcoming Spending Review and will be a key part of the fiscal consolidation

[15] Committee of Public Accounts, *Whole of Government Accounts 2011–12*, Thirty-second Report of Session 2013-14, HC 667, December 2013

programme in the next Parliament.

Improving the usefulness of disclosures within the WGA

1.32 I reported in 2012-13[16] that the lack of detail in parts of the WGA continues to inhibit its usefulness and recommended that data collection is improved so that information in the WGA can be of greater use to its readers[17]. This remains the case.

1.33 For example, Note 8 to the WGA, which shows expenditure on the purchase of goods and services by Government, does not provide further analysis as to how the £189.8 billion has been spent, such as on consultancy and accommodation. The WGA also does not include disclosures showing how public spending is distributed between individual regions or nations across the UK or across the main areas of Government, such as defence, health and education. This lack of granularity within the WGA does not help the reader assess the full impact of the Government's current and future deficit reduction measures.

1.34 Following the introduction of OSCAR to support the preparation of the WGA in 2012-13, the Treasury has captured transactions in a greater level of detail. However, due to inconsistencies in the reporting of underlying data from component bodies, it is yet to be confident enough in the data to disclose more detail on spend within the WGA. Therefore, the Treasury needs to work with component bodies to improve data quality.

Highlighting the extent of fraud and error across the whole of Government

1.35 The Committee of Public Accounts recommended in its reports on the 2011-12 and 2012-13 WGAs that the Treasury should report cross-Government figures within the WGA which would show the impact of its counter-loss activities[18]. Although the WGA includes the financial impact of fraud, error and loss through the consolidation of central Government accounts, it is not yet stated explicitly. Neither does the WGA include losses from local Government and public corporations, which are not required to disclose their losses in the same way. The Treasury has committed to implementing the Committee's recommendation by July 2015[19].

[16] Report of the Comptroller and Audit General on the *Whole of Government Accounts 2012-13* Session 2014-15 HC93, June 2014

[17] Paragraphs 10 to 12 of the C&AG's Report on the Whole of Government Accounts 2012-13 Session 2014-15 HC93, June 2014

[18] Committee of Public Accounts, *Whole of Government Accounts 2011-12*, HC 667, Thirty-second Report of Session 2013–14, 12 December 2013 and *Whole of Government Accounts* 2012-13, HC 678 Twenty-sixth Report of Session 2014–15, 7 Januaru 2015

[19] Treasury Minute, Cm 8819, February 2014

Resolving the issues causing a qualified audit opinion

1.36 I am required to provide my Opinion on the WGA[20]. Since the first WGA, I have qualified my Opinion. However, during 2013-14 and subsequently, the Treasury has taken a number of steps towards introducing measures that may enable me to remove my qualifications at some point over the next four years. **Part 2 of my Report** provides further details. The Treasury has made particular progress in reducing the level of error within the elimination of intra Government transactions, which are a key part of the production of an accurate WGA.

1.37 There is one area, however, where I am likely to continue to disagree with the Treasury. The Treasury designates bodies for inclusion within the WGA based on decisions made by the ONS. However, I am of the view that Treasury should apply accounting standards in determining which bodies Government owns and controls and, hence, which should be included within the WGA. The Treasury's decision means that there are bodies excluded from the WGA which have material assets and liabilities.

[20] Government Resources and Accounts Act 2000

Part Two: Qualifications of the Comptroller and Auditor General's Audit Opinion

2.1 This part of my Report explains why I have qualified my Audit Opinion on the 2013-14 WGA. It also provides details of the progress the Treasury has made in respect of each qualification since my last Report.

2.2 This is the fifth year that I have audited the WGA and I have been able to report to Parliament that these accounts are a "true and fair" presentation of the whole of Government's financial position, although I have always qualified my opinion.

Progress in resolving qualifications

2.3 The Treasury continues to make good progress in moving towards resolving the qualification issues I have raised. Of the six qualifications raised in my Report on the 2012-13 WGA, the Treasury has made progress on five. A detailed description of the actions undertaken by Treasury follows each of my explanations for the basis of individual qualifications further in this Report.

My obligations as auditor

2.4 Under the Government Resources and Accounts Act 2000, I am required to examine and certify the WGA. International Standards on Auditing (UK and Ireland) require me to obtain sufficient evidence to allow me to give reasonable assurance that the WGA is free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

Materiality

2.5 In both my Audit Opinion and this report, I refer to the concept of materiality. This part of my report explains this concept and how I apply it in terms of performing my audit.

2.6 The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

2.7 I consider a matter to be material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. I consider the primary users of this account to be Parliament but I recognise that the financial statements will be of general interest to others.

2.8 I calculate a materiality level before the financial statements are produced to assess the risks of material misstatement and to plan the nature, timing and extent of audit procedures. The appropriateness of my materially assessment is considered throughout the audit and adjusted as required.

2.9 The choice of materiality requires professional judgement and, for the financial statements as a whole, I set this at £8 billion for 2013-14 which is approximately 1 per cent of gross expenditure, although I give consideration to other benchmarks in the financial statements when setting materiality. I also define a lower level of materiality, termed performance materiality, which I use to evaluate the potential for unidentified errors within my testing. This is set at £5.8 billion. Materiality is not only a purely quantitative measure, but also includes a qualitative aspect and my opinion is not solely based on total error being under the materiality level.

2.10 There are specific disclosures of figures within the WGA, which need to be set out in a clear and understandable way. Should there be any error in these figures, I consider the impact that these would have on the users of the financial statements even if the error is below the materiality level.

2.11 I agreed with the Treasury's Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £100 million as well as any differences below that threshold which in my view warranted reporting on qualitative grounds.

2.12 Due to the number of component bodies making up the WGA, my audit is dependent upon the work of component auditors to provide me with assurance over the accuracy of data submitted to them as part of the consolidation process. I send detailed instructions over the type and scope of procedures that I require to be performed to all component auditors, supplemented by training on my audit requirements where requested. I also carry out additional assurance work on all of the significant component audits, together with a sample of non-significant component audits.

2.13 The expenditure base for WGA may reduce in future years as public sector spending constraints continue. This will mean that my materiality level will reduce in line with expenditure.

Qualified opinion owing to multiple disagreements and limitation of scope of my audit

2.14 I have qualified my opinion on the 2013-14 WGA because, in a number of significant areas, the WGA does not comply with International Financial Reporting Standards as adapted for the public sector context, and this has a material effect on the figures presented. My qualifications relate to:

- the definition of public bodies that the Treasury has used to determine the boundary of the WGA;
- the inconsistent application of accounting standards; and
- how the Treasury has accounted for income from the sale of 3G and 4G licences.

2.15 I have also limited the scope of my opinion on the 2013-14 WGA because of the following issues which meant I was unable to obtain sufficient and appropriate audit evidence on which to base my opinion in certain areas:

- there was a lack of evidence to support the completeness and accuracy of the value of school's assets included in the financial statements;
- material issues arising within the audit opinions of accounts included in the WGA where auditors have limited the scope of their audit; and
- there was a lack of evidence to support the completeness of the intra-Government adjustments to remove transactions and balances between the bodies included in the WGA.

Qualified audit opinion relating to the WGA boundary

2.16 I have qualified my opinion because, in my view, the Treasury has not complied with applicable accounting standards in determining which bodies to include in the WGA. Significant assets and liabilities have therefore been left out of the financial statements.

2.17 I cannot quantify the impact of this on the WGA with certainty, as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view. However, for illustrative purposes, I have examined the impact of adding the gross assets, liabilities, income and expenditure published in the individual accounts of public sector bodies that the Treasury did not include in the WGA. Although these figures are only illustrative, they demonstrate that the exclusions represent material omissions from the WGA (**Figure 2**).

Financial reporting requirements

2.18 In my previous Reports[21], I have noted that, in determining the boundary for the WGA, the Treasury has adopted the classifications of public bodies used by the Office

21 Comptroller and Auditor General, Report on the Whole of Government Accounts 2012-13, June 2014

Comptroller and Auditor General, Report on the Whole of Government Accounts 2011-12, July 2013

Comptroller and Auditor General, Report on the Whole of Government Accounts 2010-11, October 2012

Comptroller and Auditor General, Report on the Whole of Government Accounts 2009-10, November 2011 for National Statistics (ONS). The alternative is applying accounting standards, which require the inclusion of bodies that are subject to Government control and define control as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'[22].

2.19 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes Network Rail Ltd, which had net assets of £8 billion at 31 March 2014 (£8 billion at 31 March 2013). The Treasury has also not applied its own criteria consistently as there are a number of bodies that fall within both statistical and accounting definitions of Government 'control' but have not been included in the WGA[23] and include:

- bodies that are not controlled by Government, such as Parliament;
- a number of small bodies that have not been consolidated on the basis of size[24]; and
- other bodies that are partly or wholly owned by the Government, such as the Royal Bank of Scotland.

2.20 I consider it appropriate to exclude those bodies that are not controlled by the Government, as this treatment meets with accounting standards. I also consider that it is acceptable to exclude the small bodies as they do not represent a significant exclusion from the WGA. However, by adopting generally accepted accounting standards, I consider that the state owned banks, Network Rail, further education institutes and trust ports, listed in **Figure 2**, where the Government has the ability to control their activities, should be included in the WGA.

Progress since 2013-14

2.21 There has been progress in including bodies listed in Figure 2 within the WGA. Although some of the originating events driving this progress came from others, the Treasury has contributed positively by considering how these decisions impact upon, and could be reflected in, future WGAs. The developments are:

22 *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

23 Annex 2 to the WGA

24 Annex 3 to the WGA

Figure 2

Gross accounts figures from bodies that have been excluded from WGA as compared to the total figures in the WGA (for illustrative purposes)

	Revenue	Expenditure	Impact on net expenditure	Assets	Liabilities	Impact on net liability
2012-13 WGA	620.7	(799.4)	(178.7)	1,263.8	(2,893.4)	(1,629.6)
Total values of entities excluded from 2012-13 WGA	**65.6**	**(71.4)**	**(5.8)**	**2,393.8**	**(2,254.6)**	**139.2**
2013-14 WGA	648.5	(797.1)	(148.6)	1,337.3	(3,189.1)	(1,851.8)
Total values of entities excluded from 2013-14 WGA	**62.6**	**(70.8)**	**(8.2)**	**1,098.4**	**(1,020.3)**	**78.1**
2013-14 figures consist of:						
Network Rail Ltd	6.3	(5.3)	1.0	53.9	(45.7)	8.2
State-owned banks[1] (temporary ownership)	55.8	(65.1)	(9.3)	1,027.9	(968.7)	59.2
Further education institutions[2]	-	-		14.9	(5.4)	9.5
Trust Ports[3]	0.4	(0.3)	0.1	1.4	(0.4)	1.0
Other[4]	0.1	(0.1)	-	0.3	(0.1)	0.2

NOTES

1. Lloyds Banking Group plc and Royal Bank of Scotland Group plc. Note that due to the holding in Lloyds Banking Group falling below the consolidation threshold as at 31 March 2014, only the income and expenditure due to the WGA on a group basis is included above.
2. No amounts have been included for income and spending of Further Education Institutions because the majority of their operations are funded through Government grants, which are included in Note 9 to the WGA. Their assets and liabilities have been estimated from data provided by Skills Funding Agency (covering England only) for 2010-11.
3. Trust Ports - figures have been estimated from available accounts for year-ended 31 December 2013.
4. London Councils and other minor bodies.
5. The net assets of some of the entities are included in the WGA as equity investments, for example the state-owned banks are included in the accounts of the Treasury.
6. The bodies have been treated as if they had always been entirely owned by the public sector. In particular, for Royal Bank of Scotland and Lloyds Banking Group, no account has been taken of the residual private sector shareholdings.
7. Not all bodies have a March year-end, e.g. figures for the banks relate to the year ending 31 December 2013.

All figures are in £ billions.

Source: NAO analysis of Note 36 to the WGA and published accounts.

- **Network Rail Ltd**: The ONS had previously classified Network Rail Ltd as a private sector body which led the Treasury to exclude it from the WGA. However, on 17 December 2013, the ONS determined[25] that, following forthcoming changes to national accounts rules[26], Network Rail would be reclassified as being in the public sector from September 2014. The Treasury has considered the impact of this announcement and will consolidate Network Rail into the WGA from 2014-15. The consolidation of Network Rail will significantly increase the infrastructure assets within the WGA and the valuation of the network assets will need to be aligned with the other similar assets that are already reflected in the WGA. Network Rail also contains a significant debt portfolio, which will increase the valuation of Government borrowings by £33 billion.

- **Partly-owned Banks**: During 2013-14, as part of the Government's policy of returning the partly-owned banks to private ownership, the Treasury commenced disposal of its shareholdings in Lloyds Banking Group plc bringing its remaining ownership down to 24.9 per cent of the total available shares on 27 March 2014[27]. The fall in the shareholding below 30 per cent has meant that the Government is no longer defined by the Financial Conduct Authority as being a controlling shareholder in Lloyds Banking Group[28]. For the purposes of the WGA this means that as at the 31 March 2014 there is no requirement to consolidate the assets and liabilities of Lloyds Banking Group. However, as the disposal determining this position occurred at the end of the WGA financial year accounting standards require the consolidation of the income and expenditure of Lloyds Banking Group to that date and this is reflected in Figure 2. The Government announced on 17 December 2014 that it will continue to sell shares in Lloyds Banking Group plc via a Trading Plan[29] and further disposals following the 2013-14 financial year have subsequently reduced the Government's holding to 23 per cent. As at the date of this report there have been no disposals in respect of the Government's ownership of the Royal Bank of Scotland Group plc.

[25] Office for National Statistics, Written statement to Parliament, ONS decision on the classification of Network Rail, 17 December 2013

[26] Office for National Statistics, Latest developments to National Accounts, 16 May 2014

[27] HM Treasury, March 2014, available at https://www.gov.uk/Government/news/Government-reduces-its-stake-in-lloyds-banking-group-to-below-25

[28] Financial Services Authority, *The Listing Rules*, April 2002, Section 3.13

[29] The Trading Plan will feed shares into the market as part of the normal transactional flow of shares during stock exchange trading http://www.ukfi.co.uk/index.php?URL_link=press-releases&Year=2014

- **Further education institutions**: In my Reports on the WGAs for 2012-13[30], 2011-12[31] and 2010-11[32], I recommended that the Treasury should review its criteria for including bodies within the WGA, taking into account changes in the control Government exerts over English further education institutions following the passage of the Education Act 2011. The Treasury continues to exclude English institutions from the WGA as the ONS determined that these bodies fall outside of the public sector following the 2011 Act[33]. However, under accounting standards, there remains in my view sufficient Government control to warrant their inclusion.

  In addition, there are national differences across the United Kingdom. The further education institutions in Northern Ireland and Scotland remain excluded from the WGA, despite these being designated by the ONS as falling within the public sector. Further education institutions in Wales were classified as being outside the public sector in February 2015. However, the Treasury is reviewing the position of these bodies and considering the possibility, subject to any future legislative changes, of including these bodies in future years.

- **Trust Ports**: The Treasury is considering the status of Trust Ports with a view to bringing them within the 2014-15 WGA.

Recommendations for further action

2.22 I continue to recommend that the Treasury should change its criteria for including bodies within the WGA. The Treasury has started to perform work in advance of the consolidation of Network Rail to mitigate the risk of a material impact arising from inconsistent application of accounting policies in relation to the rail infrastructure assets.

2.23 Although the Treasury continues to make good progress in consolidating more bodies into the WGA, my qualification on this matter is likely to remain until all significant Government controlled entities are included in line with accounting standards. This is unlikely to occur until the Government sells a significant proportion of its shareholding in the Royal Bank of Scotland.

[30] C&AG'sReport within Whole of Government Accounts 2012-13, HC HC93, June 2014, Paragraph 2.21

[31] C&AG's Report within Whole of Government Accounts 2011-12, HC531, July 2013, Paragraph 2.29.

[32] C&AG's Report within Whole of Government Accounts 2010-11, HC687, October 2012, Box 6, paragraph 7.69.

[33] http://www.ons.gov.uk/ons/rel/na-classification/national-accounts-sector-classification/classification-update---may-2012/reclassification-of-further-education-corporations-and-sixth-form-colleges-in-england---article.html#tab-Executive-Summary

Qualification arising from disagreement relating to the inconsistent application of accounting policies

2.24 I have qualified my opinion because of the impact of the inconsistent application of accounting policies.

The WGA financial reporting framework

2.25 The financial reporting framework that WGA must follow is set out in the Government Financial Reporting Manual, which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, for 2013-14, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that are inconsistent with the requirements of the Financial Reporting Manual[34].

2.26 Under accounting standards, the Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the WGA is prepared on the same basis[35]. The Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2013-14. I do not have the information to fully quantify the effect of all inconsistencies that exist as a result of inconsistent financial reporting frameworks.

2.27 The one quantifiable area of material misstatement is due to differences between the financial reporting frameworks used by local Government and central Government. Local Government guidance requires local authorities to value their infrastructure assets at historic cost, and central Government requires assets to be valued at their depreciated replacement cost in line with the requirements of the Government Financial Reporting Manual[36]. The Treasury estimates that this difference in accounting treatment has resulted in an understatement of asset values of at least £232 billion[37].

2.28 Local authority infrastructure assets consist primarily of local highways infrastructure but also of other assets such as coastal defences, airports and light rail, including the London underground network.

[34] Annex 4 to the WGA

[35] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

[36] As required under paragraphs 6.2.10 to 6.2.18 of the Government Financial Reporting Manual

[37] Note 13 to the WGA: The best proxy available for depreciated replacement cost is the calculated asset value used by the Office for National Statistics from their perpetual inventory model reflected in the *National Accounts*. The 2014 *National Accounts* estimated the value of the road network at £291.8 billion as at 31 December 2013 implying a likely understatement of at least £232 billion.

Progress since 2012-13

2.29 In my Report on the 2012-13 WGA, I recommended that the Treasury should continue to support the Chartered Institute of Public Finance and Accountancy (CIPFA) in considering the basis of valuing assets and take steps to ensure that data collected is considered reliable.

2.30 CIPFA plans that the Code of Practice on Local Authority Accounting will be amended to require local authorities to account for their highways infrastructure assets using depreciated replacement cost accounting in their own financial statements from 2016-17. This timeframe will enable local authorities to prepare and collect accurate information in 2015-16, to provide opening balances for their 2016-17 financial statements.

2.31 The Treasury, as part of its data collection exercise for the 2013-14 WGA, asked local authorities to provide valuation data on its highways infrastructure assets. The objectives were both to establish a more accurate level of valuation than that presently noted in the WGA and also to learn lessons on data capture that could be implemented in the future once the Code had been amended. Although the Treasury considered the data received insufficiently robust for inclusion in the WGA, I consider this to have been a worthwhile exercise in identifying the problems of data collection in advance of the implementation of the revised Code. The Treasury has also become actively involved in the Public Infrastructure Steering Group overseeing this transition.

Recommendations for further action

2.32 The Treasury should continue its work with CIPFA to ensure that these planned changes remain on track and that it is able to take prompt action should there be early indications that the data collected by local authorities is not complete, robust, reliable or auditable. Treasury should also put in place plans to obtain depreciated replacement cost values for the remaining non-highways infrastructure assets.

2.33 Should local Government make a successful transition to depreciated replacement cost from 2016-17, which includes providing complete, robust, consistent and auditable data and auditable prior year balances, I may be able to remove my qualification in this area.

Qualification arising from disagreement in the accounting for 3G and 4G licences

2.34 I have qualified my opinion because I consider that the Treasury has not complied with the requirements for accounting for income from the sale of 3G licences in April 2000 and 4G licences in February 2013. The impact of this on the 2013-14 WGA is that income is understated by £1.3 billion, deferred income is understated by £8.9 billion (£10.2 billion in 2012-13) and the General Fund is overstated by £8.9 billion (£10.2 billion in 2012-13).

Financial reporting requirements

2.35 In April 2000, the Government raised some £22.5 billion from the sale of five licences for the electromagnetic spectrum for third generation mobile phone services. Telecommunications companies paid for the licences in full in 2000 and the Consolidated Fund accounted for these proceeds on a cash basis in its 2000-01 account. In February 2013, the Government raised a further £2.4 billion from the sale of the electromagnetic spectrum for fourth generation mobile phone services to five successful bidders. As with the previous auction telecommunications companies paid for the licences in full and the Consolidated Fund accounted for these proceeds on a cash basis in its 2012-13 account.

2.36 The accounting standard for revenue recognition explains that income should be matched to expenditure[38]. In respect of both 3G and 4G licences, the licence holders have the right to access the spectrum for 20 years and, in my view, there is an on-going cost for Government in maintaining the airwaves which is exercised by the Office of Communications (Ofcom) as the Government's communications regulator. Therefore, in my view a more appropriate accounting treatment would be to recognise this income over the licence period rather than treat it all as income in the first year. The Treasury does not agree with this view and, as disclosed in Note 1.22.2 to the WGA, believes that there are no additional performance obligations within the 3G and 4G licences. Therefore, the Treasury has not adjusted the WGA for these transactions and I have qualified my opinion accordingly.

2.37 The balance of deferred income in relation to the 3G and 4G licences at 31 March 2014 was some £8.9 billion and, although the balance continues to fall it remains material. This remaining balance will decrease over time and have a decreasing impact on the financial statements.

Progress since 2012-13

2.38 The Treasury's position on 3G and 4G licences is set out in the WGA accounting policies[39]. The Treasury's view is that it does not have any ongoing role in relation to the licences and has therefore recognised all of the revenue from the sales at the point of completion. The Treasury's view on these transactions has not changed during 2013-14, it remains of the view there are insufficient grounds to adjust the WGA[40].

[38] International Accounting Standard 18 – Revenue

[39] See note 1.22.2 of the accounts.

[40] Although not pertinent to my consideration of the treatment under accounting standards, in February 2014[40] , the Office for National Statistics amended their consideration of the treatment of spectrum licence sales in the United Kingdom National Accounts from treating spectrum licence sales as sales of assets to one where the income is recognised over the life of the licence

2.39 In the 2013 Spending Review, the Government announced its intention to release at least 500 MHz of additional electromagnetic spectrum. Two bands of spectrum have been identified for release, a total of 160MHz of bandwidth. The spectrum will be transferred from the Ministry of Defence to Ofcom during 2014-15 and the sale is expected to complete in 2015-16.

Recommendations for further action

2.40 The Treasury should, in my view, adjust the WGA for the 3G and 4G transactions in line with accounting standards and treat any future transactions in line with this framework.

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the financial statements

2.41 I have qualified my opinion in respect to local authority maintained school assets because not all school assets are included in the WGA.

2.42 All local authority maintained schools are classified by the ONS as public sector and hence fall within the Treasury's definition for inclusion within the WGA. Taking an approach based on financial reporting standards[41], I consider that these schools should be included within the WGA, as local authorities and the Secretary of State for Education have the ability to exert control over them.

2.43 However, such schools have only been included in the WGA if their financial activities were included in the financial statements of individual local authorities. A working group, led by CIPFA, reported that not all schools were included within local authority financial statements[42].

2.44 In considering the impact of this treatment of the local authority maintained schools' sector, I have concluded that I have insufficient evidence to support the completeness and valuation of these schools' assets within the WGA. Although I have sufficient evidence over the treatment of community schools, which are accounted for within local authorities' accounts, I have been presented with no evidence to allow me to conclude that the assets of foundation, voluntary aided and voluntary controlled schools are all included within the WGA.

2.45 Based on the estimates I do have, the omissions are material to the WGA. **Figure 3** shows that up to £22 billion (2012-13: £23 billion) of assets from voluntary aided and foundation schools and £8 billion (2012-13 £8 billion) of assets from

[41] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

[42] This is the correct treatment for the local authority accounts and there is no suggestion that the underlying opinions on any of these accounts are compromised.

voluntary controlled schools have been omitted from the accounts. The reduction in the value of error is primarily due to a reduced number of these schools caused by their transition to Academies.

Progress since 2012-13

2.46 The Treasury has been working with CIPFA to align the local Government accounting treatment for schools in England and Wales. The working group, in December 2013, concluded that that the balance of control rests with local authorities for community schools, voluntary controlled, voluntary aided and foundation schools, and that these schools should be included in the financial statements of local authorities. By including these schools in the financial statements of local authorities, they will be consolidated into the WGA. Following the findings of the working group the Treasury has set up a Local Authority User Group and has engaged with a number of local authorities to perform work in advance as part of the preparation for the collation of data.

2.47 CIPFA issued a consultation note[43] seeking views from stakeholders on amendments to the 2014-15 Code of Practice and, following this consultation, have amended the Code[44] to reflect the conclusion of the working group. This will mean that the currently omitted schools would be brought into the 2014-15 WGA. However, the amendments to the Code would only apply to England and Wales but not apply to those schools in Northern Ireland which are currently omitted. Schools in Scotland are included in the WGA.

Recommendations for further action

2.48 The Treasury should ensure that the data collected in the first year of implementation is sufficiently robust to be considered complete and true and fair in respect of schools brought into local authorities' accounts through implementation of the Code. In addition, the Treasury should include all schools in Northern Ireland within the WGA.

2.49 Once sufficiently robust data is available in support of the completeness and valuation of voluntary aided, voluntary controlled and foundation schools, I may be able to remove my qualification in this area.

[43]CIPFA/LASAAC, The 2014/15 code of practice on local authority accounting in the United kingdom, Invitation to comment.

[44] CIPFA, Technical Accounting Alert 3, Accounting for Local Authority Maintained Schools (England and Wales) 2014-15 Financial Statements

Figure 3

Estimated net book value of local authority maintained schools, and whether these are included or excluded from the WGA

	Voluntary aided and foundation schools (not included in WGA)		Voluntary controlled schools (may or may not be included in WGA)	
	Number	**Amount (£bn)**	**Number**	**Amount (£bn)**
Primary Schools	4,082	12.3	2,319	6,9
Secondary Schools	639	9.5	50	0.8
Total	**4,721**	**21.8**	**2,369**	**7.7**

NOTES

1. Estimates as at January 2014 based on typical carrying value of £3 million for primary schools and £15 million for secondary schools as estimated by CIPFA.
2. These estimates may be overstated as some schools may lease their assets rather than own them. There is no information available to take account of this.
3. FRAB (108) 11: Consideration of the code of practice on Local Authority Accounting 2011/12 and 2012/13 http://www.hm-treasury.gov.uk/d/frab108_11.pdf and Tables 7d and 7e of Schools, Pupils and their Characteristics.
4. https://www.gov.uk/Government/publications/schools-pupils-and-their-characteristics-january-2013

Qualification arising from disagreement and limitation of audit scope from underlying statutory audits of bodies falling within the Account

2.50 Where the external auditors of bodies in the WGA qualify their opinions on the statutory financial statements, I am required to consider the impact of these 'true and fair' qualifications on my opinion on the WGA. In 2013-14, external auditors qualified their opinions of some 4 accounts (10 accounts in 2012-13).

2.51 The most significant of these qualifications for 2013-14 relate to the Department for Education and the Ministry of Defence. Given their significance to the WGA, I have also qualified my opinion on the WGA.

2.52 Further details can be found in my audit opinions and within the annual accounts of the Department for Education[45] and the Ministry of Defence[46] .

[45] Department for Education Annual Report and Accounts 2013-14, Session 2014-15, HC 745.

[46] Ministry of Defence Annual Report and Accounts 2013-14, Session 2014-15, HC 764

Progress since 2012-13

2.53 In my Report on the 2012-13 WGA, I also qualified my opinion on the WGA due to the material impact of the qualifications of the Ministry of Defence and the Department for Education's financial statements.

2.54 In 2013-14, the Ministry of Defence has concluded that, in order to complete its review and conclude on whether the contracts it currently holds meet the criteria of a lease under IAS 17, Leases, further management information and supplier engagement would be required. As disclosed in its Annual Report and Accounts, the Ministry of Defence has, in agreement with HM Treasury, decided not to obtain more detailed information on the grounds that obtaining this would not represent value for money. Consequently, no conclusion can be drawn as to whether the existing contracts held represent leases and the financial impact of the omission of potential assets and liabilities cannot be determined with sufficient accuracy.

2.55 The gap in assurance in respect of the Department for Education providing insufficient evidence to recognise academies' land and buildings within its accounts has widened in comparison to 2012-13. In 2013-14, the number of academies increased from 2,823 to 3,905 and the Department has been unable to provide appropriate evidence to establish ownership of these assets. As a result the scope of this issue has grown and is likely to continue to be a source of continued qualification within the WGA.

Recommendations for further action

Ministry of Defence

2.56 The Ministry of Defence's decision not to obtain detailed information to comply with IAS 17, Leases will have an ongoing impact on the audit opinion I am able to provide on the financial statements for the foreseeable future. The Department is now considering further work in respect of the application of IAS 17, Leases to new contracts; although no formal decision has yet been taken on this matter. The Treasury should work with the Ministry of Defence to monitor progress in this area, with the aim of eliminating this qualification as its current contracts are replaced.

Department for Education

2.57 The Treasury should continue to support the Department for Education in respect of the accuracy of academies' land and buildings data. In addition, the Treasury should work with the Department for Education to seek to improve the timeliness of information that is submitted to support the WGA as this was a source of delay in the production of the 2013-14 accounts and is likely to be so in future years. This issue is linked to the need for the Department for Education to work with the Treasury to agree a more sustainable approach to consolidating the financial results of academies, that I refer to in my opinion and report on the Department’s 2013-14 financial statements.

Qualification arising from the limitation of audit scope due to a lack of evidence supporting the completeness of the elimination of intra-Government transactions and balances

2.58 I have limited the scope of my opinion because of the lack of evidence supporting the completeness and accuracy of the elimination of intra-Government transactions and balances, between bodies included in the WGA.

Financial reporting requirements

2.59 The WGA is a consolidated account which is prepared by bringing together the financial activities of over 5,400 Government controlled entities. Transactions and balances between these bodies are removed so that income, expenditure, assets and liabilities are not overstated within the group financial statements, as required by accounting standards. To present a true and fair picture of the financial position and financial results of Government, it is important that the removal of these intra-Government transactions and balances is complete and accurate.

2.60 The Treasury collects information from each of the bodies in the WGA on all intra-Government transactions and with details of the relevant counter-parties. The Treasury uses this data to match balances and transaction streams and remove them from the WGA. The Treasury has made a significant improvement in reducing the level of uncertainty arising from the removal of these transactions in the WGA. Despite this, there remains a significant residual uncertainty over some of the figures in the financial statements because the removal of these transactions and balances is potentially incomplete and inaccurate. This uncertainty arises where:

- either of the entities declare different intra-Government transactions or balances (requiring an assumption to be made as to the correct amount to remove); or
- only one entity declares an intra-Government transaction or balance (a particular issue between central and local Government bodies); or
- neither body declares an intra-Government transaction or balance.

2.61 Using the available evidence, I have estimated the level of uncertainty as being £7.3 billion (£9.1 billion in 2012-13) in gross income and expenditure and up to £2.2 billion (£3.7 billion in 2012-13) in gross assets and liabilities (**Figure 4**). The estimated errors reside mainly within individual primary statements.

2.62 It is the significance of the estimated level of uncertainty within the statements, and the potential gross overstatement of income, expenditure, assets and liabilities which has led me to qualify my opinion rather than the potential impact on the annual deficit or net liabilities. Whilst the estimate has now fallen below the £8bn materiality threshold which I apply when conducting my audit, I have concluded that there is insufficient evidence to support the removal of this aspect of my qualification this year.

Figure 4

Sources of uncertainty about transactions removed and the impact on the financial statements

	Statement of Revenue & Expenditure	Statement of Financial Position
Entities declaring different intra-Government transactions or balances	3.6	1.3
Only one entity declares an intra-Government transaction or balance	1.9	0.8
Subtotal of errors that can be linked to specific entities	**5.5**	**2.1**
Neither entity within an expected relationship declares an intra-Government transaction or balance	1.8	0.1
Impact on the financial statements (potential overstatement)	**7.3**	**2.2**

NOTES

All figures in £ billions

Source: NAO analysis of WGA 2013-14

Progress since 2012-13

2.63 In my Report on the 2012-13 WGA, I recommended that the Treasury should undertake further work to reduce the uncertainties in the elimination of intra-Government transactions and balances and I also recommended that this work should be concentrated on the area of local Government.

2.64 The Treasury has undertaken a number of actions which have contributed to the reduction of the error in the 2013-14 WGA. The Treasury has sought to maximise the benefits of the introduction of a change in IT systems by amending its data collection processes with the aim of improving the accuracy of the initial data received in the preparation of the financial statements. It also seconded staff from local Government and with sector expertise to help identify errors within the local Government data returns; and reduced the threshold at which it would investigate potential imbalances. The Treasury also used other available data from central Government sources to review the data it received.

2.65 It is encouraging that the estimated error in the eliminations data continues to show a positive downward trend. Overall, I welcome the substantial progress that the Treasury has made in this area (**Figure 5**).

Figure 5

Level of potential overstatement in the WGA

	2010-11	2011-12	2012-13	2013-14
Statement of Revenue and Expenditure	22.6	16.0	9.1	7.3
Statement of Financial Position	10.4	5.1	3.7	2.2

All figures in £ billions

Source: NAO analysis of WGA 2013-14

Recommendations for further action

2.66 The Treasury has made significant progress in reducing the elimination error over the last three years. For 2014-15, the Treasury, and the component bodies submitting data, will be operating a fully established IT system which should help produce more accurate data leading to further reduced levels of error. However, with such an extensive body of components preparing information, a significant level of error in the initial data preparation is almost inevitable and it is possible that the level of error may not be able to be reduced much further under the current method of collation and preparation.

2.67 I recommend that Treasury continues to review the structure and process of data collection in order to determine areas of potential weakness and also to consider alternative methods of proving counter party evidence in those areas which are either onerous to prove or are prone to error. If the Treasury can prove with sufficient certainty that it has reduced the level of error below my materiality threshold in the preparation of the 2014-15 WGA, then I will be able to remove my qualification.

Other issues on which I have not qualified my opinion

2.68 There are two other issues that I wish to draw attention to, although I have not qualified my opinion for these issues:

- I have included an emphasis of matter paragraph in my audit opinion for one account that is significant to the WGA. This relates to the uncertainties in estimating costs of the liabilities of the Nuclear Decommissioning Authority. This value has been calculated based on reasonable assumptions, but could change with future events.
- The external auditor of some 17 accounts (18 in 2012-13) included in the WGA

qualified their audit opinions due to the existence of material irregular transactions; that is not using resources in accordance with Parliamentary intentions. Of these, two are of significance to the WGA and cover error and fraud in benefit payments and tax credit payments. These irregularities have led me to qualify my regularity opinion on the financial statements of the Department for Work and Pensions[47] and HM Revenue and Customs[48]. The scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, as such irregular transactions do not lead to a qualification of my audit opinion on the WGA.

Amyas C E Morse
Comptroller and Auditor General
23 March 2015

National Audit Office
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[47] Department for Work and Pensions Annual Report and Accounts 2013-14, Session 2014-15, HC13, June 2014

[48] HM Revenue and Customs Annual Report and Accounts 2013-14, Session 2013-14, HC19, July 2014

Annex 1:

List of entities consolidated in WGA

The list below comprises entities consolidated in WGA based on their audited accounts. Accounts that were qualified are indicated by a number 1 or 2 by their name. Entities with a number 1 have had qualifications on their financial statements and those with a number 2 have had their accounts qualified on regularity[35] and may be considered in the WGA Governance Statement. In addition, five entities with a number 3 by their name had their WGA returns qualified. WGA returns translate the underlying statutory accounts into the WGA format and report transactions and balances with other WGA entities.

Central Government

Central government entities are listed by UK government departments and by devolved administrations.

UK central government entities

Cabinet Office

Advisory Committee on Business Appointments
The Civil Service Commission
Committee on Standards in Public Life
House of Lords Appointments Commission
Main Honours Advisory Committee (Honours and Appointments Secretariat)
Office of the Commissioner for Public Appointments
Boundary Commission for England
Boundary Commission for Wales
Security Vetting Appeals Panel
Senior Salaries Review Body

[2]Charity Commission

The Crown Prosecution Service

Competition and Markets Authority

Department for Business, Innovation and Skills

Accountancy and Actuarial Discipline Board Limited
Advisory, Conciliation and Arbitration Service
AEA Insurance Limited
Arts and Humanities Research Council
Aviva Investors Realm Energy Centres L.P.
Avrico Limited
Biotechnology and Biological Sciences Research Council
BIS (Postal Services Act 2011) Company Limited
BIS (Postal Services Act 2011) B Company Limited
Capital for Enterprise (GP) Limited
Capital for Enterprise Fund Managers Limited
Capital for Enterprise Limited
Central Arbitration Committee
Certification Office for Trade Union and Employers' Associations
Competition Appeal Tribunal
Competition Commission
Competition Service
Construction Industry Training Board (CITB)
Consumer Futures
Copyright Tribunal
Council for Science and Technology
Diamond Light Source Limited
Economic and Social Research Council
Engineering and Physical Sciences Research Council
Engineering Construction Industry Training Board
Enrichment Holdings Limited
Enrichment Investments Limited
Financial Reporting Council Limited
Harwell Science and Innovation Campus Public Sector Limited Partnership
Higher Education Funding Council for England
Industrial Development Advisory Board
Insolvency Practitioners Tribunal
Insolvency Service
Insolvency Service Investment Accounts
Learning and Skills Improvement Service
Low Pay Commission
Medical Research Council
The NESTA Trust
Natural Environment Research Council
National Measurement Office
Office for Fair Access
Office of Manpower Economics
Pirbright Institute
Postal Services Holding Company plc
RCUK Shared Services Centre Limited
Science and Technologies Facilities Council
Skills Funding Agency
STFC Innovations Limited
Student Loans Company Limited
Technology Strategy Board
UK Energy Efficiency Investments 1 L.P
UK GIB 1 Limited
UK GIB 2 Limited
UK GIB 3 Limited

[35]A regularity opinion is on whether the transactions recorded in the financial statements are in accordance with Parliamentary or other authority.

UK GIB Financial Services Limited
UK GIB Rhyl Flats Investment Limited
UK Green Investment Bank plc
UK Green Sustainable Waste and Energy Investments L.P
UK Shared Business Services Limited
UK Waste Resources and Energy Investments L.P
United Kingdom Atomic Energy Authority
United Kingdom Commission for Employment and Skills
Energy Saving Investments L.P
United Kingdom Space Agency

Department for Communities and Local Government

Building Regulations Advisory Committee
Commission for Local Administration
Homes and Communities Agency
Housing Ombudsman Service
The Leasehold Advisory Service
Planning Inspectorate
Queen Elizabeth II Conference Centre
Valuation Tribunal for England
Valuation Tribunal Service
West Northamptonshire Development Corporation

Department for Culture, Media and Sport

Arts Council England
Arts Council of England Lottery
Artco Trading Limited
BBC
BIG Lottery Fund
British Film Institute
BFI Lottery
British Library
British Museum
British Museum Great Court Limited
British Tourist Authority
Churches Conservation Trust
Children in Need Limited
Commission for Equality and Human Rights
The Commonwealth Broadcasting Association
The Dame Helen Gardner Bequest
Sport England Lottery
Gambling Commission
Geffrye Museum
Geffrye Museum Trust Limited
The Historic Buildings and Monuments Commission for England (English Heritage)
Heritage Lottery Fund
Horniman Public Museum and Public Park Trust
Horniman Museum Enterprises Limited
Horserace Betting Levy Appeals Tribunal for England and Wales
Horserace Betting Levy Board
Imperial War Museum
Joint Industry Grading Scheme Limited
Mortimer Productions Limited
National Gallery
National Heritage Memorial Fund
National Historic Ships UK
National Lottery Commission
National Lottery Distribution Fund
National Lottery: UKSC Lottery
National Maritime Museum
National Museums Liverpool
National Portrait Gallery
Natural History Museum
Office of Communications (Ofcom)
Office of the Adjudicator – Broadcast Transmission Services
The Office of the Adjudicator Limited
Olympics Delivery Authority

The Portrait Fund
Public Lending Right
Reviewing Committee on the Export of Works of Art
Royal Armouries Museum
The Royal Parks (TRP)
S4C (Sianel Pedwar Cymru)
Science Museum Group
Sir John Soane's Museum
Sports Grounds Safety Authority
Stratford Village Development (GP) Limited
Tate Gallery
Tate Gallery Projects Limited
Theatres Trust
The Sports Council Trust Company
Treasure Valuation Committee
UK Anti-Doping Limited
UK Sport Council (UK Sport)
UK Sports Council Lottery
Victoria and Albert Museum
Wallace Collection

[1,2,3] Department for Education

[1,2,3] Academies[36]
Children and Family Court Advisory and Support Service
National College for Teaching and Leadership

[36] Academies as established under section 1 of the Academies Act 2010.

Social Mobility and Child Poverty Commission
School Teachers' Review Body
Standards and Testing Agency
The Office of the Children's Commissioner
[1]Education Funding Agency

Department of Energy and Climate Change

Carbon Reduction Commitment Trust Statement
Civil Nuclear Police Authority
Coal Authority
Committee on Climate Change
Committee on Radioactive Waste Management
Dounreay Site Restoration Limited
EU Emissions Allowance Trust Statement
Fines and Penalties
Fuel Poverty Advisory Group
Low Level Waste Repository Limited
Magnox Limited
Nuclear Decommissioning Authority
Nuclear Liabilities Financing Assurance Board
Nuclear Liabilities Fund Limited
Petroleum Licences Statement
Research Site Restoration Limited
Sellafield Limited

Department for Environment, Food and Rural Affairs

Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees (England)
Agricultural Land Tribunals (England)
Agricultural Wages Board for England and Wales
Agricultural Wages Committees for England
Agriculture and Horticulture Development Board
Air Quality Expert Group
Animal Health and Veterinary Laboratories Agency
Centre for Environment, Fisheries and Aquaculture Science
Consumer Council for Water
Environment Agency
Food and Environment Research Agency
Forestry Commission
Gangmasters Licensing Authority
Independent Agricultural Appeals Panel
Joint Nature Conservation Committee
Marine Management Organisation
National Forest Company
Natural England
Royal Botanic Gardens, Kew
RBG Kew Enterprises Limited
Rural Payments Agency
Science Advisory Council
Sea Fish Industry Authority
Veterinary Medicines Directorate
Veterinary Products Committee

[3]Department of Health

NHS Trusts[37]
NHS Foundation Trusts[38]
NHS Charities
Advisory Committee on Antimicrobial Resistance and Healthcare Associated Infection
Advisory Committee on Clinical Excellence Awards
Advisory Committee on Dangerous Pathogens
Advisory Group on Hepatitis
Administration of Radioactive Substances Advisory Committee
Care Quality Commission
Clinical Commissioning Groups[39]
Committee on Carcinogenicity of Chemicals in Food, Consumer Products and the Environment
Committee on the Medical Aspects of Radiation in the Environment
Committee on the Medical Effects of Air Pollutants
Committee on the Mutagenicity of Chemicals in Food, Consumer Products and the Environment
Community Health Partnerships Limited
Emerging Science and Bioethics advisory Committee
Expert Advisory Group on AIDS
The Health and Social Care Information Centre
Health Education England
Health Research Authority
Healthwatch England
Human Fertilisation and Embryology Authority
Human Tissue Authority
Genomics England Limited
Independent Reconfigurations Panel
Joint Committee on Vaccination and Immunisation
Independent Regulator of NHS Foundation trusts (Monitor)
National Health Service Trust Development Authority
National Institute for Health and Care Excellence
NHS Business Services Authority
NHS England

[37] as established under section 25 of the NHS Act 2006
[38] as established under section 30 of the NHS Act 2006
[39] as established under section 25 of the Health and Social Care Act 2012

NHS Litigation Authority
The NHS Pay Review Body
NHS Property Services Limited
Professional Standards Authority for Health and Social Care
Public Health England
Review Body on Doctors' and Dentists' Remuneration
Scientific Advisory Committee on Nutrition
Skipton Fund Limited

Department for International Development
Commonwealth Scholarship Commission
Independent Commission for Aid Impact

Department for Transport
Air Safety Support International Limited
Air Travel Trust Fund
British Transport Police Authority
The Commissioners of Irish Lights
The Commissioners of Northern Lighthouses
CTRL Section 1 Finance Plc
Directly Operated Railways Limited
Disabled Persons Transport Advisory Committee
Driver and Vehicle Licensing Agency
General Lighthouse Fund
High Speed Two (HS2) Limited
Highways Agency
LCR Finance Plc
London and Continental Railways Limited
Maritime and Coastguard Agency
Passenger Focus
Railways Heritage Committee
Trinity House Lighthouse Service
Vehicle Certification Agency
Vehicle Excise Duty

[2]Department for Work and Pensions
Equality 2025 (closed September 2013)
Health and Safety Executive
Independent Living Fund (2006)
Industrial Injuries Advisory Council
Ombudsman for the Board of the Pension Protection Fund
The Pensions Advisory Service Limited
Pensions Ombudsman
The Pensions Regulator
Social Security Advisory Committee

Export Guarantees Advisory Council

Food Standards Agency

Foreign and Commonwealth Office
BBC World Service
The Great Britain-China Centre
Marshall Aid Commemoration Commission
The UK China Forum
The Westminster Foundation for Democracy Limited
Wilton Park Executive Agency
UK India Round Table

Government Actuary's Department

HM Procurator General and Treasury Solicitor
Attorney General's Office
HM Crown Prosecution Service Inspectorate
Treasury Solicitor's Department Agency

[2]HM Revenue and Customs
HM Revenue and Customs Trust Statement
Valuation Office Agency

HM Treasury
Money Advice Service
Financial Services Compensation Scheme
Help to Buy (HMT) Limited
Infrastructure Finance Unit Limited
Infrastructure UK
Office for Budget Responsibility
Office of Tax Simplification
Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations
Royal Household
UK Asset Resolution Limited
UK Asset Resolution Corporate Services Limited
UK Debt Management Office
UK Financial Investments Limited

Home Office
Advisory Council on the Misuse of Drugs
Animals in Science Committee
Biometrics Commissioner
College of Policing
Disclosure and Barring Service
Forensic Science Regulator
Her Majesty's Inspectorate of Constabulary
Her Majesty's Passport Office
Independent Chief Inspector of Borders and Immigration
Independent Police Complaints Commission
Independent Reviewer of Terrorism Legislation
Intelligence Services Commissioner
Interception of Communications Commissioner
Investigatory Powers Tribunal
Migration Advisory Committee

National Crime Agency Remuneration Review Body
National DNA Database Ethics Group
National Fraud Authority
National Policing Improvement Agency (closed 6 October 2013)
Office of Surveillance Commissioners
Office of the Immigration Services Commissioner
Police Advisory Board for England and Wales
Police Discipline Appeals Tribunal
Police Arbitration Tribunal
Police Negotiating Board
Security Industry Authority
Serious Organised Crime Agency (closed October 2013)
Surveillance Camera Commissioner
Technical Advisory Board

National Crime Agency

[1]**Ministry of Defence**
Advisory Committee on Conscientious Objectors
Advisory Group on Military Medicine
Armed Forces Pay Review Body
Central Advisory Committee on Pensions and Compensation
Commonwealth War Graves Commission
Defence Nuclear Safety Committee
Defence Scientific Advisory Council
Independent Monitoring Board for the Military Corrective Training Centre, Colchester
National Army Museum
National Employer Advisory Board
National Museum of the Royal Navy
Nuclear Research Advisory Council
Review Board for Government Contracts
Royal Air Force Museum
Royal Hospital Chelsea
Territorial, auxiliary and volunteer reserve associations
Science Advisory Committee on the Medical Implications of Less-Lethal Weapons
Veterans Advisory and Pensions Committees

Ministry of Justice
Administrative Justice and Tribunals Council
Advisory Committees on Justices of the Peace in England and Wales
Advisory Council on National Records and Archives
Advisory Panel on Public Sector Information
Assessor for Compensation of Miscarriages of Justice
Civil Justice Council
Civil Procedure Rule Committee
Office of the Accountant General
Criminal Cases Review Commission
Criminal Injuries Compensation Authority
Criminal Procedure Rule Committee
Family Justice Council
Family Procedure Rule Committee
Her Majesty's Courts and Tribunal Service
Independent Advisory Panel on Deaths in Custody
Independent Monitoring Boards of Prisons, Immigration Removal Centres and Immigration Holding Facilities
Independent Restraint Advisory Panel
Insolvency Rules Committee
Judicial Appointments Commission
Judicial Appointments and Conduct Ombudsman
Judicial College
Judicial Communications Office
Judicial Conduct and Investigations Office
Judicial Office
Law Commission
Legal Aid Agency
Legal Services Board
Magistrates' Courts Rules Committee
National Offender Management Service
[2]Office for Legal Complaints
Office of HM Inspectorate of Prisons
Office of HM Inspectorate of Probation
Office of the Judge Advocate General
Office of the Information Commissioner
Office of the Public Guardian
Official Solicitor and Public Trustee
Parole Board for England and Wales
Prisons and Probation Ombudsman
Prison Service Pay Review Body
Probation Trusts
Sentencing Council for England and Wales
Tribunal Procedure Committee
Victims' Advisory Panel
Victims' Commissioner
Youth Justice Board for England and Wales

The National Archives

Office of Fair Trading

Office of Gas and Electricity Markets

Office of Rail Regulation

Office for Standards in Education, Children's Services and Skills (OFSTED)

Scotland Office

[2] **Wales Office**

Security and Intelligence Agencies

Serious Fraud Office

UK Statistics Authority

UK Supreme Court

UK Trade & Investment

Water Services Regulation Authority (Ofwat)

Vehicle and Operator Services Agency

Central Funds

- Consolidated Fund
- Contingencies Fund
- Debt Management Account
- Exchange Equalisation Account
- National Insurance Fund
- National Loans Fund
- National Savings and Investments
- Public Works Loans Board

Superannuation Schemes (England and Wales)

- Armed Forces Retired Pay, Pensions
- Cabinet Office: Civil Superannuation
- Department for Business, Innovation and Skills: UKAEA pension schemes
- Department for International Development: Overseas Superannuation
- Ministry of Justice: Judicial Pensions Scheme
- [3]NHS Pension Scheme
- Royal Mail Pension Scheme
- Research Councils Pension Scheme
- [2]Teachers' Pension Scheme (England & Wales)

Northern Ireland Office

- Boundary Commission for Northern Ireland
- Northern Ireland Human Rights Commission
- Parades Commission for Northern Ireland

Northern Ireland central government entities

- Agrifood and Biosciences Institute of Northern Ireland
- Arts Council of Northern Ireland
- Arts Council of Northern Ireland Lottery Distribution Account
- Belfast Education & Library Board Business Services Organisation
- [2] Department for Employment and Learning
- Department for Regional Development
- [2] Department for Social Development
- [2] Department of Agriculture and Rural Development
- [1,2] Department of Culture Arts and Leisure
- [2] Department of Education
- Department of Enterprise Trade and Investment
- Department of Finance and Personnel
- [2] Department of Health Social Services & Public Safety
- Department of Justice
- Department of the Environment
- DFP - Superannuation & Other Allowances
- Equality Commission for Northern Ireland
- Health and Social Care Pension Scheme
- Ilex Urban Regeneration Co Limited
- Invest Northern Ireland
- Maze/Long Kesh Development Corporation
- National Museums and Galleries of Northern Ireland
- North Eastern Education and Library Board
- Northern Ireland Blood Transfusion Service
- Northern Ireland Consolidated Fund
- Northern Ireland Council for the Curriculum, Examinations and Assessment
- Northern Ireland Council for Integrated Education
- Northern Ireland Fire and Rescue Service
- Northern Ireland Fishery Harbour Authority
- Northern Ireland Legal Services Commission
- Northern Ireland Library Authority
- Northern Ireland Local Government Officers Superannuation Committee
- Northern Ireland Medical and Dental Training Agency
- Northern Ireland National Insurance Fund
- Northern Ireland Policing Board
- Northern Ireland Screen Commission
- Northern Ireland Tourist Board
- Northern Ireland Utility Regulator
- Northern Ireland Water Limited
- [2] Office of the First Minister and Deputy First Minister
- Police Ombudsman for Northern Ireland
- Police Pension Scheme
- [2]Police Service of Northern Ireland
- Probation Board for Northern Ireland
- [2] Public Prosecution Service
- Regulation and Quality Improvement Authority
- South Eastern Education and Library Board
- Southern Education and Library Board
- Sports Council for Northern Ireland
- Sports Council for Northern Ireland Lottery

Distribution Account
Strategic Investment Board Limited
Teachers Superannuation Scheme Statements
Ulster Supported Employment Limited
Victims and Survivors Service
Western Education and Library Board
Youth Council for Northern Ireland

Northern Irish Health and Social Care Trusts

Belfast Health and Social Care Trust
NI Ambulance Service HSC Trust
Northern Health and Social Care Trust
South Eastern Health and Social Care Trust
Southern Health and Social Care Trust
Western Health and Social Care Trust

Scotland Central Government Entities

Care Inspectorate
Creative Scotland
David MacBrayne Limited
Forestry Commission Scotland
Forth Estuary Transport Authority
Highlands and Islands Airports
Highlands and Islands Enterprise
National Galleries of Scotland
National Library of Scotland
National Museums of Scotland
National Records of Scotland
Police Service of Scotland
Royal Botanic Garden, Edinburgh
Scottish Canals
Scottish Children's Reporter Administration
Scottish Consolidated Fund
Scottish Court Service
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Fire and Rescue Service
Scottish Funding Council
[3]Scottish Government
Scottish Legal Aid Board
Scottish Natural Heritage
Scottish NHS Pension Scheme
Scottish Policing Authority
Scottish Qualifications Authority
Scottish Social Services Council
Scottish Teachers Pension Scheme
Skills Development Scotland
Sport Scotland
Social Care and Social Work Improvement Scotland
Strathclyde Partnership for Transport
Tay Road Bridge Joint Board
Visit Scotland

Wales Central Government Entities

Arts Council of Wales
Arts Council of Wales National Lottery
Care Council for Wales
Careers Wales Dewis Gyrfa Ltd
Her Majesty's Inspectorate for Education and Training in Wales (Estyn)
Higher Education Funding Council for Wales
Local Government Boundary Commission for Wales
National Library of Wales
National Museums and Galleries of Wales
Natural Resources Wales
Older People's Commission for Wales
Sports Council for Wales
Sports Council for Wales National Lottery
Welsh Assembly Government
Welsh Consolidated Fund
Welsh Language Commissioner

Welsh National Health Service Trusts

Public Health Wales NHS Trust
Velindre
Welsh Ambulance Services

Public Corporations and Public Financial Corporations

Audit Commission
Bank of England
Bank of England Asset Purchase Facility
British Council
British Nuclear Fuels Ltd
Broadcasters' Audience Research Board Limited
BRB Residuary Limited
Caledonian Maritime Assets Limited
Channel Four Television Corporation
Civil Aviation Authority
Commonwealth Development Corporation
Companies House
Defence Science and Technology Laboratory
Defence Support Group
Direct Rail Services Limited
Driver and Vehicle Agency - Northern Ireland
Driving Standards Agency
Export Credits Guarantee Department
FCO Services (FCOS)
Financial Conduct Authority

Financial Ombudsman Services Ltd
Fire Service College
Forensic Science Service
Forest Enterprise England
Forest Enterprise Agency Scotland
Guaranteed Export Finance Corporation
Government Procurement Service
Intellectual Property Office
International Nuclear Services Limited
Land Registry
London Organising Committee of the Olympic Games Limited
Medicines and Healthcare Products Regulatory Agency
MRC Technology Limited
Meteorological Office
National Employment Savings Trust
National Nuclear Laboratory Limited
NDA Properties Limited
NHS Blood and Transplant
NHS Professionals
[2]Northern Ireland Housing Executive
Northern Ireland Transport Holding Company
Ordinance Survey
Pacific Nuclear Transport Limited
Post Office
Prudential Regulation Authority
Registers of Scotland
Remploy Limited
Royal Mail Holdings plc
Royal Mint
Scottish Water
UK Hydrographic Office

Local Government – England

Adur District Council
Allerdale Borough Council
Amber Valley Borough Council
Arun District Council
Ashfield District Council
Ashford Borough Council
Avon and Somerset Police and Crime Commissioner
Avon Fire and Rescue Authority
Aylesbury Vale District Council
Babergh District Council
Barking & Dagenham London Borough Council
Barnet London Borough Council
Barnsley Metropolitan Borough Council
Barrow-in-Furness Borough Council
Basildon District Council
Basingstoke and Deane Borough Council
Bassetlaw District Council
Bath & North East Somerset Council
Bedford Unitary Authority
Bedfordshire Combined Fire and Rescue Authority
Bedfordshire Police and Crime Commissioner
Berkshire Combined Fire and Rescue Authority
Bexley London Borough Council
Birmingham City Council
Blaby District Council
Blackburn with Darwen Unitary Authority
Blackpool Unitary Authority
Bolsover District Council
Bolton Metropolitan Borough Council
Boston Borough Council
Bournemouth Council
Bracknell Forest Borough Council
Bradford City Council
Braintree District Council
Breckland District Council
Brent London Borough Council
Brentwood Borough Council
[3]Brighton & Hove City Council
Bristol City Council
Broadland District Council
Broads Authority (The)
Bromley London Borough Council
Bromsgrove District Council
Broxbourne Borough Council
Broxtowe Borough Council
Buckinghamshire Combined Fire and Rescue Authority
Buckinghamshire County Council
Burnley Borough Council
Bury Metropolitan Borough Council
Calderdale Metropolitan Borough Council
Cambridge City Council
Cambridgeshire Combined Fire and Rescue Authority
Cambridgeshire County Council
Cambridgeshire Police and Crime Commissioner
Camden London Borough Council
Cannock Chase District Council
Canterbury City Council
Carlisle City Council

Castle Point Borough Council
Central Bedfordshire Unitary Authority
Charnwood Borough Council
Chelmsford Borough Council
Cheltenham Borough Council
Cherwell District Council
Cheshire Combined Fire and Rescue Authority
Cheshire East Unitary Authority
Cheshire Police and Crime Commissioner
Cheshire West and Chester Unitary Authority
Chesterfield Borough Council
Chichester District Council
Chiltern District Council
Chorley Borough Council
Christchurch Borough Council
City of York Council
Cleveland Combined Fire and Rescue Authority
Cleveland Police and Crime Commissioner
Colchester Borough Council
Common Council of the City of London
Copeland Borough Council
Corby Borough Council
Cornwall Unitary Authority
Cotswold District Council
County Durham Unitary Authority
Coventry City Council
Craven District Council
Crawley Borough Council
Croydon London Borough Council
Cumbria County Council
Cumbria Police and Crime Commissioner
Dacorum Borough Council
Darlington Borough Council
Dartford Borough Council
Dartmoor National Park Authority
Daventry District Council
Derby City Council
Derbyshire Combined Fire and Rescue Authority
Derbyshire County Council
Derbyshire Dales District Council
Derbyshire Police and Crime Commissioner
Devon and Cornwall Police and Crime Commissioner
Devon & Somerset Combined Fire and Rescue Authority
Devon County Council
Doncaster Metropolitan Borough Council
Dorset Combined Fire and Rescue Authority
Dorset County Council
Dorset Police and Crime Commissioner
Dover District Council
Dudley Metropolitan Borough Council
Durham Combined Fire and Rescue Authority
Durham Police and Crime Commissioner
Ealing London Borough Council
East Cambridgeshire District Council
East Devon District Council
East Dorset District Council
East Hampshire District Council
East Hertfordshire District Council
East Lindsey District Council
East London Waste Authority
East Northamptonshire District Council
East Riding of Yorkshire Council
East Staffordshire Borough Council
East Sussex Combined Fire and Rescue Authority
East Sussex County Council
Eastbourne Borough Council
Eastleigh Borough Council
Eden District Council
Elmbridge Borough Council
Enfield London Borough Council
Epping Forest District Council
Epsom and Ewell Borough Council
Erewash Borough Council
Essex Combined Fire and Rescue Authority
Essex County Council
Essex Police and Crime Commissioner
Exeter City Council
Exmoor National Park Authority
Fareham Borough Council
Fenland District Council
Forest Heath District Council
Forest of Dean District Council
Fylde Borough Council
Gateshead Council
Gedling Borough Council

Gloucester City Council
Gloucestershire County Council
Gloucestershire Police and Crime Commissioner
Gosport Borough Council
Gravesham Borough Council
Great Yarmouth Borough Council
Greater London Authority
Greater Manchester Combined Authority
Greater Manchester Fire and Rescue Authority
Greater Manchester Police and Crime Commissioner
Greater Manchester Waste Disposal Authority
Greenwich London Borough Council
Guildford Borough Council
Hackney London Borough Council
Halton Borough Council
Hambleton District Council
Hammersmith and Fulham London Borough Council
Hampshire Combined Fire and Rescue Authority
Hampshire County Council
Hampshire Police and Crime Commissioner
Harborough District Council
Haringey London Borough Council
Harlow District Council
Harrogate Borough Council
Harrow London Borough Council
Hart District Council
Hartlepool Borough Council
Hastings Borough Council
Havant Borough Council
Havering London Borough Council
Hereford and Worcester Combined Fire and Rescue Authority
Herefordshire Council
Hertfordshire County Council
Hertfordshire Police and Crime Commissioner
Hertsmere Borough Council
High Peak Borough Council
Hillingdon London Borough Council
Hinckley and Bosworth Borough Council
Horsham District Council
Hounslow London Borough Council
Humberside Combined Fire and Rescue Authority
Humberside Police and Crime Commissioner
Huntingdonshire District Council
Hyndburn Borough Council
Ipswich Borough Council
Isle of Wight Council
Isles of Scilly (Council of the)
Islington London Borough Council
Kensington and Chelsea Council (Royal Borough of)
Kent Combined Fire and Rescue Authority
Kent County Council
Kent Police and Crime Commissioner
Kettering Borough Council
Kings Lynn and West Norfolk Borough Council
Kingston upon Hull City Council
Kingston upon Thames Council (Royal Borough of)
Kirklees Metropolitan Council
Knowsley Metropolitan Borough Council
Lake District National Park Authority
Lambeth London Borough Council
Lancashire Combined Fire and Rescue Authority
Lancashire County Council
Lancashire Police and Crime Commissioner
Lancaster City Council
Lee Valley Regional Park Authority
Leeds City Council
Leicester City Council
Leicester Combined Fire and Rescue Authority
Leicestershire County Council
Leicestershire Police and Crime Commissioner
Lewes District Council
Lewisham London Borough Council
Lichfield District Council
Lincoln City Council
Lincolnshire County Council
Lincolnshire Police and Crime Commissioner
Liverpool City Council
London Fire and Emergency Planning Authority
London Legacy Development Corporation
Luton Borough Council
Maidstone Borough Council
Maldon District Council

Malvern Hills District Council
Manchester City Council
Mansfield District Council
Mayor's Office for Policing and Crime
Medway Towns Unitary Authority (The)
Melton Borough Council
Mendip District Council
Merseyside Fire and Rescue Authority
Merseyside Integrated Transport Authority
Merseyside Police and Crime Commissioner
Merseyside Waste Disposal Authority
Merton Borough Council
Mid Devon District Council
Mid Suffolk District Council
Mid Sussex District Council
Middlesbrough Council
Milton Keynes Council
Mole Valley District Council
Museum of London
New Forest District Council
New Forest National Park Authority
Newark and Sherwood District Council
Newcastle upon Tyne City Council
Newcastle-under-Lyme Borough Council
Newham London Borough Council
Nexus (Tyne & Wear Passenger Transport Executive)
Norfolk County Council
Norfolk Police and Crime Commissioner
North Devon District Council
North Dorset District Council
North East Derbyshire District Council
North East Lincolnshire Council
North Hertfordshire District Council
North Kesteven District Council
North Lincolnshire Council
North London Waste Authority
North Norfolk District Council
North Somerset Council
North Tyneside Metropolitan Borough Council
North Warwickshire Borough Council
North West Leicestershire District Council
North York Moors National Park Authority
North Yorkshire Combined Fire and Rescue Authority
North Yorkshire County Council
North Yorkshire Police and Crime Commissioner
Northampton Borough Council
Northamptonshire County Council
Northamptonshire Police and Crime Commissioner
Northumberland National Park Authority
Northumberland Unitary Authority
Northumbria Police and Crime Commissioner
Norwich City Council
Nottingham City Council
Nottinghamshire Combined Fire and Rescue Authority
Nottinghamshire County Council
Nottinghamshire Police and Crime Commissioner
Nuneaton and Bedworth Borough Council
Oadby and Wigston Borough Council
Oldham Metropolitan Borough Council
Oxford City Council
Oxfordshire County Council
Peak District National Park Authority
Pendle Borough Council
Peterborough City Council
Plymouth City Council
Poole (Borough of)
Portsmouth City Council
Preston City Council
Purbeck District Council
Reading Borough Council
Redbridge London Borough Council
Redcar and Cleveland Borough Council
Redditch Borough Council
Reigate and Banstead Borough Council
Ribble Valley Borough Council
Richmond upon Thames Borough Council
Richmondshire District Council
Rochdale Borough Council
Rochford District Council
Rossendale Borough Council
Rother District Council
Rotherham Borough Council
Rugby Borough Council
Runnymede Borough Council
Rushcliffe Borough Council
Rushmoor Borough Council
Rutland County Council
Ryedale District Council
Salford City Council

Sandwell Metropolitan Borough Council
Scarborough Borough Council
Sedgemoor District Council
Sefton Metropolitan Borough Council
Selby District Council
Sevenoaks District Council
Sheffield City Council
Shepway District Council
Shropshire Combined Fire and Rescue Authority
Shropshire Unitary Authority
Slough Borough Council
Solihull Metropolitan Borough Council
Somerset County Council
South Bucks District Council
South Cambridgeshire District Council
South Derbyshire District Council
South Downs National Park
South Gloucestershire Council
South Hams District Council
South Holland District Council
South Kesteven District Council
South Lakeland District Council
South Norfolk District Council
South Northamptonshire Council
South Oxfordshire District Council
South Ribble Borough Council
South Somerset District Council
South Staffordshire District Council
South Tyneside Council
South Yorkshire Fire and Rescue Authority
South Yorkshire Integrated Transport Authority
South Yorkshire Police and Crime Commissioner
Southampton City Council
Southend-on-Sea Borough Council
Southwark London Borough Council
Spelthorne Borough Council
St Albans City and District Council
St Edmundsbury Borough Council
St Helens Metropolitan Borough Council
Staffordshire County Council
Staffordshire Moorlands District Council
Staffordshire Police and Crime Commissioner
Stevenage Borough Council
Stockport Metropolitan Borough Council
Stockton-on-Tees Borough Council
Stoke-on-Trent Unitary Authority
Stratford-on-Avon District Council
Stroud District Council
Suffolk Coastal District Council
Suffolk County Council
Suffolk Police and Crime Commissioner
Sunderland City Metropolitan Borough Council
Surrey County Council
Surrey Heath Borough Council
Surrey Police and Crime Commissioner
Sussex Police and Crime Commissioner
Sutton London Borough Council
Swale Borough Council
Swindon Unitary Authority
Tameside Metropolitan Borough Council
Tamworth Borough Council
Tandridge District Council
Taunton Deane Borough Council
Teignbridge District Council
Telford and Wrekin (Borough of)
Tendring District Council
Test Valley Borough Council
Tewkesbury Borough Council
Thames Valley Police and Crime Commissioner
Thanet District Council
Three Rivers District Council
Thurrock Unitary Authority
Tonbridge and Malling Borough Council
Torbay Council
Torridge District Council
Tower Hamlets London Borough Council
Trafford Metropolitan Borough Council
Transport for London
Tunbridge Wells Borough Council

Tyne & Wear Integrated Transport Authority
Tyne and Wear Fire and Rescue Authority
Uttlesford District Council
Vale of White Horse District Council
Wakefield City Council
Walsall Metropolitan Borough Council
Waltham Forest London Borough Council
Wandsworth London Borough Council
Warrington Borough Council
Warwick District Council
Warwickshire County Council
Warwickshire Police and Crime Commissioner
Watford Borough Council
Waveney District Council
Waverley Borough Council
Wealden District Council
Wellingborough Borough Council
Welwyn Hatfield District Council
West Berkshire Council
West Devon Borough Council
West Dorset District Council
West Lancashire District Council
West Lindsey District Council
West London Waste Authority
West Mercia Police and Crime Commissioner
West Midlands Fire and Rescue Authority
West Midlands Integrated Transport Authority
West Midlands Police and Crime Commissioner
West Oxfordshire District Council
West Somerset District Council
West Sussex County Council
West Yorkshire Fire and Rescue Authority
West Yorkshire Integrated Transport Authority
West Yorkshire Police and Crime Commissioner
Western Riverside Waste Authority
Westminster City Council
Weymouth and Portland Borough Council
Wigan Metropolitan Borough Council
Wiltshire Combined Fire and Rescue Authority
Wiltshire Police and Crime Commissioner
Wiltshire Unitary Authority
Winchester City Council
Windsor and Maidenhead (Royal Borough of)
Wirral Metropolitan Borough Council
Woking Borough Council
Wokingham Council
Wolverhampton City Council
Worcester City Council
Worcestershire County Council
Worthing Borough Council
Wychavon District Council
Wycombe District Council
Wyre Borough Council
Wyre Forest District Council
Yorkshire Dales National Park Authority

Local Government – Northern Ireland

Antrim Borough Council
ARC21 Joint Committee
Ards Borough Council
Armagh City & District Council
Ballymena Borough Council
Ballymoney Borough Council
Banbridge District Council
Belfast City Council
Carrickfergus Borough Council
Castlereagh Borough Council
Coleraine Borough Council
Cookstown District Council
Craigavon Borough Council
Derry City Council
Down District Council
Dungannon and South Tyrone Borough Council
Fermanagh District Council
Larne Borough Council
Limavady Borough Council
Lisburn City Council
Magherafelt District Council
Moyle District Council
Newry and Mourne District Council
Newtownabbey Borough Council

North Down Borough Council
Omagh District Council
Strabane District Council

Local Government – Scotland

Aberdeen City Council
Aberdeenshire Council
Angus Council
Argyll and Bute Council
Clackmanannshire Council
Dumfries and Galloway Council
Dundee City Council
East Ayrshire Council
East Dunbartonshire Council
East Lothian Council
East Renfrewshire Council
Edinburgh City Council
Falkirk Council
Fife Council
Glasgow City Council
Highland Council
Inverclyde Council
Midlothian Council
Moray Council
North Ayrshire Council
North Lanarkshire Council
Orkney Islands Council
Perth and Kinross Council
Renfrewshire Council
Scottish Borders Council
Shetland Islands Council
South Ayrshire Council
South Lanarkshire Council
Stirling Council
West Dunbartonshire Council
West Lothian Council
Western Isles Council (Comhaile Eilean Siar)

Local Government – Wales

Blaenau Gwent County Borough Council
Bridgend County Borough Council
Caerphilly County Borough Council
Cardiff City and County Council
Carmarthenshire County Council
Ceredigion County Council
Conwy County Borough Council
Denbighshire County Council
Dyfed Powys Police and Crime Commissioner
Flintshire County Council
Gwent Police and Crime Commissioner
Gwynedd County Council
Isle of Anglesey County Council
Merthyr Tydfil County Borough Council
Mid and West Wales Fire Authority
Monmouthshire County Council
Neath Port Talbot County Borough Council
Newport City Council
North Wales Fire Authority
North Wales Police and Crime Commissioner
Pembrokeshire Coast National Park Authority
Pembrokeshire County Council
Powys County Council
Rhondda Cynon Taff County Borough Council
Snowdonia National Park Authority
South Wales Fire Authority
South Wales Police and Crime Commissioner
Swansea City and County Council
Torfaen County Borough Council
Vale of Glamorgan County Council
Wrexham County Borough Council

Annex 2

Entities that are not consolidated in WGA

The accounting policy for the WGA boundary set out in Note 1.3 is based on section 9(1) of the Government Resources and Accounts Act 2000 (GRAA) and the Government Financial Reporting Manual (FReM) which adapts IAS 27 to reflect the requirements of the GRAA. The GRAA requires HM Treasury to consolidate entities that appear to HM Treasury to "exercise functions of a public nature" or to be "substantially funded from public money". HM Treasury's decisions apply the GRAA and the FReM, taking into account the national accounts classification of entities to the public sector determined by the Office for National Statistics (ONS). This is because the ONS consider the factors listed in the GRAA when making their classification decisions as well as taking account of the degree of control that government has over each entity. As a result the scope of WGA is similar to other fiscal measures, which enables WGA to complement existing data and be a tool to support macro-economic management of the UK's finances.

Entities that are minor

A number of small entities are not consolidated within the accounts on the basis of materiality. These minor entities are listed in Annex 3.

Entities that are not responsible to an executive arm of government

There are a few entities that would satisfy the criteria set out in the GRAA and are classified as public sector entities by the ONS, but which HM Treasury, consistent with its legislative remit, has decided to exclude from WGA. This is because, whilst they are accountable to their respective parliaments or assemblies, they are not responsible to an executive arm of the government, and therefore do not form part of government. These entities, which are all relatively small in size, are listed below:

- Audit Scotland
- The Crown Estate
- Electoral Commission
- Greenwich Hospital
- Independent Parliamentary Standards Authority
- National Assembly for Wales
- National Audit Office
- Northern Ireland Assembly
- Northern Ireland Audit Office
- Parliamentary Ombudsman
- Royal Palaces
- Scottish Parliament
- Wales Audit Office
- Westminster Parliament

Public sector financial institutions

There is one financial institution that would satisfy the criteria set out in the GRAA and is classified as a public sector entities by ONS: the Royal Bank of Scotland. This has not been fully consolidated in these accounts but is instead shown as a financial investment, for reasons outlined in Note 36.

In September 2013 the government sold 6% of its shareholding in Lloyds Banking Group, followed by a further sale in March 2014, bringing the government shareholding down to 24.9%. The ONS subsequently reclassified LBG to the private sector and it is no longer within the scope of WGA. The remaining shares are shown as a financial investment.

Other entities

In addition, some entities have been excluded for reasons specific to their circumstances. In these instances, their exclusion is under review and they may be consolidated within WGA in future.

A list of these entities is provided below:

- Cardiff International Airport – pragmatic exclusion as the airport is included in WGA as an investment within the Welsh Government accounts.
- Covent Garden Market Authority – proposed to be included in future, date to be agreed
- Further education institutions – classified to the private sector by ONS
- Higher education institutions – classified to the private sector by ONS
- Local government pension schemes – not separately designated as the net public sector pension liability is included within the accounts of local authorities
- Maintained schools – not separately designated as net assets, income and expenditure are usually included by local authorities
- Municipal ports – pragmatic exclusion as net assets are immaterial to WGA and the expenditure is reflected in WGA
- Navy, Army and Air Force Institute – proposed to be included in 2014-15
- Parish councils – pragmatic exclusion as net assets are immaterial to WGA and the expenditure reflected in WGA
- Pension Protection Fund – proposed to be included in 2014-15
- Trust ports –pragmatic exclusion as net assets are immaterial to WGA

Annex 3: Minor entities excluded from the consolidation

There are a number of entities within the public sector that are relatively small in size. These small entities that are not consolidated in underlying accounts are deemed minor entities and are considered too small to have any material impact on WGA and are therefore not consolidated in WGA. In order to be minor, they must satisfy certain tests which are reviewed annually, as described in Note 1.22.1. The entities listed below have not been consolidated into WGA for 2013-14 as they meet the minor entity criteria.

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
2013 World Police and Fire Games	7,319	0	0
Architects Registration Board	3,280	278	1,965
Armagh Observatory and Planetarium	2,261	7,361	6,401
British Hallmarking Council	66	0	0
Brecon Beacons National Park Authority	6,833	4,325	(101)
Charity Commission for Northern Ireland	1,425	116	424
Children's Commissioner for Wales	1,716	27	390
CITB Construction Skills Northern Ireland	3,150	2,019	3,379
Comhairle na Gaelscolaiochta	806	15	107
Commission for Children and Young People for Northern Ireland	1,465	24	80
Commission for Older People for Northern Ireland	905	35	51
Commission for Victims and Survivors for Northern Ireland	1,033	8	97
Council for Catholic Maintained Schools	3,384	8	(3619)
Criminal Justice Inspection Northern Ireland	1,289	64	(91)
Culture Company 2013 Limited	946	0	0
Economic Research Institute for Northern Ireland	515	0	0
General Consumer Council for Northern Ireland	2,765	359	319
General Teaching Council for Northern Ireland	1,049	2	1,284
General Teaching Council for Wales	9,074	38	233
Groceries Code Adjudicator	303	0	(147)
Health and Safety Executive for Northern Ireland	974	54	231
Labour Relations Agency	3,569	742	357
Livestock and Meat Commission for Northern Ireland	2,254	909	3,540
Local Government Boundary Commission for England	2,235	6	74
Local Government Staff Commission for Northern Ireland	920	436	122
Northern Ireland Community Relations Council	3,977	94	(435)
Northern Ireland Events Company Limited	3	0	(1,293)
Northern Ireland Guardian ad Litem Agency	4,266	101	(124)
Northern Ireland Judicial Appointments Commission	1,363	3	(55)
Northern Ireland Museums Council	464	0	(12)
Northern Ireland Police Fund	1,580	0	(19)

Entity	Gross expenditure (£000s)	Property, plant & equipment net book value (£000s)	Net assets (£000s)
Northern Ireland Practice and Education Council for Nursing and Midwifery	1,346	44	(666)
Northern Ireland Social Care Council	3,789	74	305
North West Regional Waste Management Group	456	0	0
Patient and Client Council	1,741	16	(193)
Police Complaints Commissioner for Scotland	2,454	408	382
Police Rehabilitation and Retraining Trust	2,894	1,080	1,133
Risk Management Authority	918	55	223
Royal Ulster Constabulary George Cross Foundation	146	16	98
Scottish Criminal Cases Review Commission	1,082	16	168
Southern Waste Management Partnership	328	54	93
Staff Commission for Education and Library Boards	271	0	(6)
Wave Hub Limited	-	0	0
Amounts excluded from WGA in 2013-14	**86,614**	**18,787**	**14,695**
Amounts excluded from WGA in 2012-13	**103,722**	**25,322**	**31,971**

Annex 4: List of departures from the 2013-14 Government Financial Reporting Manual

These financial statements are prepared in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the 2013-14 Government Financial Reporting Manual (FReM). However, in some circumstances departures from the FReM have been made, and these are described below.

Departures in the underlying accounts

General government entities (including devolved administrations and the National Health Service)

HM Treasury's Accounts Direction given in accordance with section 5(2) of the GRAA allows for departures from the FReM in exceptional circumstances, where to comply with the FReM would not give a true and fair view. In these instances, any departure is agreed with HM Treasury's Accounting and Financial Policy Reporting team.

The Ministry of Defence has not applied IFRIC 4 'Determining whether an Arrangement Contains a Lease' to all of its contracts. It is believed that a limited number of significant, largely single source contracts, particularly strategic procurement arrangements with key contractors, would meet the IFRIC 4 definition of containing a lease if they were reviewed against IFRIC 4; and that some of these leases would meet the definition of a finance lease per IAS 17 'Leases'. The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Consequently, the Comptroller & Auditor-General qualified his opinion on the 2013-14 accounts of the Ministry of Defence on the basis that a material value of leased assets and liabilities were omitted from its Statement of Financial Position. Following a review on the application of the standard it was agreed with HM Treasury not to implement IFRIC 4 for legacy contracts on value for money grounds. Further information is available in the Ministry of Defence's 2013-14 Annual Report and Accounts.

The Department of Health's 2013-14 Annual Report and Accounts include a number of departures from the FReM as agreed with HM Treasury, but these have no material impact on consolidation in these accounts. Some NHS organisations whose accounts are consolidated into the department's annual report and accounts receive donations that are held on trust.

Inconsistencies in accounting frameworks that led to departures from the FReM

Local government entities

Local authority accounting complies with the Code of Practice on Local Authority Accounting in the UK (The Code) developed by the CIPFA / LASAAC Board. The Code is based on international accounting standards.

The most significant difference between the FReM and the Code arises from the accounting treatment of highways infrastructure assets held by local authorities. Local authorities prepare their accounts on a historical cost basis compared to the depreciated replacement cost basis used by all other government entities. Local authorities are working towards calculating a valuation of these assets on a depreciated replacement cost basis for inclusion in the Whole of Government Accounts. The 2013-14 process collected data from local authorities, but it was not considered sufficiently reliable for inclusion in the financial statements. However, this does enable further analysis to be undertaken in future years to potentially deliver an interim solution until the introduction of the new accounting policy in 2016-17.

In the meantime, the best proxy available for depreciated replacement cost is the calculated asset value used by the ONS from their perpetual inventory model reflected in the National Accounts. The 2013 National Accounts estimated the value of the road network at £292 billion (2012-13: £275 billion) as at 31 December 2013[40]. Infrastructure assets are likely to be understated by at least £200 billion.

Local authorities value the bulk of housing stock within the Housing Revenue Account under the valuation method 'Existing Use Value for Social Housing', which is defined by the Royal Institution of

[40] UK National Accounts, The Blue Book, 2014, Table 10.9 'Other Structures'

Chartered Surveyors Valuation Standards 6th Edition. This is in accordance with current CIPFA and HM Treasury guidance. However, this method of valuation is not recognised under IFRS and is a departure from IFRS and FReM.

Under the disclosure requirements in the 2013-14 Code, local authorities are not required to separately disclose vehicles. As a result, plant and machinery in Note 14 include vehicles held by local authorities.

Public corporations

Except where specific powers are defined in statute, public corporations are subject to all the discipline of corporate legislation including conforming to the financial reporting requirements of the Companies Act, and not the FReM.

Scottish Water values its infrastructure assets at historical cost in its accounts, rather than replacement cost per the FReM. An adjustment has been made of £41 billion (2012-13: £40 billion) to reflect the replacement cost in these accounts.

Specific WGA departures from the FReM

PFI disclosures

A number of WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported off-balance sheet contracts in their accounts in different ways in 2013-14, as the accounting standards allow flexibility as to how to present the information. Therefore it is not possible to provide a summary of all PFI contracts in this account. Included in Note 29 is a list of the most material PFI contracts that have been reported.

Level of disclosures

On certain matters, the level of disclosure reported by individual entities in their accounts varies, which has impacted on the level of disclosures able to be reported in these accounts. For example, local authority accounting requirements disclose exit packages at different cost bands to those required to be disclosed in the FReM, and this has been reflected in the cost bands disclosed in Note 7.3. In these instances, the level of disclosure still provides users of the accounts with sufficient information to understand the Whole of Government Accounts.

On certain matters, the detailed level of disclosure required by financial reporting standards is not appropriate for WGA, as it would create an unwieldy document including details from 5,500 entities that would not serve the purpose of the Whole of Government Accounts. In such cases detailed disclosures are omitted but are available in the individual accounts of the consolidated entities. This affects the following items:

Disclosure	Information omitted
Donated assets	Details of restrictions where a donor imposes restrictions on the use of donated assets.
Heritage assets	Information on the age and scale of assets, how they were acquired and what use is made of them.
Valuation of assets	Detailed disclosures regarding valuations including the following: name and qualification of the value or valuer's organisation and a description of its nature, date and amounts of valuations, if a valuation is performed by an employee or officer of the entity, and certain detailed disclosures regarding impairments required under IAS 38.
Investment property revaluation reserve	Investment property revaluation reserve to be shown separately from any other revaluation reserve.
Secured payables	Details of secured payables and the nature of security given.
Long term contracts	Payments on account of long term contracts separately disclosed in receivables and payables.
Managing capital	Qualitative and quantitative information about objectives, policies and procedures for managing capital.
Related party transactions	Details of material financial transactions between entities that are regarded as related parties.

Annex 5: Glossary

Accruals basis
A method of recording transactions to relate them to the period when the consumption of the goods, services or financial asset took place, or when the income is earned. For example, value added tax accrues when the expenditure to which it relates takes place, but HM Revenue and Customs receive the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable.

Actuarial assumptions
Assumptions used to calculate the costs of future events that affect the pension liability.

Actuarial gains and losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation or the actuarial assumptions have changed.

Assets
Anything of positive economic value that can be owned or controlled.

Asset Purchase Facility
Facility created in January 2009 to increase the availability of corporate credit, in order to support the Bank of England’s responsibilities for financial stability and monetary stability in the UK, and for monetary policy purposes.

Bank of England (BoE)
The Bank of England is the central bank of the United Kingdom. It is independent of the government and has two core purposes: monetary stability and financial stability. Since 1997 the Bank has had statutory responsibility for setting the UK's official interest rate.

Balance sheet
Also known as the Statement of Financial Position. A statement, drawn up at a particular point in time, showing the value of assets owned and of the financial claims (liabilities) against the owner of these assets.

Bond
A certificate of debt issued by a government or corporation in order to raise money - a bond is essentially an IOU. A bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. In the UK, government bonds are called ‘gilts’.

Capital expenditure
Money spent on building, purchasing or upgrading physical assets (i.e. infrastructure, buildings, machinery etc.), for the purpose of creating future benefits.

Cash basis
The recording of transactions when cash or cash equivalents are paid out or received, rather than on an accruals basis.

Cash equivalents
Short-term, highly liquid bank deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Clear Line of Sight (CLoS)
A government driven project to simplify central government financial reporting to Parliament by reporting in a more consistent way, in line with the fiscal rules. Also refer to:
http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/psr_clear_line_of_sight_intro.htm

Consolidated Fund
The government’s "current account", operated by the Treasury, through which pass most central government payments and receipts.

Consumer Prices Index (CPI)
A measure of inflation. The CPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The CPI is the main UK measure of inflation for macroeconomic purposes and forms the basis for the government's inflation target.

Corporation tax
A tax on the taxable profits made by companies, limited companies and other organisations including clubs, societies, associations and other unincorporated bodies.

Current service costs
The increase in scheme liabilities arising from service in the current financial year.

Defined benefit scheme
A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme
A pension or other retirement benefit scheme into which the employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or

constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives
Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (for example a government bond or a bank deposit), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. Examples of derivatives are options and swaps.

Designation Order
The statutory instrument which lists the entities consolidated into WGA and must provide data to HM Treasury.

Discount rate
The rate used to adjust for the time value of money. Discounting is a technique used to compare costs and benefits that occur in different time periods.

Effective interest rate
The rate that discounts estimated future cash receipts or payments over the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the asset or liability. The annual rate of interest that accounts for the effect of compounding – i.e. when compounding occurs more often than once a year.

Equity
Equity is ownership or potential ownership of a company, as evidenced by the ownership of ordinary shares. They differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are merely outside creditors.

Equity instruments
An 'equity instrument' is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities, eg ordinary shares.

Estimates
Estimates for central government departments are presented to the House of Commons to seek Parliamentary authority for expenditure, specifically the voted element of spending plans set out in Spending Reviews and Budgets. Estimates are presented on a budgetary basis, the means by which the Treasury monitors and controls departmental spending.

Exchange rate
The rate at which one currency can be exchanged for another.

Exchange Equalisation Account (EEA)
An account of central government held by the Bank of England in which transactions in the official reserves are recorded. It is the means by which the government, through the Bank of England, influences exchange rates.

Expected rate of return on pensions assets
For a funded, defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets of the scheme.

Finance Bill
The annual Finance Bill puts into law the measures announced in the Budget. Its formal description is 'a Bill to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, to make further provision in connection with finance.'

Financial asset
Any asset that is cash; an equity instrument of another entity; a contractual right to receive another financial asset or exchange financial assets or liabilities on potentially favourable term; or certain types of contract which will or may be settled in the entity's own equity instruments.

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

Financial leasing
A form of leasing in which the lessee contracts to assume the rights and responsibilities of ownership of leased goods from the lessor (the legal owner) for the whole (or virtually the whole) of the economic life of the asset. In the economic accounts this is recorded as the sale of the assets to the lessee, financed by an imputed loan. The leasing payments are split into interest payments and repayments of principal.

Financial liabilities
Any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or certain types of contracts which will or may be settled in the entity's own equity instruments

Fiscal policy
The use of government spending and tax policy to affect changes in and influence the economy.

FReM
The 2013-14 Government Financial Reporting Manual which applies EU adopted International Financial Reporting

Standards as adapted or interpreted for the public sector context.

General reserve
The main reserves account to which all revenue transactions are credited and from which revenue liabilities are discharged.

Gilts
Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

GRAA
Government Resources and Accounts Act 2000 which requires HM Treasury to prepare the Whole of Government Accounts.

Grants
Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

Gross Domestic Product (GDP)
GDP is a measure of economic activity. It is the sum of all goods and services produced by a country over a given time period (usually a year). A rise in GDP shows the economy is growing, whilst falling GDP means the economy is contracting. GDP can be measured in three ways:

i) Income (the value of the income generated mostly in terms of profits and wages);
ii) Output (the value of the goods and services produced); and
iii) Expenditure (the value of the goods and services purchased).

Hedge
A hedge is an asset or derivative used to offset the risk in another asset held or liability.

Housing Revenue Account (HRA)
A separate account recorded by local authorities which is required by statute for recording income and expenditure on the provision of council housing. The rental and other HRA income pays for repairs, managing and maintaining the housing stock and repaying any money borrowed for past building and improvements. The HRA is ring fenced and can only be used to fund expenditure on council housing.

Income Tax
A tax on personal income, i.e. wages or salary. The level of Income Tax an individual pays depends on their level of income – higher earners pay higher rates of Income Tax. However, nearly everyone who lives in the UK is entitled to an Income Tax personal allowance. This sets the amount of income you can receive each tax year without having to pay tax on it.

Index-linked gilts
Gilts whose coupon and redemption value are linked to movements in the retail prices index.

Inflation
A rise in the general price level of goods and services. Often measured over a 12 month period.

Intangible assets
An intangible fixed asset is an identifiable non-monetary asset which are without physical substance. Intangible fixed assets include mineral exploration, computer software and entertainment, literary or artistic originals. Expenditure on them is part of gross fixed capital formation. They exclude non-produced intangible assets such as patented entities, leases, transferable contracts and purchased goodwill, expenditure on which would be intermediate consumption.

Interest rate
A cost that is charged by a person or organisation that lends money to another. Usually expressed as a percentage.

International Monetary Fund (IMF)
The fund was set up in 1947 to supervise the fixed exchange rate system and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. It is funded by member countries' subscriptions according to agreed quotas. It currently has about 180 member countries including most of the major countries of the world.

IMF quota subscription
A member's International Monetary Fund (IMF) quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund.

Inventories
Inventories consist of finished goods (held by the producer prior to sale, further processing or other use) and products (for example, materials and fuel) acquired from other producers to be used for intermediate consumption or resold without further processing.

Liability
A claim on one entity by another which gives rise to a payment or other transaction transferring assets to the other entity. Conditional liabilities, that is where the transfer of assets only takes place under certain defined circumstances, are known as contingent liabilities.

Liquidity
The ease with which a financial instrument can be exchanged for goods and services. Cash is very liquid whereas a life assurance policy is less so.

Machinery of Government (MOG) change
Transfer of functions from one part of the public sector to another in the UK.

Managing Public Money
A HM Treasury document for departments in central government that sets out the main principles for dealing with resources used by public sector organisations in the UK. It is publicly available at:
https://www.gov.uk/government/publications/managing-public-money

Monetary policy
The regulation of money supply and interest rates by a central bank, such as the Bank of England, to achieve economic objectives.

National Insurance contributions (NICs)
National Insurance is a government-operated social security scheme. It is funded by compulsory contributions by employers, employees and the self-employed. Contributions increase according to the level of earnings (or profit, in the case of the self-employed).

NICs pay for contributory benefits, including the State Pension. A proportion of NICs are also used to help fund the National Health Service. Individuals stop paying NICs when they reach State Pension age or are no longer working. Various National Insurance credits are available to maintain entitlements where an individual is not able to work and there is also an option to pay voluntary contributions where credits are not available

National Loans Fund
An account of HM government set up under the National Loans Fund Act (1968) which handles all government borrowing and most domestic lending transactions.

National Non Domestic Rates
National Non-Domestic Rates (NNDR) (also known as business rates) are collected by each local authority. An element is retained and an element is paid into a national pool, which is shared out between local authorities as part of a formula grant (general government funding for local authorities). This funding, together with Council Tax, is used by local authorities to pay for local services.

Non-current assets
Assets that are themselves used repeatedly or continuously for more than one year. They include buildings and other structures, vehicles and other plant and machinery and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy cattle. They also include intangible assets such as computer software and artistic originals.

Non-departmental public body (NDPB)
A body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers.

Operating leasing
The conventional form of leasing, in which the lessee makes use of the leased asset for a period in return for a rental while the asset remains on the balance sheet of the lessor. The leasing payments are part of the output of the lessor, and the intermediate consumption of the lessee. See also financial leasing.

Parliament
Parliament examines what the government is doing, makes new laws and debates the issues of the day. The business of Parliament takes place in two Houses: the House of Commons and the House of Lords. Both Houses hold debates in which Members discuss government policy, current issues, and debate and pass legislation.

Past service costs
The cost of retroactive benefits to member granted in a plan amendment as a result of the introduction, change or improvement to retirement benefits. Past service costs are amortised over the remaining expected service life of the members in the plan at the date it was amended.

Pension funds
The institutions that administer pension schemes. Pension schemes are significant investors in securities.

Pension scheme liabilities
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Preference share
This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference share holders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However in the UK they usually do not, and are therefore classified as bonds.

Private Finance Initiative (PFI)
Private Finance Initiative (PFI) projects are schemes involving the private sector in the delivery of public sector infrastructure. PFI contracts transfer risk to the private sector, including the design, construction, maintenance and operation of the asset. In return, the government pays an

annual charge over the lifetime of the contract, which is typically 25-30 years.

Private sector
The part of a nation's economy which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state.

Privatisation
The process of transferring a government-owned asset such as a company or property to the private sector.

Public corporations
These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A public corporation is publicly controlled to the extent that the public authority, that is central or local government, usually appoints the whole or a majority of the board of management.

Public finances
The government's accounts, including tax receipts, expenditure, borrowing and debt.

Public sector
The part of the nation's economy that is classified to the public sector by the Office for National Statistics.

Public sector current budget deficit
The amount by which government spending exceeds accrued government income during a specified period of time (usually a year), as measured by the Office for National Statistics.

Public sector net debt
The total amount of money owed by the public sector as measured by the Office for National Statistics.

Recession
The commonly accepted definition of a recession in the UK is two or more consecutive quarters (a period of three months) of contraction in national GDP.

Reserves
Reserves are created to finance expenditure occurring in future years. They include general reserve working balances, reserves for financing capital expenditure, and "earmarked" reserves for specific projects.

Retail Prices Index (RPI)
The RPI is a measure of inflation. The RPI measures the average changes month-to-month in prices of consumer goods and services purchased in the UK. The RPI is similar in nature to the Consumer Prices Index (CPI) however there are differences in calculation and in the basket of goods covered. In particular the RPI includes mortgage interest payments and housing depreciation whereas CPI does not.

Revaluation reserve
Entities are required to revalue their assets on a regular basis to reflect changes in value as a result of inflation. The revaluation reserve shows the cumulative effect of these revaluations. On sale of the asset, any remaining balance in the revaluation reserve is released to the Statement of Revenue and Expenditure.

Reverse sales and repurchase agreement (reverse repo)
Where an entity purchases securities and agrees to sell them back at a specified time and price. Securities pledged by an entity as collateral via reverse repos remain on its own statement of financial position.

Sale and repurchase agreements (repo)
Where an entity sells securities and agrees to repurchase them at a fixed price at a future date: essentially, a form of secured borrowing. Securities that are pledged by the entity as collateral via sales and repurchase agreements remain on its statement of financial position.

Sector
In the economic accounts the economy is split into different institutional sectors according broadly to their role in the economy. The main sectors are non-financial corporations, financial corporations, general government, households and non-profit institutions serving households (NPISH). See also private sector and public sector.

Special Drawing Rights (SDRs)
The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged by IMF members for freely usable currencies. IMF members can buy SDRs to discharge obligations to the IMF, and can sell SDRs in order to adjust the composition of their reserves. SDRs are also the IMF's unit of account.

Special Liquidity Scheme
Scheme created in 2008 to encourage banks to lend to each other, by allowing banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills.

Spending Review
Spending reviews set firm and fixed multi-year budgets for government departments. They outline the improvements that the public can expect from government spending.

Subsidies
Current unrequited payments made by general government or the European Union to entities.

Taxes
Compulsory unrequited transfers to central or local government or the European Union.

Third party assets
Assets held by the government, through various public entities, as custodian or trustee, but which belong to third parties, for example funds in court or money held on behalf of others.

Treasury (The)
HM Treasury is the United Kingdom's economics and finance ministry. It is the government department responsible for formulating and implementing the government's financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

Treasury Bills
Short-term securities or promissory notes which are issued by government in return for funding from the money market. In the United Kingdom every week the Bank of England invites tenders for sterling Treasury Bills from the financial institutions operating in the market. EU-denominated bills are issued by tender each month. Treasury Bills are an important form of short-term borrowing for the government, generally being issued for periods of 3 or 6 months.

United Kingdom
Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

Value Added Tax (VAT)
VAT is a tax that is charged on goods or services. It is levied at each stage in the chain of production and distribution. However, smaller businesses do not have to register for VAT and when VAT registered businesses buy goods or services they can generally reclaim the VAT that they have paid on them. Therefore VAT principally affects consumers. This is with the exception of certain goods that are taxed at zero per cent, including food, books, newspapers and children’s shoes and clothes.

Value at Risk (VaR)
This measures the aggregate market risk on a portfolio. VaR is an estimate of the maximum potential loss in the value of a portfolio.

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This document can be downloaded from www.gov.uk

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