HM Treasury

Annual Report and Accounts 2015-16

HC 339

June 2016

HM Treasury

Annual Report and Accounts 2015-16

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

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Foreword by the Economic Secretary to the Treasury

This report covers the work of HM Treasury over the 2015-16 financial year, from April 2015 to March 2016.

Over the reporting year, significant progress was made against the Treasury's objectives.

Through two budgets, an Autumn Statement and a Spending Review we took action to bear down on our national debt; rebalance and strengthen our economy; and create the conditions for long-term, sustainable growth. With the introduction of a new National Living Wage and reforms to our welfare system, we took steps to make sure work pays. Through the publication of our Productivity Plan we set out the steps to boost productivity across the country in order to protect and drive growth.

We announced a cross-government Prosperity Fund to strengthen international economic opportunities, and set up a new Office for Financial Sanctions Implementation to ensure financial sanctions are properly understood, implemented and enforced.

We delivered around £25 billion worth of asset sales across government, including in Lloyds Banking Group and RBS; and the Bank of England Act 2016 has ensured the Bank of England is better equipped to fulfil its vital role of overseeing monetary policy and financial stability for the whole of the UK.

I would like to thank Treasury staff and non-executive board members for their work over 2015-16. In particular I would like to extend my thanks, and those of the Chancellor and of my ministerial colleagues, to Sir Nick Macpherson, who stood down as Permanent Secretary after 10 years in the role, and 31 years at the Treasury. His wise counsel and support have been invaluable.

Since the end of the reporting year, the British people have voted to leave the European Union and the Prime Minister has been clear that their will must be respected and delivered. We must now prepare for a negotiation to exit the EU, and the Treasury will play its part in securing the best possible economic outcome for the nation. In doing so I know the Treasury will continue its proud tradition of providing excellent support to ministers in the delivery of their duties.

Harriet Baldwin MP
Economic Secretary to the Treasury
27 June 2016

Foreword by the lead non-executive director

2015-16 was a year of generational change for the Treasury. Sir Nick Macpherson, Permanent Secretary for nearly 11 years, announced his retirement from the Civil Service. He gave great leadership to the Treasury through a series of challenging events, from the banking crisis to the Scottish referendum, and gave trusted counsel to a succession of Chancellors. He will be much missed, and not only by the Board; but not the least of his services to the Treasury was that he left Ministers with a quality choice of successors. John Kingman ably stepped into the breach as interim head of department before he resumes his career in the private sector when Tom Scholar returns from Downing Street to become Permanent Secretary in early July.

Within the year covered by this report, there had already been considerable change in the Executive membership of the Board, with James Bowler, Clare Lombardelli and Sophie Dean taking up new positions. The Non-Executives have been impressed by the quality of the new members. However, with further changes in train following the appointment of the new Permanent Secretary, his key task will be to develop this team into a high-performing leadership group. They, in turn, will carry some of the responsibility for the essential task of bringing on the cadre below them.

In doing so, they will be paying particular attention to the need to foster the wide range of talent in the Treasury, and to continue the work on diversity and inclusion developed during the year under review. The Treasury has also been seeking to address other issues of resource management. Retention remains a leading priority, given the attractiveness of Treasury staff to other organisations in both the public and private sectors, and the Non-Executives continue to urge full use of the flexibility available in the pay scales to reward and retain its most able officials.

We noted the feedback from stakeholders that the Treasury should not be too “hair-shirt” in its approach to staffing: that good-quality interlocutors, in post for long enough to build relationships and gain understanding of other departments, are what those departments want from the Treasury and are happy for the Treasury to pay for. The Non-Executives have also encouraged the Treasury in its view that it needs to build professional capacity in certain areas by bringing in expertise rather than trying to grow it all in-house.

The Non-Executive side of the Board has also seen some reinforcement during 2015-16, with the appointment of Tim Score, the former Chief Financial Officer of ARM holdings and a Non-Executive Director (NXD) of Pearson, bringing new industrial perspective to our discussions. Dame Amelia Fawcett was reappointed for a further three-year term; her deep knowledge of the Treasury has been invaluable in her leadership of our stakeholder engagement. My thanks go to both of them, and to Richard Meddings, who has ably chaired our Audit Committee, for their contribution to our regular Board Sub-Committee meetings that bring together senior officials and the NXDs.

This Sub-Committee has been the focus of the Board’s review of its effectiveness during 2015-16. Each member independently submitted views of what was working well and what was not. There was strong agreement that the Committee was most effective when focused on long-term strategic questions, and on challenging the executive leadership to deploy resources to meet future needs. There was clearly appetite on both the Executive and Non-Executive side for more time to be spent on these issues and less on the short term.

Sessions on deeply entrenched economic problems (for example, in the housing market or with respect to infrastructure and the growth agenda) had been found more productive than short-term reviews of economic performance. Executives had also welcomed challenge on capability, resource management and talent development, and the assistance of individual NXDs on a number of related issues.

During 2015-16 the Treasury increased its focus on European issues in support of the Prime Minister's negotiations before the UK's referendum on membership of the European Union. The result of that referendum will present the Treasury with new challenges, and have significant staffing implications as a much broader set of negotiations get under way. The Non-Executives will seek to support the leadership team as it tackles these new demands on its resources and expertise.

The Board Sub-Committee had also been used as an opportunity to engage with agencies and others within the Treasury's sphere of responsibility, and the development of a regular cycle of such sessions was seen as valuable. Meanwhile, the full Board meetings with the Chancellor and other Ministers are used to gain their feedback on the performance of the Treasury in different areas of its work, and identify those where resources and/or performance needed a boost. The Chancellor gave positive feedback during 2015-16, and endorsed the focus on capacity development for the coming year.

Our outgoing Permanent Secretary's engaged and responsive style at meetings has contributed greatly to the effectiveness of the Board Sub-Committee, whose relatively informal meetings allowed for vigorous challenge and counter-challenge. I know I can speak for all the Non-Executives in saying that we are confident this will continue under the leadership of its new Permanent Secretary.

Baroness Hogg
Non-Executive Director to the Treasury

27 June 2016

Introduction

About the Treasury

As the United Kingdom's economics and finance ministry, the Treasury's focus is on maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

Led by The Rt Hon George Osborne MP, First Secretary of State and Chancellor of the Exchequer, the Treasury is responsible for:

- placing the public finances on a sustainable footing
- ensuring the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth
- increasing employment and productivity, and ensuring strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms

It is imperative that every member of Treasury staff play a full, productive and valued role in helping deliver the department's objectives, while working to ensure the Treasury operates as a high performing organisation. To achieve this, the department's Executive Management Board has set a corporate objective to:

- build a great Treasury where staff are professional and expert in the way they work with ministers, stakeholders and with each other, and all staff are valued

The Treasury is structured into 14 director-led groups, as set out on page 9, with each group working to achieve the department's core objectives. Further information on the operating structure of the Treasury can be found in the corporate governance section of this annual report (page 41).

About the Treasury Group

The Treasury Group is a cohort of 17 related organisations working in partnership to deliver the government's economic and fiscal strategy, it is overseen by the Permanent Secretary to the Treasury, who acts as Principal Accounting Officer.

The Group is a mix of Executive Agencies, Non Departmental Public Bodies, financial institutions, companies owned by the department to manage investments, provide financial guarantees or advice to the public, and independent watchdogs and specialist advisers.

These bodies carry out executive and technical functions, and are accountable to ministers. Ministers are, in turn, accountable to Parliament and the public for the performance and continuing need for the NDPBs.

Further information on the Group can be found on pages 12 and 13 and also in Note 33.2 to the Accounts. Where appropriate, each member of the Group has produced their own annual report reviewing their performance across the financial year and these may be found on their respective websites.

About this Annual Report and Accounts

This report covers the activities of the Treasury over 2015-16, from April 2015 to March 2016 inclusive. The department has moved to a new format for the Annual Report and Accounts, integrating performance and financial data with analysis to help readers gain a better understanding of the work of the Treasury and how it spends taxpayers' money to deliver the government's economic and fiscal policies.

The document is split into 5 sections:

- the **Introduction** provides an overview of the work and structure of the department, its ministers and associated bodies, and a summary of key milestones
- the **Performance Report** includes a summary of progress made in 2015-16 (the Performance Overview), followed by an analysis of the department's achievements over the year against each of the 3 policy objectives, the corporate objective and the department's performance on economic, social and environmental sustainability (the Performance Analysis)
- the **Accountability Report** is split into 3 sections: a Corporate Governance report where the Treasury's Directors report on the operating structure of the department and important transparency matters such as conflicts of interest and whistle blowing. This section also includes a statement of the Accounting Officer's responsibilities, and a Governance Statement on how the Treasury manages risk and the key challenges faced by the department over the year; a Remuneration and Staffing Report setting out an open account of the pay and benefits received by ministers, executive and non-executive members of the Board, disclosures on Treasury's pay and pensions policies, and details and analysis of staff numbers and costs, as well as the department's approach to matters such as reward and recognition, diversity and recruitment; and a Parliamentary Accountability and Audit Report allowing readers to understand the department's expenditure against the money provided to it by Parliament by examining the Statement of Parliamentary Supply. This is followed by a copy of the audit certificate and report made to Parliament by the head of the National Audit Office (the Report of the Comptroller and Auditor General to the House of Commons) setting out his opinion on the financial statements
- the **Financial Statements** show the Treasury Group's income and expenditure for the financial year, the financial position, and additional information to enable readers to understand the results
- finally, the **Trust Statement** provides a record of fine income collected by Treasury on behalf of government during the financial year. It relates to fines imposed by the Financial Conduct Authority and Prudential Regulation Authority

HM Treasury

Acting Permanent Secretary

John Kingman

Second Permanent Secretary

Vacant

Directors General

Dave Ramsden, Chief Economic Adviser

Mark Bowman, International and EU

Julian Kelly, Public Spending and Finance

Charles Roxburgh, Financial Services

James Bowler, Tax and Welfare

Directors

Sophie Dean, Group Finance

Katherine Green, Corporate Services

Clare Lombardelli, Strategy, Planning and Budget

Director led groups

Ministerial and Communications
John Kingman, Acting Permanent Secretary
Decision making, coordination and management of the department, and communications with media and the public

Business and International Tax
Mike Williams, Director
Business tax, indirect taxes and international tax

Economics
Dave Ramsden, Director General
UK economic analysis, surveillance, and professionalism

Treasury Legal Advisors
Stephen Parker, Director
Responsible for provision of advisory and other legal services across the Treasury and certain other agencies and departments

Financial Services
Gwyneth Nurse, Director
Katharine Braddick, Director
Financial services regulatory framework and financial markets policy issues

Strategy, Planning and Budget
Clare Lombardelli, Director
Defining forward strategy, work programme, the Budget, and short-term priority policy projects

Fiscal
Chris Drane, Director
Fiscal strategy, funding and debt management, and monitoring fiscal position

Enterprise and Growth
Susan Acland-Hood, Director Enterprise and Growth
Growth-related policy and expenditure

Personal Tax, Welfare and Pensions
Beth Russell, Director
Personal tax, welfare, labour market, and HMRC/DWP expenditure, pensions and savings

Public Services
Catherine Frances, Director
Jean-Christophe Gray, Director
Oversight of major public service expenditure

Corporate Centre
Katherine Green, Director (Corporate Services)
Sophie Dean, Director (Group Finance)
Managing and developing corporate policies and processes including: correspondence and public enquiries, HR, estates, IT, domestic finances and commercial activities, and programmes

International and EU
Jonathan Black, Director (Europe)
Matthew Taylor, Director (International Finance)
Robert Woods, Director (EU Analysis)
Advancing the UK's economic and financial interests internationally and in the EU

Public Spending
Jane Cunliffe, Director
Public spending control and embedding good governance and financial management across government

Financial Stability
Lowri Khan, Director
Ongoing stability issues and resolution of financial interventions

Ministerial responsibilities

The Rt Hon George Osborne MP
Chancellor of the Exchequer and First Secretary of State

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

He is supported by:

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

The Rt Hon Greg Hands MP
Chief Secretary to the Treasury

- public expenditure including:
  - spending reviews and strategic planning
  - in-year spending control
  - public sector pay and pensions
  - Annually Managed Expenditure (AME) and welfare reform
  - efficiency and value for money in public service
  - procurement
  - capital investment
  - infrastructure deals
- the Treasury interest in devolution to Scotland, Wales and NI

David Gauke MP
Financial Secretary to the Treasury

- deputising for the Chancellor at Ecofin
- EU Budget and wider EU issues
- strategic oversight of the UK tax system including direct, indirect, business, property and personal taxation
- corporate and small business taxation
- European and international tax issues
- departmental minister for HM Revenue and Customs and the Valuation Office Agency
- overall responsibility for the Finance Bill
- personal savings and pensions policy
- the Government Actuary's Department

Damian Hinds
Exchequer Secretary to the Treasury

- childcare policy
- tax credits and child poverty
- charities, the voluntary sector and gift aid
- environment and transport taxation, North Sea oil, gas and shipping
- energy policy and climate change
- excise duties, including excise fraud and law enforcement
- gambling duties
- housing and planning
- the Royal Mint
- Crown Estate and the Royal Household
- parliamentary deputy on public spending issues

Harriett Baldwin MP
Economic Secretary to the Treasury (City Minister)

- banking and financial services reform and regulation (at home and in the EU) including the Prudential Regulation Authority
    - financial stability
    - City competitiveness
    - bank lending and access to finance
    - Help to Buy
    - financial conduct and the FCA
    - asset management
- RBS, Lloyds and UKFI
- bank taxes
- asset freezing and financial crime
- retail financial services, including consumer finance, financial advice and capability, working with the Department for Work and Pensions Minister
- Equitable Life
- delivery of pensions reforms
- foreign exchange reserves and debt management policy, National Savings and Investments and the Debt Management Office
- departmental minister for HM Treasury Group
- women in the economy
- parliamentary deputy on economy issues

Jim O'Neill
Commercial Secretary to the Treasury

- Northern Powerhouse
- city devolution
- Infrastructure UK
- corporate finance, including public corporations, public private partnerships, PFI, and sales of government assets
- better regulation and competition policy
- Industrial strategy
- working with Lord Maude and UKTI to promote the UK as a destination for foreign direct investment

The Treasury Group - bodies consolidated

10

Sovereign Grant

The Treasury is responsible for the upkeep of the Royal Finances and the Sovereign Grant payment to support HM The Queen in Her official duties. Introduced in 2012 this funding replaced the Civil List and 3 Grants-in-Aid for travel, communications and information, and the maintenance of the Royal Palaces.

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

9

Office of Tax Simplification (OTS)

Created in 2010 to provide the government with independent advice on simplifying the UK tax system, the OTS is an independent office of the Treasury.

James Bowler the Treasury's Director General for Tax and Welfare is the Accounting Officer.

Treasu

8

Office for Budget Responsibility (OBR)

Created in 2010 to provide independent and authoritative analysis of the UK's public finances, the OBR is an advisory NDPB sponsored by the Treasury.

The OBR's Chairman, Robert Chote, is also its Accounting Officer.

7

Financial Services Compensation Scheme (FSCS)

A single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it.

The FSCS is operationally independent from the Treasury and Mark Neale, the Chief Executive, has been appointed as the Accounting Officer for the Scheme.

6

Money Advice Service (MAS)

Established as an independent body, MAS' aim is to provide information to the public on financial matters, including on how the UK financial system works and personal financial management. It was announced at Budget 2016 that MAS will be restructured.

The Chief Executive and Accounting Officer is Caroline Rookes.

within the Treasury's annual accounts

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1

Government internal Audit Agency (GIAA)

Officially launched on 1 April 2015, this body provides internal audit services to government departments.

Jon Whitfield is the Chief Executive Officer and is also the Accouting Officer.

2

UK Debt Management Office (DMO)

Established as an Executive Agency of the Treasury in 1998, the DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

The DMO's Chief Executive Officer is Robert Stheeman, and he is also its Accounting Officer.

3

UK Asset Resolution Ltd (UKAR)

UKAR is the holding company established in October 2010 to bring together the businesses of Bradford & Bingley and NRAMplc.

In October 2013, UKAR Corporate Services Limited (UKARcs), a subsidiary of UKAR, became responsible for the administration of the government's Help to Buy Mortgage Guarantee Scheme on behalf of The Treasury.

Richard Banks, the Chief Executive, is also the Accounting Officer.

4

UK Financial Investments Ltd (UKFI)

Established in 2008 as part of the UK's response to the financial crisis, UKFI is responsible for managing the government's shareholdings in the Royal Bank of Scotland Group plc and Lloyds Banking Group plc.

UKFI is also responsible for managing the government's 100% shareholding and loans in UK Asset Resolution Ltd and its subsidiaries.

James Leigh-Pemberton, who is the Executive Chair of UKFI, holds the position of Accounting Officer.

5

Royal Mint Advisory Committee

The Royal Mint Advisory Committee on the Design of Coins, Seals and Medals (RMAC) was established in 1922 to raise the standard of numismatic art and this remains its primary concern. It is charged by the Treasury and other government departments with the recommendation of all new designs for UK coins and official medals.

It is an advisory Non-Departmental Public Body (NDPB) sponsored by the Treasury and the Royal Mint's Chief Executive, Adam Lawrence, is its Accounting Officer.

The following Special Purpose Vehicles: Help to Buy Ltd; and UK Sovereign Sukuk plc; Infrastructure Finance Unit Ltd; IUK Investment Holdings Ltd; and IUK Investments Ltd are also consolidated into the Treasury's Account.

Key events 2015 - March 2016

April

Launch of the Government Internal Audit Agency 1/4

Corporation and personal tax changes from Finance Bill 2014 come into effect 1/4, 6/4

May

General Election 2015 (7 May 2015)

Sale of 65+ pensioner bonds closes with over £13 billion sold 15/5

Creation of UK Government Investments announced 20/5

June

Chancellor's annual Mansion House speech 10/6

Royal Mail share sale 11/6

UK signs founding Articles of Agreement of the Asian Infrastructure Investment Bank 29/6

Insurance Fraud Taskforce: interim report 23/6

Lloyds shareholding reduced below 17% 23/6

July

Government confirms Tax-Free Childcare launch date 1/7

Charter for Budget Responsibility updated 8/7

UK's long term productivity plan launched 10/7

Bank of England reform announced 21/7

Spending Review launched 21/7

Announcement of new Help to Buy: ISA 25/7

August

Financial Advice Market Review launched 3/8

Public Sector Efficiency Challenge launched 3/8

RBS share sale 4/8

Cutting Red Tape review programme begins 28/8

September

Treasury welcomes new graduate policy advisers

Announcement of transfer of Pension Wise guidance delivery from the Treasury to DWP 16/9

7th Economic and Financial Dialogue in China 21/9

Consultation on reforms to the taxation of non-domiciles launched 30/9

October

Major plans to devolve powers from Whitehall to local areas unveiled 5/10

Lloyds shareholding reduced below 11% 9/10

Anti-money laundering assessment and action plan published 15/10

National Infrastructure Commission launched 30/10

November

Autumn Statement and Spending Review 9/11

25th anniversary of Gift Aid 12/11

Former Northern Rock mortgages sale agreed 13/11

Strategic Defence and Security Review published 23/11

Funding for Lending Scheme extended 31/11

December

Help to Buy: ISA available to homebuyers 1/12

New Treasury guidance for Accounting Officers on value for money scrutiny released 17/12

Treasury staff survey results published 5/12

January

Departure of Sir Nicholas Macpherson, Permanent Secretary, announced 4/1

UK-India eighth Economic and Financial Dialogue: Joint Statement 19/1

Code of conduct for operational Private Finance Initiative/Public Private Partnership contracts published 22/1

February

HM Treasury single departmental plan, 2015 to 2020 published 19/2

Fintech Week 2016 22/02

New fiscal framework for the Scottish government agreed 23/2

March

Tom Scholar announced as new Permanent Secretary 11/3

Financial Advice Market Review final report published 14/3

Budget 2016 16/3

National Infrastructure Delivery Plan published 23/3

Office of Financial Sanctions Implementation established 31/3

Performance Report

Performance Overview[1]

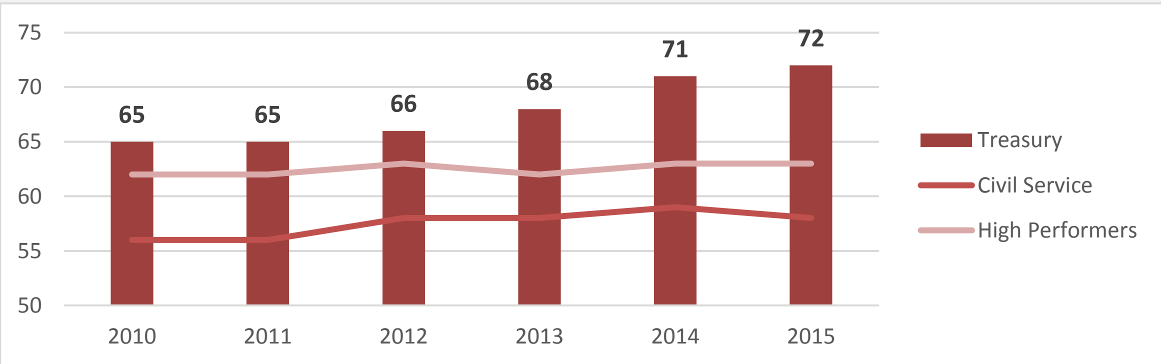
Treasury Group Financial Position as at 31 March 2016 (31 March 2015)[2]

Assets	Treasury Group Net Assets	Liabilities
Investments £ 27.9bn (£48.5bn)	£105.5bn (£130.5bn)	Cash collateral £0.6bn (£2.2bn)
Loans to banking customers £35.5bn (£52.7bn)		Debt securities in issue £5.2bn (£20.9bn)
Other loans and advances £3.7bn (£4.9bn)		Derivative financial liabilities £0.5bn (£0.6bn)
Derivative financial assets £39.2bn (£39.4bn)		Provisions £1.2bn (£1.4bn)
Inventories, cash & other short term receivables £6.9bn (£10.4bn)		Other payables and financial liabilities £1.7bn (£1.4bn)
PPE, intangibles and other long term receivables £1.8bn (£1.4bn)		Financial guarantee liabilities £0.3bn (£0.3bn)

Total assets £115.0bn (£157.3bn)

Total liabilities £9.4bn (£26.8bn)

HM Treasury staff survey results 2015[3]



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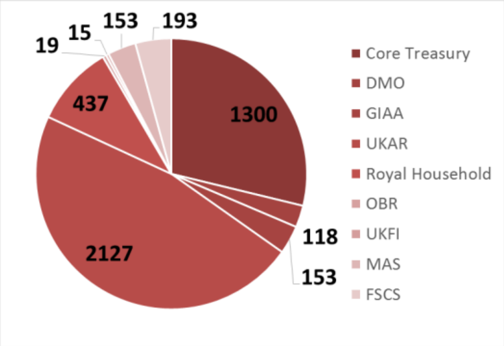
[1] Key issues and risks faced by the department over the year are covered in the Governance Statement

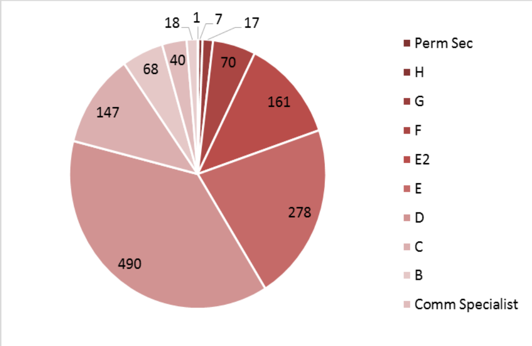
[2] Further information on the Treasury Group's Consolidated Statement of Financial Position can be found on page 103 of the Financial Statements

[3] Further information on the Treasury's staff survey results can be found on page 82 of the staff report

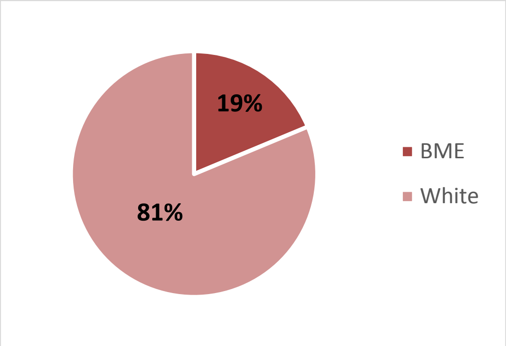
Treasury Group average number of persons employed 2015 - 2016[4]



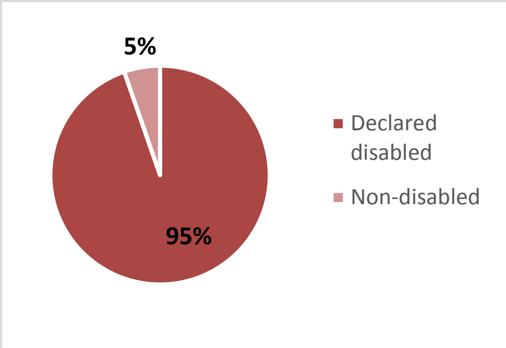
Core Treasury grade split as at 31 March 2016



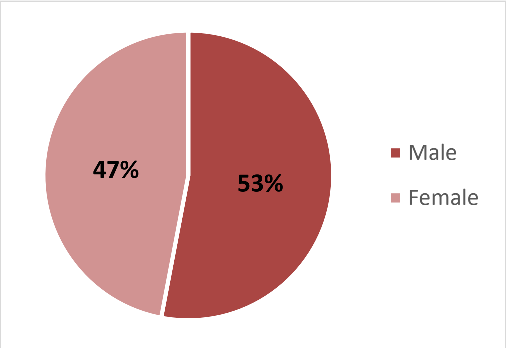
Core Treasury diversity as at 31 March 2016[5]



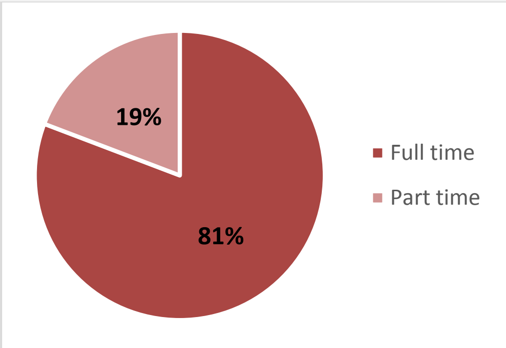
Core Treasury diversity as at 31 March 2016



Core Treasury diversity as at 31 March 2016



Core Treasury diversity as at 31 March 2016



[4] Further information on the average number of persons employed by the Treasury Group can be found on page 72 of the staff report.
[5] Further information on the diversity of the Treasury can be found in the staff report.

Treasury Key Performance Indicators April 2015 – March 2016

Public Sector Net Borrowing (PSNB) as a percentage of Gross Domestic Product (GDP) PSNB shows the gap between total spending and revenue raised by the public sector, relative to GDP	Over the last Parliament, the deficit on public sector net borrowing excluding public sector banks halved as a share of GDP. It fell from 10.3% in 2009-10 to 5% by the end of 2014-15 and 4% by the end of 2015-16. Source: Office for National Statistics
Public sector net debt (PSND) as a percentage of GDP Debt is a stock measure that reflects the cumulative impact of past deficits and surpluses.	Public sector net debt (PSND) doubled as a share of GDP between 2007-08 and 2011-12. Net debt as a share of GDP is forecast to fall over this Parliament, reaching 77.2% of GDP by the end of 2019-20, according to the Office for Budget Responsibility's most recent forecast at Budget 2016. In 2014-15 it was 83.3% and in 2015-16 forecast to be 83.7%. Source: Office for Budget Responsibility
GDP – latest quarter growth on corresponding quarter of previous year Change in GDP is the main indicator of economic growth.	At Budget 2016 the OBR forecast the UK's economy to grow by 2% in 2016. GDP grew by 2.6% between Q1 2014 and Q1 2015. GDP grew by 2.0% between Q1 2015 and Q1 2016. . Source: Office for National Statistics
CPI inflation The rate of inflation shows the average change in the prices of goods and services bought by households rises or falls.	CPI inflation was on average 0.0% for 2014 and 0.0% for 2015, rising to 0.5% by the end of 2015-16. Low inflation has been largely due to falling food and energy prices. Source: HMT pocket databank
Business investment as a share of GDP Business investment as a share of GDP indicates the level of internal balance – whether the economy invests in developing productive capacity.	Business investment was estimated to have risen by 3.0% between Quarter 4 2014 and Quarter 4 2015. Business investment was £46.5 billion in 2014-15 and £43.3 billion in 2015-16. Source: ONS Business Investment Q4 2015 Revised Results
UK Employment Rate This shows the headline measure of progress towards full employment.	The UK employment rate (16-64) was 73.3% in 2014-15 and stood at a record high of 74.2% by the end of 2015-16. As of 2015 Q4 the UK had the third highest employment rate (15-64) in the G7 (73.2%) after Germany (73.9%) and Japan (73.7%). Source: Office for National Statistics and OECD

Performance Analysis

Objective 1: Place the public finances on a sustainable footing

Lead minister:
The Rt Hon George Osborne MP

Lead official:
Dave Ramsden, Chief Economic Adviser

Delivering the government's fiscal mandate

The Charter for Budget Responsibility defines the government's fiscal mandate (see below) and over the reporting year significant progress has been made towards this mandate, in particular through the measures announced in the Summer Budget in July 2015, the Autumn Statement and Spending Review in November 2015, and Budget 2016 in March.

The Charter for Budget Responsibility

The Charter for Budget Responsibility was approved by the House of Commons on 14 October 2015. It defines the government's fiscal mandate as a surplus on the headline measure of Public Sector Net Borrowing (PSNB) by 2019-20, maintaining a surplus in normal times thereafter. This is supplemented by a target for debt as a share of GDP to be falling in each year until 2019-20. The simplicity and clarity of the metrics ensure that governments will be held to account for their fiscal policy when the economy is performing well.

Under the updated Charter, the surplus rule will be suspended if the economy is hit by a significant negative shock (defined as 4 quarter-on-4 quarter GDP growth below 1%). This provides flexibility to allow the automatic stabilisers to operate freely when needed. Following a shock, the government of the day will be required to set a plan to return to surplus, including appropriate fiscal targets.

The framework does not prescribe what the targets should be, allowing the government of the day to respond to the circumstances. However, the targets will be voted on by the House of Commons and assessed by the Office for Budget Responsibility.

Summer Budget 2015 set the overall fiscal path to reach the surplus required by the fiscal mandate and announced £17 billion of consolidation. The publication of the Spending Review and Autumn Statement in November 2015 was a major milestone. It set out spending plans to 2019-20 and delivered a consolidation of £12 billion through savings to departmental resource spending.

This was made up of savings of £21.5 billion from unprotected departments, of which £9.5 billion was reinvested into the government's priorities. £12 billion of additional capital investment was allocated in support of the delivery of objective 3, see page 28.

Budget 2016 announced a departmental efficiency review to deliver a further £3.5 billion of savings from public spending in 2019-20.

The Office for Budget Responsibility's (OBR) most recent forecast, set out in their *Economic and Fiscal Outlook* published alongside Budget 2016, is that public sector net borrowing will fall in each year to the end of the forecast period.

The OBR forecasts that the public finances will deliver a surplus of £10.4 billion in 2019-20.

Significant progress has also been made in returning financial sector assets acquired in 2008-09 to the private sector. Over 2015-16 this has included: £2.1 billion from an initial sale of Royal Bank of Scotland (RBS) shares in August 2015, approximately £7.4 billion through the continuation of the Lloyds Banking Group trading plan and a further £5.0 billion in payments received from the sale of UK Asset Resolution financial assets to Cerberus (see box on page 24). Proceeds from the sale of other publicly owned assets over 2015-16 take the total generated to around £25 billion.

The OBR forecast at Budget 2016 that public sector net debt (PSND) will fall over this Parliament, reaching 77.2% of GDP by the end of 2019-20.

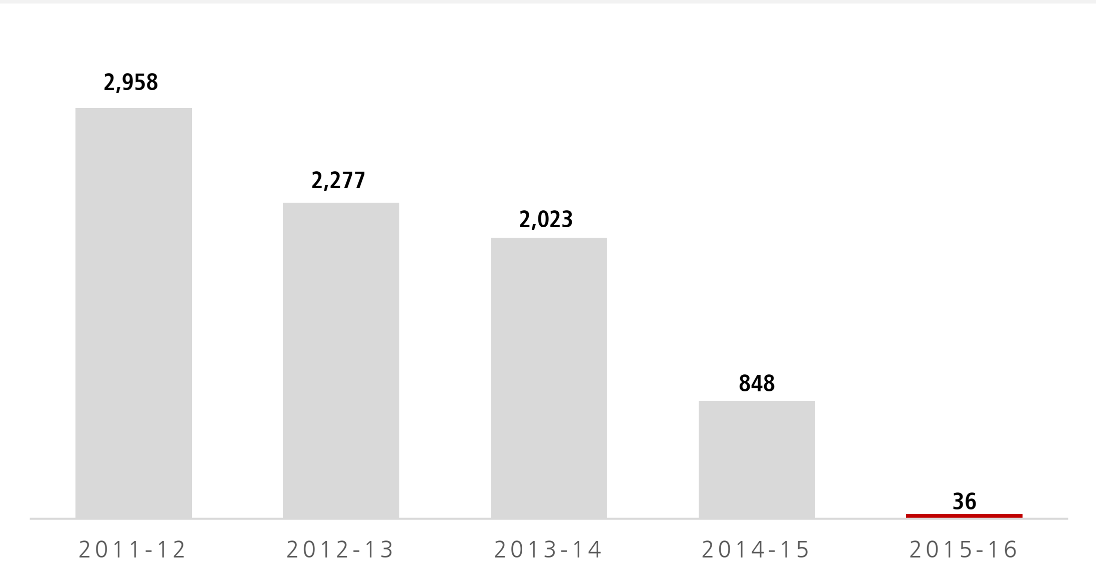
Recovery of funds used to bail out depositors in failed banks – Treasury Group statutory debt reduced by £812 million

At the height of the financial crisis in 2008-09, the government supported UK depositors in failed banks by providing the necessary funds to compensate savers. This support is collectively referred to as statutory debt. Funds recovered from these banks contribute to the reduction of public sector net debt.

In particular, taxpayers paid £4.5 billion to UK depositors in Icesave, following the collapse of the Landsbanki estate in 2008. In January 2016, the government received its final payment from the Landsbanki estate, bringing total recovery since 2008 from the estate and litigation cases to £4.6 billion.

Taxpayers also supported depositors in Dunfermline Building Society (DBS) following its collapse in 2009. Retail deposits and some other parts of the business were transferred to Nationwide, with the Treasury providing just over £1.5 billion to cover the liabilities that were not transferred. To date, £1.5 billion has been recovered from the administrators of DBS or through payments from Financial Services Compensation Scheme levy payers. This includes loan repayments of £0.4 billion during 2015-16. These repayments are reflected in the table below.

Group statutory debt (£m)[6]



[6] Group statutory debt includes Dunfermline, Icesave, KSF, Heritable and London Scottish Bank.

Transparency and independence

The creation of the OBR in 2010 was an important development designed to build credibility and foster trust in the integrity and sustainability of the public finances. During 2015-16 a review was undertaken, led by Dave Ramsden on behalf of the Treasury, to support and strengthen the role of the OBR to put it on a more sustainable footing for the next 5 years.[7] It assessed that the OBR had made substantive progress in improving the credibility of the UK's fiscal framework, noting that the increase in transparency had led to a greater trust in the integrity of the forecasts.

The review's recommendations have been accepted in full by the government and the Treasury has already delivered a number of these recommendations over the past year. The updated Charter for Budget Responsibility passed by Parliament in October requires the OBR to produce a biennial fiscal risks statement and enshrines the OBR's responsibility to produce an annual Welfare Trends Report. The OBR's budget has been set and extends to 2020-21, in line with international best practice, and provides additional funding to support delivery of these reports.

The Treasury has also worked to ensure that the OBR is able to continue fulfilling its role in light of devolution by securing in legislation the OBR's access to information from the Scottish administration through a clause in the Scotland Act 2016. The Treasury will continue to implement the recommendations of the review over 2016-17.

Openness and transparency are key to helping the public better understand the full range of the government's financial commitments and its approach to managing them. The UK is among the most advanced countries in the world with regard to financial reporting, with the Treasury producing the only consolidated public sector accounts that includes both central and local government – the Whole of Government Accounts (WGA).

The department consolidates the audited accounts of over 6,000 organisations across the UK public sector as a complete record of what the government spends, receives, owns and owes. The data is used to support longer term fiscal analysis, as evidenced by the OBR's use of WGA data to inform its annual *Fiscal Sustainability Report*. WGA is enabling direct comparability of financial data across the public sector and is producing trend data to inform future analysis and decision

The WGA is independently audited by the National Audit Office providing greater confidence in the figures, and supports effective scrutiny by Parliament. This scrutiny is exercised by the Public Accounts Committee who examine the accounts each year.

The Treasury's Government Financial Reporting team published the 2013-14 accounts in July 2015, which was the first year they had been published within 12 months of the financial year end.

Managing the public finances through sound project delivery

2015-16 saw the formation of the Infrastructure and Projects Authority (IPA), a new body providing expert support for the government's major economic projects. It brings together under one roof for the first time the financing, delivery and assurance of projects by combining 2 existing bodies, Infrastructure UK (IUK) and the Major Projects Authority.

[7] HM Treasury review of the Office for Budget Responsibility, September 2015.

Reporting jointly to the Chancellor and the Minister for the Cabinet Office, The Rt Hon Matt Hancock MP, the IPA will provide expertise, knowledge and skills on a diverse range of projects, from large scale infrastructure projects such as Crossrail and the Thames Tideway Tunnel to major transformation programmes such as Universal Credit.

In April 2015, the Government Internal Audit Agency became an agency of the Treasury. Its aim is to provide internal audit and assurance services across a wide range of central government customers and strive to help accounting officers and management to understand and manage risks and while ensuring exemplary standards of governance.

The Agency will achieve efficiencies by: bringing together departments' internal audit functions and rationalising the audit process across government; provide early warning of the risks they encounter to other parts of government: and embedding rigorous quality assurance procedures. Over the 2015-16 financial year, GIAA increased their audit coverage of central government to more than 50%, and in May 2016 published their second annual Corporate Plan.

Contributing to sound public finances by reducing the Treasury's own spend

As a department the Treasury is also committed to reducing its own operating costs over the Parliament, whilst continuing to improve the efficiency and effectiveness of its services.

The department aims to reduce running costs through back office contract renegotiations and by seeking additional income from the use of its building. Spending in the Treasury Group is analysed between resource spending (day to day administration and operational costs) and capital spending (such as buildings and investments).

A full breakdown of spending for the Group, including historic data for the 5 five years and budgeted spending for 2016-17, is shown in the Core Tables section of the Accountability Report.

Objective 2: Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth

Lead minister:
The Rt Hon George Osborne MP

Lead officials:
Charles Roxburgh, Director General, Financial Services
Dave Ramsden, Chief Economic Advisor

Structural reform of the financial system

Since the financial crisis, the Treasury has reformed the regulatory regime, introducing the Financial Services Act in 2012 to dismantle the tripartite system. The department also delivered the Banking Reform Act 2013 to implement the recommendations of the Independent Commission on Banking and the Parliamentary Commission on Banking Standards. This put in place strict new rules on bank ring-fencing and made sweeping changes to enhance individual accountability and raise standards in banking.

From October 2015 the Treasury worked to deliver through Parliament the Bank of England and Financial Services Bill, designed to ensure the Bank of England is better equipped to fulfil its vital role of overseeing monetary policy and financial stability for the whole of the UK.

The resulting Bank of England and Financial Services Act includes the following measures:

- strengthening the governance and accountability of the Bank, by ending the subsidiary status of the Prudential Regulation Authority and allowing the National Audit Office to undertake value for money reviews of the Bank for the first time. These important new reforms will mean that the Bank of England continues to be an international example of best practice
- taking further steps to protect tax payers from firm failure, by updating resolution planning and crisis management arrangements between the Bank and Treasury
- ensuring that senior managers across the financial services industry can be held to account for failings that occur on their watch, through the extension of the Senior Managers and Certification (SM&CR) regime to all authorised persons

In addition, in June 2015, the Fair and Effective Markets Review (FEMR) published its Final Report. This review was established by the Chancellor in June 2014 to conduct a comprehensive and forward-looking assessment of the way wholesale financial markets operate, help to restore trust in those markets in the wake of a number of recent high profile abuses, and influence the international debate on trading practices.

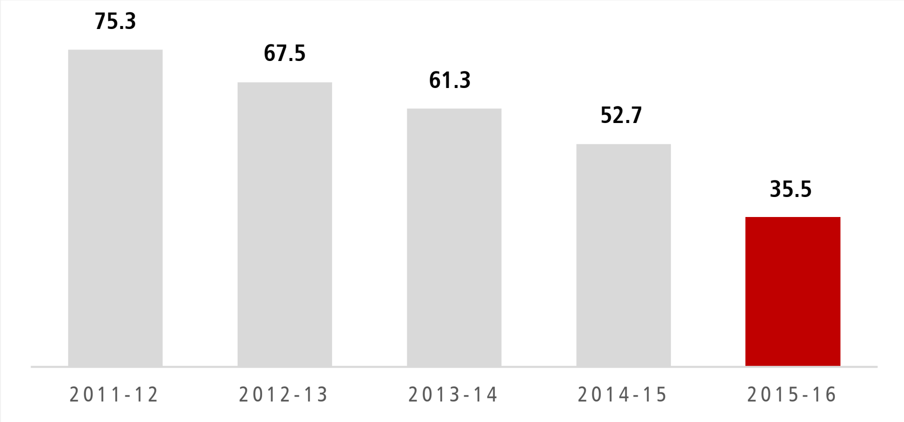
Returning financial institutions to the private sector

During the year, the Treasury has continued to reduce its involvement in financial institutions that received support as a result of the 2008 banking crisis. Sales of government assets have generated cash, contributing to the debt reduction progress outlined under objective 1.

In November 2015, UK Asset Resolution (UKAR) announced the sale of £13 billion financial assets to Cerberus. The portfolio was sold via a competitive process which saw a high level of interest, resulting in a sale price in excess of book value by around £280 million. The proceeds were primarily used to reduce UKAR’s financial liabilities (debt securities), with £5.0 billion returned directly to the taxpayer in the form of repayment on the NRAM (formerly Northern Rock) government loan during 2015-16.

The related NRAM deposit guarantee contingent liability has fallen from £6.5 billion to £0.3 billion in year and the reduction in loans provided by UKAR to banking customers, including mortgages, commercial loans and unsecured loans over a 5 year period is shown below.

Loans to banking customers (£bn)[8]

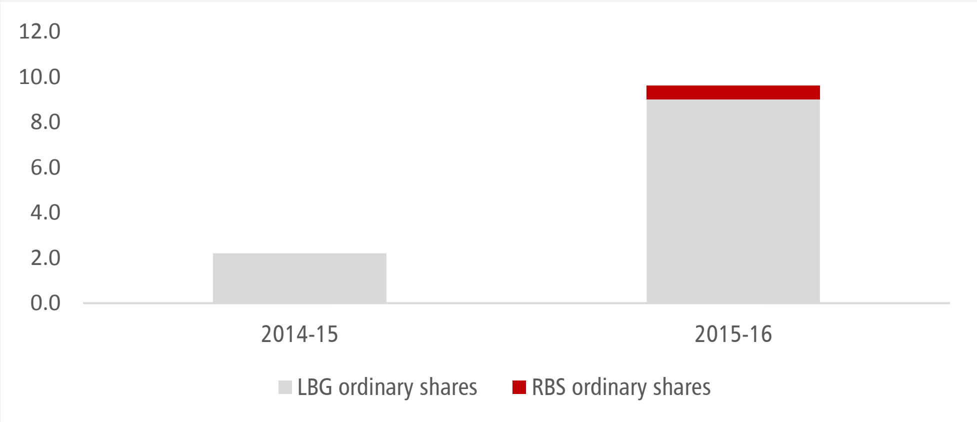


Government shareholdings

The Lloyds trading plan launched in December 2014 with the objective of selling Lloyds shares to the market over a number of months. Between April 2015 and March 2016 9.0 billion shares were sold, raising proceeds of £7.4 billion.

The table below shows share sales for the previous two years for RBS and Lloyds ordinary shares.

Number of shares sold (bn)



An accounting gain of £4.1 billion is recognised in the Statement of Comprehensive Net Expenditure (SoCNE), which reflects accounting adjustments due to the reclassification of previous share gains to profit and loss on disposal of the shares. As at the reporting date, government economic ownership of Lloyds fell to 9% (2014-15: 22%).

In August 2015, the government disposed of 630 million RBS ordinary shares, raising proceeds of £2.1 billion. An accounting gain of £0.5 billion is recognised in the SoCNE, as with Lloyds shares this relates to accounting adjustments due to reclassification, as explained above. In October, RBS B shares were converted to ordinary shares at a rate of 10 B shares for 1 ordinary share. In March 2016, the RBS Dividend Access Share was repaid in full, raising a further £1.2 billion.

Finance expense on the SoCNE includes £4.2 billion impairment of RBS shares, which reflects a reduction in the market value of shares during the year. As at the reporting date, government economic ownership of RBS fell to 72% (2014-15: 79%).

[8] The 2011-12 figure is as at December 2011.

The final report set out 21 recommendations to raise standards, professionalism and accountability of individuals and improve the quality, clarity and market-wide understanding of fixed income instruments, currencies, and commodities (FICC) trading practices. Treasury has made progress on FEMR recommendations where its action is required, including the extension of the SM&CR as set out above.

The Treasury continues to develop the Bank of England's toolkit for resolving failing banks and building societies. The government's consultation on changes to clarify and strengthen the UK's transposition of the Bank Recovery and Resolution Directive (BRRD) closed in February 2016 and legislation is being finalised.

From December 2015 to March 2016, the Bank of England consulted on its approach to using its powers under the BRRD to set a minimum requirement for own funds and eligible liabilities (MREL) for all UK banks, building societies and certain investment firms. MREL will help ensure that failure of one these firms can be managed in a way that minimises risks to financial stability and disruption to critical services and without recourse to public funds.

The Treasury will continue to manage the macro-prudential framework, including the Bank of England's Financial Policy Committee's (FPC) remit and tools. The Treasury granted the FPC a power of direction over owner-occupied mortgage tools in April 2015, and in December 2015 consulted on granting similar powers over buy-to-let mortgages.

The UK's financial sector is subject to a comprehensive review every 5 years by the International Monetary Fund (IMF) under the Financial Sector Assessment Program (FSAP). In the final report of the 2016 UK FSAP, the Fund noted that "the UK financial system has put the legacy of the crisis behind it and has become stronger and more resilient" and that "this resilience reflects to a large extent a wave of regulatory reforms since the crisis, which are now near completion".

Preventing abuse of the UK financial sector

The Treasury will continue to work across government to ensure the UK's counter-terrorist financing policy remains effective to prevent abuse of the UK financial sector. This includes implementing and robustly enforcing financial sanctions. To ensure that financial sanctions make the optimum contribution to foreign policy and national security goals, and help maintain the integrity of, and confidence in, the UK financial services sector, the Office of Financial Sanctions Implementation (OFSI) was established within the department on 31 March 2016.

OFSI will provide a high-quality service to the private sector, working closely with law enforcement and others to help ensure that financial sanctions are properly understood, implemented and enforced.

The UK government published a National Risk Assessment on money laundering and terrorist financing in October 2015 to identify vulnerabilities in the UK's regime and followed this with a published Action Plan to address the risks identified (see below).

The government is also legislating to ensure that suitable remedies are available to address breaches of financial sanctions. Provisions in the Policing and Crime Bill include a range of new measures to address sanctions breaches, including administrative fines, deferred prosecutions agreements, and an increase in the maximum custodial sentence for breaching financial sanctions to 7 years on conviction on indictment (or 6 months imprisonment on summary conviction).

The bill also provides for the swifter implementation of UN financial sanctions.

In addition, the Chancellor also announced the creation of a National Cyber Security Centre, to be the authoritative voice on information security in the UK in November 2015.

National risk assessment on money laundering and terrorist financing

In October 2015, the UK's first National Risk Assessment of Money Laundering and Terrorist Financing (NRA) was published. This was a joint Treasury and Home Office project, in recognition of the cross-cutting nature of the anti-money laundering (AML) and countering terrorist financing (CFT) regimes.

The objective of the NRA was to produce a piece of analysis to serve as a basis for the application of a risk-based approach, by providing input for potential improvements to the regime; by better identifying risks across the board; by facilitating information sharing between the private and public sector; and by helping to prioritise and allocate resources.

In order to put together the NRA, the model for risk assessments set out by the Financial Action Task Force (FATF) was largely followed, comprising the 3 stages of identification of data, analysis of data and evaluation of risks.

For the identification stage, a series of workshops were held with a broad cross-section of the AML/CFT community, with representatives from law enforcement, supervisors and the public sector attending. Questionnaires were also submitted to the supervisory sector, with data on law enforcement and intelligence collected by the Home Office, and with data on supervisors and the private sector being put together by Treasury. Once the data was analysed, peer review sessions were held with sectors to discuss the key findings. To evaluate and prioritise the risks, a risk tool used widely in law enforcement was employed to rank the relative risk status of all the areas covered by the NRA into high, medium or low. The published NRA set out the range of threats, vulnerabilities and risks faced by the UK, notably in the areas of intelligence, supervision and collaboration.

An Action Plan to address the weaknesses identified in the NRA was then produced and published in April 2016 setting out the actions to deliver the government's strategic aim to make the UK a more hostile place for those seeking to move, hide or use the proceeds of criminal or terrorist financing.

International

The government continues to work with countries around the world to ensure that the international financial architecture remains robust, to create opportunities for British companies, promote UK prosperity and ensure the UK's economic security. A new cross-government Prosperity Fund was announced in the Strategic Defence & Security Review in November 2015 with £1.3 billion over 5 years provided in Spending Review 2015. This will support global growth, trade, stability and poverty reduction in emerging and developing economies, which will also open up new markets and opportunities to the UK.

The Treasury has furthered UK priorities through its influence in the G20 and G7. This has included: securing global agreement to tackle tax avoidance, with G20 endorsing implementation of the Base Erosion and Profit Shifting package to ensure profits are taxed where the economic activity takes place; combatting terrorist financing through the development of a G7 terrorist financing action plan; and work to champion mobilizing of green finance through leadership in the G20 Green Finance Study Group.

The government remains committed to expanding economic relationships with growing powers such as India, China and Brazil. The Chancellor meet Vice-Premier Ma Kai for the 7th UK-China Economic and Financial Dialogue (EFD) in September 2015, with, amongst other things, agreements around a feasibility study on a stock connect, and announcements around the issue of RMB 5 billion short term central banks notes in London for the first time outside China.

The Chancellor hosted Brazilian Finance Minister Joaquim Levy for the inaugural UK-Brazil EFD in October 2015, and Indian Finance Minister Arun Jaitley for the 8th UK-India EFD in January 2016, where an India-UK partnership fund under India's flagship National Investment and Infrastructure Fund was agreed. Together with Prime Minister Modi's announcement in November that the Indian railways would issue a rupee bond in London, these developments have cemented London's role as the partner of choice for financing Indian infrastructure. Alok Sharma MP, the Prime Minister's Infrastructure Envoy to India, has further progressed this agenda with the support of the Treasury.

The Fifth London-Hong Kong RMB Forum was held in Hong Kong – a joint private-sector forum, facilitated by Treasury and the Hong Kong Monetary Authority, to enhance cooperation between the UK and Hong Kong authorities in supporting the Chinese Government's policy in the development of the offshore RMB market.

In 2015-16 the first international Chinese and Indian green bonds were issued in London. With the City of London and the Department of Energy and Climate Change, the Treasury set up the Green Finance Initiative to accelerate the development of the green finance sector. The UK is also taking a leading role in developing the international framework for green finance, working closely with the Chinese as co-chairs of the G20 Green Finance Study Group.

In addition, the Treasury contributed to cross government work to agree a new settlement for the UK in the EU at the February 2016 European Council, in advance of the referendum on the UK's membership of the EU held in June 2016, after the reporting year.

Objective 3: Increase employment and productivity, and ensure strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms

Lead minister:	Lead official:
The Rt Hon George Osborne MP	Charles Roxburgh, Director General, Financial Services

Encouraging long term investment

Fixing the Foundations; creating a more prosperous nation was published in July 2015 and set out the government's framework for raising productivity (see page 33). Encouraging long term investment in economic capital, including infrastructure, skills and knowledge, is one of the two pillars within this framework. Over 2015-16 Treasury has taken steps to deliver against the areas of this plan for which the department is responsible. This includes action to deliver an even more competitive tax system which brings business investment to Britain, to reward saving and long term investment, to create a highly skilled workforce and to encourage high quality science and innovation.

For example, at Summer Budget 2015 the government committed to 3 million more apprentices and an apprenticeship levy on all large firms and set the Annual Investment Allowance to £200,000 from January 2016. Spending Review 2015 delivered funding to protect the £4.7

billion science resource funding in real terms for the rest of the Parliament and increased overall capital departmental investment plans by £12 billion between 2016-17 and 2020-21, to £120 billion over the Parliament.

Budget 2016 announced a cut in the rate of corporation tax to 17% in 2020, a further reduction from the announcement, made at Summer Budget 2015, of a 19% rate for 2017. Budget 2016 also announced a cut to business rates for all properties in England. To support individuals to save Budget 2016 announced a rise in the ISA allowance, a new Lifetime ISA to provide a new opportunity to save for a home and for retirement, and that government will introduce a new Help to Save scheme for those on low incomes.

The Treasury also promotes productivity and investment through schemes such as the UK Guarantees infrastructure programme, which aims to kick start infrastructure projects across the country that may have stalled due to adverse credit conditions. Autumn Statement and Spending Review 2015 extended the availability of the £40 billion UK Guarantees Scheme to March 2021.

Support for balanced, sustainable economic growth; financial stability guarantees reduced by £182 million since 2012-13, since overtaken by housing and infrastructure guarantees

The Treasury's Accounts reflect an emphasis on balanced and sustainable growth. The department continues to support the wider macro-economic environment and financial system, including with measures outlined under objective 2 (see page 23) and through its involvement with the Bank of England Asset Purchase Facility Fund (BEAPFF), which aims to improve liquidity in credit markets. It also aims to promote productivity and investment through schemes such as the UK Guarantees infrastructure programme and the Asian Infrastructure Investment Bank (AIIB), as well as help for people to purchase a home through the Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme.

The Accounts show a net increase of £2.0 billion on the BEAPFF derivative asset. The asset represents Treasury's support for the Bank of England's quantitative easing programme. The Treasury indemnifies the Bank for any losses in the operation of the programme, and in return is entitled to any profits made. In the SoCNE, positive market movements of £10.5 billion are shown in Revaluation of assets and liabilities. This is offset by cash receipts of £8.5 billion, resulting in the net movement of £2.0 billion. Further information on the BEAPFF is available on the Bank of England website.

Two new guarantees have been provided during the year as part of the UK Guarantees scheme. The University of Gloucestershire guarantee supports the construction of a new student village and refurbishment of existing facilities. The Countesswells guarantee supports the construction of 3,000 homes in Aberdeen, as well as related facilities such as schools, leisure and healthcare facilities. The new guarantees lead to a maximum exposure for the taxpayer of £39 million and £86 million respectively.

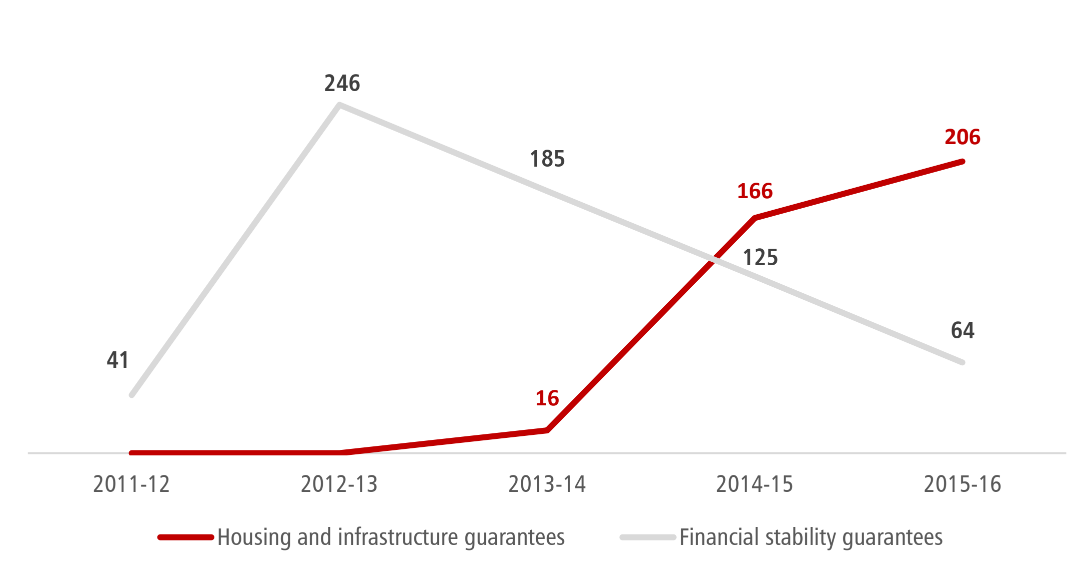
The AIIB, established in December 2015, is an international development bank founded to support financing for infrastructure projects across Asia. In January 2016, Treasury, on behalf of the UK government, made an initial investment of £85 million (US$122 million) of paid-in capital. Further information is included in the Remote contingent liability section of the Accountability Report and the Treasury's wider actions to support global prosperity are set out under Objective 2,'International'.

The Help to Buy: mortgage guarantee scheme was launched on 8 October 2013. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. The value of the liability has increased from £53 million to £84 million during the year, reflecting increased usage of the scheme.

As the economy has moved from recovery to growth, housing and infrastructure guarantees have overtaken those associated with supporting the financial sector. The chart overleaf shows the movement in group guarantee scheme liabilities over the past 5 years.

In December 2015, the Help to Buy: ISA scheme opened. It provides first time buyers with a government bonus of up to £3,000 towards their first home. A provision expense of £61 million is shown in Other operating expenditure, of which less than £1 million has been used in year for bonus payments. The outstanding provision of £60 million on the Statement of Financial Position reflects Treasury's best estimate of future bonus payments to Help to Buy: ISA account holders.

Group guarantee scheme liabilities (£m)[9]



Supporting a dynamic economy

The second pillar in the government's framework for raising productivity is the promotion of an economy that encourages innovation and helps resources flow to their most productive use. The 15 point plan set out in *Fixing the Foundations; creating a more prosperous nation* included action to deliver a higher pay, lower welfare society, to introduce planning freedoms and more houses to buy, and to support financial services that lead the world in investing for growth.

At Summer Budget 2015 the government announced the introduction of the National Living Wage from April 2016 for workers aged 25 and above, at £7.20 an hour. The government has committed to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of the Parliament and Summer Budget 2015 took the first steps towards this; increasing the personal allowance from £10,600 in 2015-16 to £11,000 in April 2016 and raising the higher rate threshold from £42,285 in 2015-16 to £43,000 in April 2016. Budget 2016 took further steps, raising the tax free personal allowance to £11,500 in 2017/18 and the higher rate threshold to £45,000 in 2017-18.

Autumn Statement and Spending Review 2015 announced a 5 point plan for housing and doubled the housing budget by 2018-19. This included the government's commitment to delivering 400,000 affordable housing starts by 2020-21, including 200,000 Starter Homes and 135,000 Help to Buy Shared Ownership properties. Budget 2016 announced plans to support this, for example with the delivery of 13,000 affordable homes 2 years early by bringing forward £250 million of capital spending to 2017-18 and 2018-19, and by announcing the government's intention to make changes to the planning system.

The Economic Secretary to the Treasury launched the Financial Advice Market Review (FAMR) in August 2015, to explore how financial advice could work better for consumers. On 14 March 2015, FAMR published its final report, setting out a package of 28 recommendations to support

[9] Housing and infrastructure guarantees: UK Guarantees; Help to Buy: mortgage guarantee scheme. Financial stability guarantees: National Loan Guarantee Scheme; Credit Guarantee Scheme (closed in October 2012). UKAR deposit guarantees for 2011-12 and 2012-13 are not shown. They were reclassified in 2013-14 when UKAR joined the Treasury Group and are eliminated on consolidation.

the development of a market that provides consumers with affordable and accessible financial advice, at all stages of their lives. The government accepted all the recommendations for which it is responsible at Budget 2016.

Through the re-launched Financial Services Trade and Investment Board, the Treasury leads a financial services partnership between government departments and the financial services industry. The board meets on a quarterly basis to develop high-growth initiatives in new and existing areas of financial services. Its aim is to strengthen Britain's position as the centre of global finance, attracting investment and supporting companies to export and expand; delivering jobs and growth across the country. The Board is currently focussed on 7 areas, with a high-profile private sector board member leading each one: Capital markets, FinTech, insurance, investment management, UK-China financial services, UK-India Financial Services, and UK-US Financial Services.

Boosting the economy in the nations and regions

The government is seeking to rebalance the economy through devolution to the nations and regions of the UK, enabling local leaders to take on new responsibilities to drive growth.

Over the year Treasury, working with others, has continued to deliver government's objective to empower the devolved legislatures. The department has also worked with the devolved administrations and local partners to deliver city deals that will drive economic growth in the devolved nations.

In Scotland, the Scotland Act 2016 reached Royal Assent in March and a new landmark Fiscal Framework for the Scottish Government was agreed. The Scottish Government instituted a new Land and Buildings Transaction Tax and Scottish Landfill tax. There were also 2 major city Deals, for Aberdeen (£250 million over 10 years) and Inverness (£315 million over 10 years). Budget 2016 announced that the government will open discussions with local partners and the Scottish Government towards an Edinburgh and South East Scotland Region city deal.

In Wales, the devolution of business rates, worth £1 billion, came into effect. The 2015 Spending Review announced that the new funding floor has been introduced – and set for this Parliament, at 115%. A £1.2 billion city deal for the Cardiff Capital Region was also agreed, which included a £500 million funding commitment from the UK Government. The government has opened discussions with the Welsh Government and local partners on a potential City Deal for Swansea Bay City Region and has opened the door to a growth deal for north Wales.

In Northern Ireland, the Government is supporting the Northern Ireland Executive with significant additional funding and flexibility as part of the Stormont House Agreement and Fresh Start implementation plan.

In addition to the city deals for Scotland and Wales, the Treasury has delivered a number of devolution agreements with regions elsewhere in the UK, creating 9 new metro-mayors and transferring significant budgets and responsibilities to a local level. New deals have been reached with Sheffield City Region, the North East, Tees Valley, the West Midlands, the West of England, East Anglia, Greater Lincolnshire and Cornwall. The government has also agreed further devolution deals with Greater Manchester and Liverpool City region.

A plan for productivity

Fixing the foundations: creating a more prosperous nation, published in July 2015, is a 15 point plan to create the conditions for productivity growth in the UK.

This plan outlines the steps the government is taking to encourage further investment in the drivers of productivity growth, including science, education, skills and infrastructure. It also sets out the ways the government is promoting a dynamic economy through reforming planning laws, increasing access to finance and boosting competition

This cross-government plan set the agenda to reverse the UK's long-term productivity problem and secure rising living standards and a better quality of life for citizens. While raising productivity is a global challenge, a large and widening productivity gap exists between the UK and leading advanced economies.

The productivity plan proposed:

- a reformed planning system, with streamlined 'zonal' system for brownfield sites, and measures to ensure more land is made available for house building
- streamlining further education qualifications and inviting local areas to participate in the reshaping and commissioning of local provision alongside a network of prestigious Institutes of Technology, focused on delivering the higher level skills employers demand;
- measures to sharpen incentives for providing outstanding teaching to university students and to open the higher education market to more new entrants
- investing £6.9 billion in the UK's research infrastructure up to 2021
- creating a Roads Fund through reforming Vehicle Excise Duty for new cars
- funding new apprenticeships through a levy on large employers, which will ensure that those who prioritise training get more out than they put in
- putting higher education funding on a more sustainable footing, with maintenance loans replacing grants
- building a Northern Powerhouse and ensuring the productive potential of all parts of the UK is realised; and
- reforming Network Rail to ensure it can deliver a faster, more reliable and more efficient railway

Through these deals over £2.86 billion has been unlocked, giving local areas the flexibility to spend this on local priorities. These include a 5 year settlement rolling together existing transport funding, gainshare investment funds and Local Growth Fund allocations. This will be supplemented in the future with further flexibility over central government funding. The Bus Service Operators Grant will also be devolved to areas that adopt bus franchising, and the Adult Education Budget will be included in the single pot from 2018-19 for those areas with devolved adult skills arrangements.

Objective 4: build a great Treasury where staff are professional and expert in the way they work with ministers, stakeholders and with each other, and all staff are valued

Lead officials: Executive Management Board

The Treasury's corporate reform programme; *Building a great Treasury*.

The department launched a corporate reform programme, *Building a great Treasury* (BgT) in autumn 2014. It set out a small number of priority areas in which improvements would be delivered, with the intention to further professionalise the way in which the department works.

5 workstreams were identified. These are:

- policy professionalism
- strengthening skills and expertise
- valuing everyone
- working with stakeholders
- management excellence

The Graduate Development Programme

The priority under the policy professionalism BgT workstream for 2015-16 was to develop and deliver a high quality induction and development programme for all graduates.

The Graduate Development Programme is a structured, highly engaging, mandatory 18 month programme for new graduate policy advisors. There are 3 parts, which consist of a mixture of structured and on the job learning with support from line managers and wider staff. Part 1 of the programme provides the core essentials for working in the Treasury, Part 2 builds the skills and knowledge needed to succeed in any new graduate role, and Part 3 is tailored around an individual's personal development

At the point of publication, the department has welcomed 99 graduates over 2 cohorts to the Treasury and through the programme. Evaluation of its impact is ongoing but feedback to date has been positive.

Each *Building a great Treasury* workstream has leadership from a member of the senior civil service and progress is overseen by the department's Strategy and Capability Board, reporting to the Executive Management Board. Over 2015-16 progress has been made across the BgT workstreams.

The major focus for the year was the development and delivery of the first round of the Graduate Development Programme; this was successfully achieved in September 2015.

Under the 'strengthening skills and expertise' workstream, a formal review of Group Management Services was completed to explore options for defining and supporting career paths and to consider what actions to take to professionalise the service.

Under the 'valuing everyone' workstream a project was undertaken to identify how the department could better facilitate flexible working and make recommendations. A number of the proposals suggested are being piloted; their impact will be evaluated and next steps determined.

Under the 'working with stakeholders' workstream, benchmarking of group performance in stakeholder management has now been embedded into a wider annual benchmarking process, with best practice shared across groups and specific improvement actions identified as necessary. The second round of this benchmarking took place in early 2016.

Under the 'management excellence' workstream a training offer and peer learning programme for new managers was developed, building on pilot sessions delivered in 2014-15. The first round of this new programme was delivered in March 2016. This training includes consideration of how managers can deliver the management compact (see overleaf).

It was always the intention to refresh *Building a great Treasury* one year on from its publication to keep the programme focused on the actions of most relevance for the year ahead, and as a move to a continuous improvement approach to organisational change. In line with this a refreshed BgT programme was published in November 2015, coinciding with Spending Review 2015.

The commitments in this plan are an important part of how the Treasury will respond to and live within its settlement. The 5 key workstreams remained the same. Delivery commitments were retained where they are still in delivery, refreshed where it was appropriate to move to the next step and only removed where there is a shared view that the action has been successfully embedded into Treasury process or culture, or is no longer relevant.

The management compact

Launched in July 2015 as part of the *Building a great Treasury* management excellence workstream, the management compact set out what management excellence looks like, through a formal document that holds managers to account.

This was developed and piloted before the launch and introduced a compulsory management objective for all staff with line management responsibility.

The compact sets out a short set of behaviours which both sides of the line management relationship should demonstrate:

- treating people fairly, living the Treasury's values – open, challenging, appreciative and collaborative
- getting the corporate basics right, applying relevant corporate processes and policies promptly and in line with guidance
- developing staff, to ensure the department has a sense of how it is doing and how it can be more effective
- giving honest feedback on performance, openly discussing workload and performance
- supporting staff, working to ensure a positive working environment
- understanding the wider picture, including the Treasury and government context in which the department works

Key performance indicators (KPIs)

As described above, the Treasury's main tool to achieve its operational objective is the Building a great Treasury programme. The key metric for performance under this objective is the Annual Staff Survey, details on which can be found in the Staffing Report at page 82.

Over 2015-16, performance has significantly improved on correspondence, Parliamentary Questions (PQs) and Freedom of Information (FOI) requests. Details of this improvement can be found below under Transparency and scrutiny of performance.

Over 2015-16, staff turnover was at 13.1% against a target of between 15-20%. This figure excludes machinery of government changes

Financial risks

In carrying out its activities, the Treasury is exposed to a number of risks, including financial risks that have arisen due to department's interventions after the 2008 banking crisis. The department has a Risk Management Framework in place to consider, manage and, where possible, mitigate these risks.

The table below outlines a summary of the key financial risks for the Treasury for the reporting year. Further details on Treasury's risk management is from page 54 in the Governance Statement and in the financial risk section of the Accounts from page 121.

Summary of key financial risks

Type of risk	Relates to	Carrying Amount (£billion)	Note to the Accounts
Credit risk	**UKAR loans to banking customers**	35.5	12
Credit risk	**Loans and advances**	3.7[10]	11.2
Credit risk	**Financial guarantees**	0.3[11]	22
Price risk	**Lloyds and RBS shareholding**	23.2	10
Market risk	**BEAPFF**	38.4	14

Transparency and scrutiny of performance

The Treasury welcomes scrutiny, whether from internal audit, the National Audit Office, Members of Parliament or members of the public.

Scrutiny by Internal Audit – the Government Internal Audit Agency

An annual internal audit plan for the department is developed through consultation with the Treasury's senior management team.

The Treasury's Audit Committee agreed minor changes to the plan throughout the year reflecting changes in HMT's assurance needs, and by 31 March 2016 Internal Audit had completed 26 audit reports and 6 pieces of advisory work for the department.

[10] The carrying amount for Loans & advances is the Group position.

[11] The maximum exposure for Group financial guarantees is £6.8bn and is disclosed under Remote contingent liabilities in the Accountability Report.

Scrutiny by the public

Scrutiny of the department by the public comes in many forms, from formal consultations on policy proposals to the Treasury's engagement on social media platforms. The Treasury was the first government department to have an online presence (with a website launched in 1994) and now publishes almost daily on the gov.uk website.

The department's Twitter account has passed 200,000 followers and at the time of publication is the largest in Whitehall after the Number 10 account. However the most popular form of engagement between the department and the public is direct correspondence.

In 2015-16, the department received 1,107 requests for information which were handled under either the Freedom of Information (FOI) Act or the Environmental Information Regulations. The Treasury met the statutory response deadlines in 98% of these cases, an improvement on 2014-15 and 2013-14 responses within deadline, at 94% and 96% respectively. The department publishes its FOI publication scheme and a disclosure log detailing FOI responses on the gov.uk website under Publications, sub-section FOI releases.

Scrutiny by Parliament

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

The latest statistics show Treasury ministers responded on or before the parliamentary deadlines in relation to 93% of the 1,604 ordinary written questions received; 85% of the 1,194 named day questions received; and 96% of the 477 Lords written questions tabled to the department in the 2015-16 parliamentary session.

In addition to questions from individual Members of Parliament, the department is answerable to several Committees. In 2015-16, colleagues appeared at various sessions, including:

House of Commons Treasury Committee hearings	
Summer Budget 2015	July 2015
Review of the scope and performance of the OBR	October 2015
Bank of England Bill	October 2015
Treasury Annual Report and Accounts 2014-15	February 2016
Budget 2016	March 2016

Source: House of Commons Treasury Committee

Public Accounts Committee hearings	
Sale of Eurostar	November 2015
Strategic flood risk management: progress review	January 2016
Memorandum on financial management in the EU	February 2016

Source: Public Accounts Committee

Parliamentary and Health Service Ombudsman

The Parliamentary and Health Service Ombudsman (PHSO) can investigate complaints against the administrative actions of a wide range of government departments and other public bodies, or the actions of organisations acting on their behalf. At the time of publication the PHSO had not yet published their review of government complaint handling during 2015-16. This review will confirm how many Treasury related enquiries were received by the PHSO, how many complaints were accepted for investigation and if any of these were upheld.

The Treasury will provide an updated report on the PHSO's scrutiny of the department in its mid-year report.

Independent scrutiny – the National Audit Office

The department welcomes the NAO's objective and independent commentary on its work and is diligent in responding to recommendations made in NAO reports. During the year the National Audit Office completed and published the following reports specifically relevant to the department:

- Central government staff costs (June 2015)
- Report of the Comptroller and Auditor General: The Treasury's 2014-15 Annual Report and Accounts (July 2015)
- Fraud and Error Stocktake (July 2015)
- A Short Guide to The Treasury (September 2015)
- Financial institutions landscape (September 2015)
- Confirmed impacts: Helping to ensure an effective strategic centre of government (October 2015)
- Confirmed impacts: Encouraging the effective management of tax reliefs (October 2015)
- The sale of Eurostar (November 2015)
- Accountability to Parliament for taxpayers' money (February 2016)

Performance on cross government commitments

Sustainability

The Treasury is committed to having a sustainable core to policies it develops, whether they relate to its economic and finance ministry objectives, or are part of the environment in which the department works.

The Treasury asks all departments to adhere to the Green Book guidance when providing a business case for a policy, programme or project. The supplementary guidance to the Green Book covers the practical application of techniques for valuing environmental impacts in policy appraisal and conducting rural proofing. It applies to all programmes, policies and projects – not just those policies with a specific environmental focus. The Treasury is also committed to ensuring all policies with long term implications developed within the department take into account the need to adapt to climate change.

A separate sustainability report covering how the department has met its Greening Government commitments and integrated sustainability into both policy making and delivery is attached as Annex A.

The 'Better Regulation' agenda

The Treasury is responsible for regulation covering the financial services and insurance sectors and has embedded the principles of Better Regulation across the department, regulating only where necessary to deliver a stable and resilient financial services sector and ensuring that regulation is no more burdensome to business than is absolutely necessary.

In line with the Better Regulation principles, the Treasury has implemented a number of domestic regulatory, deregulatory and pro-competition measures, which have fallen within scope of the scope of the government's previous One-in, One-out (OIOO) and One-in, Two-out (OITO) targets, and now the Business Impact Target (BIT).

The Treasury also adheres to the Better Regulation principles where regulations – that originate from Europe or relate to systemic financial risk – fall out of scope of these targets, by actively engaging with industry and the financial services regulators – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) – to minimise burdens to business where possible.

The department has been completing the reform of the regulatory framework for financial services, while deregulating wherever possible. Under the OIOO target, which ended in December 2012, the Treasury deregulated to save businesses £30 million per annum, while imposing £1.65 million in new regulatory costs. Under OITO, the Treasury continued its progress on deregulation so that in total, the department succeeded in scrapping domestic red tape worth £38.19 million a year to business in the last Parliament.

The Treasury has laid legislation for further significant deregulatory measures in this Parliament. These include:

- electronic cheques imaging through the Small Business, Enterprise and Employment Bill, which will enable faster clearing times of cheques and greater customer convenience and is a significant deregulatory measure that will save businesses over £100 million per annum
- reforms to the 100 year old legislation on insurance contracts law through the Insurance Bill, saving businesses £10.7 million per annum
- working with the Law Commission to reform Bills of Sale legislation, which could save business up to £5 million a year
- legislating through the Enterprise Bill to create a legal obligation for large firms to pay insurance claims within a reasonable time, which will provide savings to business of £0.37 million a year, and will benefit small business in particular

The Treasury is committed to supporting small businesses and is implementing 2 pro-competition measures aimed at improving small & medium enterprises (SMEs) access to finance. One, *Platforms for SMES Rejected for Finance*, will require large UK banks that reject SMEs for finance to signpost those SMEs (with their agreement) to government designated platforms that will link them up with alternative lenders. The other, *SME Credit Data*, is designed to improve the availability of SMEs' credit data amongst lenders, ultimately improving the availability and price of credit to SMEs.

The department is also committed to promoting competition in the banking sector. For example the Financial Services (Banking Reform) Act 2013 provided for the creation of a new competition-focused, economic regulator for retail payment systems in the UK: the Payment Systems Regulator (PSR).

The PSR is a subsidiary of the FCA but has its own statutory objectives and governance, and works to open up access to UK payment systems for challengers and small players in the market; to encourage innovation; and to ensure payment systems deliver for users. In April 2014, the PSR came formally into being and has been fully operational since April 2015.

Cutting Red Tape Reviews

The Better Regulation Executive in the Business Innovation and Skills department undertook a review of the Treasury's anti-money laundering and terrorist financing regulations in 2015. The findings from this review will feed into a wider anti-money laundering supervisory review that will be taking place in 2016.

Civil Service 1% Challenge on Reservists

Four officials in the Treasury are military reservists. This equates to 0.3% of the target range of males aged 17-35. In addition, several Treasury officials volunteer in wider capacities to build up their local communities, including those who volunteer for the police force or are school governors. Together this equates to over 1% of the FTE headcount in the Treasury. The department seeks continued improvement of this by holding reservist related events on a roughly 6 monthly basis.

Public Sector Apprenticeships

The Treasury is committed to providing high quality apprenticeships and is developing an apprenticeship strategy to look at how to recruit, develop and retain apprentices (this will be completed by autumn 2016). The department is also committed to achieving at least a 2.3% target for apprentices as a proportion of the total workforce.

At present the department employs 49 apprentices in a variety of different roles across the organisation. This equates to 3.8% of the Treasury's total FTE workforce. The department is looking to recruit a further 26 apprentices in 2016-2017.

Devolution

As part of the Treasury's devolution engagement strategy, the devolution team are taking forward a programme of activity to: increase devolution knowledge across the department, maintain relationships with the devolved administrations, and present the UK government's policies in each part of the UK.

To assess progress, the team will ask Treasury groups to undertake a devolution self-assessment alongside establishing a regular, strategic visits programme for the Treasury ministers and senior officials. The team will also retain the Treasury's office in Scotland and educate policy officials (including each graduate intake) across the Treasury on devolution handling, via tailored events and training.

An internal communications strategy will be developed with a refresh to the digital offer, and a rolling programme of events with territorial offices on the economy will be developed.

At every fiscal event the team will review work to ensure that lessons are captured and acted upon.

The Treasury anticipates that as a result of these activities, there will be improved devolution capability across the department evidenced through effective handling of policy risks, complementary working with the devolved authorities, and improved rates of response to the next devolution capability survey. In addition, there will be sustained delivery of ministerial visits to Scotland, Wales and Northern Ireland as well as successful promotion of the UK Government's economic and financial policies across the UK. This will also help to improve the Treasury's approach to fiscal events from a devolved perspective.

John Kingman
Acting Permanent Secretary
27 June 2016

Accountability Report

Corporate Governance Report

Directors' report

This Directors' report brings together information about the department's ministers, Non-Executive Directors and senior leadership team, the composition of the Treasury's Boards and other elements of its governance and risk management structure. It also includes the disclosures and reporting required of the Treasury's senior management relating to the day to day execution of the Treasury's business.

The Treasury's ministers

The Chancellor of the Exchequer and the First Secretary of State, the Rt Hon George Osborne MP, has overall responsibility for the Treasury. He is accountable to Parliament for all the policies, decisions and actions of the department, its Non Departmental Public Bodies and its arm's length bodies. While Treasury civil servants may exercise the powers of the Chancellor, the Chancellor remains responsible to Parliament for decisions made under his powers.

Within the Treasury the Chancellor has chosen to devolve responsibility for a defined range of departmental work to 5 ministers whose responsibilities can be found on pages 10 and 11.

From 1 April 2015 to the General Election on 7 May 2015 the Chancellor was supported by Ministers as outlined in the Remuneration and Staff report on page 64.

The role of Non-Executive Board Members

The Treasury's 4 Non-Executive Board Members provide challenge to help shape the strategic thinking of ministers and officials. They are experts from outside government with significant experience of working with the public and/or third sectors and have strong financial and commercial expertise.

Using this expertise they influence and advise the department, challenging where appropriate. Outside of the meetings individual members have shared their commercial and professional expertise across the Treasury.

Given the continually expanding portfolio of the department it was agreed to strengthen the Non-Executive portfolios and appoint Tim Score to the vacancy carried in the last year. Tim's skills mean he is well placed to challenge the department on financial management and emerging issues such as the new economy and the technology sectors.

In addition, Dame Amelia Fawcett's appointment has, with agreement with the Prime Minister and Chancellor, been extended for a further 3 years.

Lead Non Executive Board Member, Baroness Sarah Hogg

Appointed: Baroness Hogg was appointed 1 January 2011 and is now in her second term.

Experience: Baroness Hogg brings vast financial sector experience having been Chair of the Financial Reporting Council and Senior Independent Director of BG Group and a director of the John Lewis Partnership.

Sarah began her career at The Economist before helping to set up and moving to The Independent. She was Head of the Prime Ministers Policy Unit in the early 1990s and Chairman of 3i Group from 2002-2010.

Other roles: Chairman for the Audit Committee for the John Lewis Partnership; National Director for Times Newspapers; Trustee for Lincoln Heritage Trust; Non-Executive Director BG Group, Member for the Takeover Panel.[1]

Committees: Treasury Board; Chair, Treasury Board Sub-Committee; Nominations Committee

Non-Executive Board Member and Chair, Audit Committee, Richard Meddings

Appointed: Richard was appointed on 1st July 2014 (first term).

Experience: Richard was appointed as Audit Committee chair on his appointment as Non-Executive Director. Richard brings risk and banking experience to this role having been at Standard Chartered plc from 2002 until 2014 as Group Executive Director responsible for Risk and as Group Finance Director for eight years.

Richard is a chartered accountant and worked in the banking industry (including at Hill Samuel, Barclays, Woolwich and Credit Suisse) in his early career.

Other Roles: Supervisory Board at Deutsche Bank and Deutsche Bank Audit committee chair and member of Risk Committee; Non-Executive Director, Legal & General plc (December 2014 to current) and Risk Committee chair; main Board Director (2002-2014) and Group Finance Director (2006-2014) Standard Chartered plc; Non-Executive Director and Senior Independent Director of 3i Group plc (2008-2014) and chair of Audit and Risk Committee; Financial Reporting Review Panel in FRC; Board member of International Chambers of Commerce UK (2007to current); and Trustee on Teach First Board.

Committees: Chair, Audit Committee; Treasury Board; Treasury Board Sub-Committee; Nominations Committee

[1] Sarah has been announced as a Non Executive Director of the Financial Conduct Authority and will take up post on 1st April 2016 https://www.gov.uk/government/news/financial-conduct-authority-chief-executive-announced

Non-Executive Board Member, Dame Amelia Fawcett

Appointed: Dame Amelia was appointed on 1st September 2015 (second term).

Experience: Dame Amelia brings significant financial industry experience. She is a former banking executive at Morgan Stanley where she was Chief Operating Officer for Europe, Middle East and Africa. She is currently Deputy Chairman of the publicly listed Swedish investment company, Investment AB Kinnevik.

Other Roles: Chairman, Hedge Fund Standards Board; Non-Executive Director and Chairman of Risk Committee of State Street Corporation (Boston, Massachusetts, USA); Chairman of The Prince of Wales's Charitable Foundation; Deputy Chairman and Member of the Governing Body of the London Business School.

Committees: Treasury Board; Treasury Board Sub-Committee; Nominations Committee

Non-Executive Board Member, Tim Score

Appointed: Tim was appointed on 1 July 2015 (first term).

Experience: Tim's experience covers financial management and an in-depth knowledge of the technology sector.

He was Chief Financial Officer of ARM Holdings plc from 2002 to 2015, Senior independent director, Chair of Audit and Interim Chairman at National Express Group (2005-2014), CFO of Rebus Group and William Baird PLC, Group Financial Controller at BTR Plc and LucasVarity PLC

Other roles: Non-executive director and Chair of Audit Committee at Pearson plc; Non-executive director and Chair of Audit Committee at The British Land Company plc.

Committees: Member of Treasury Board; member of Audit Committee; Treasury Board Sub-Committee; Nominations Committee

The Permanent Secretary and the senior civil service

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

Should the Permanent Secretary ever be directed by the Chancellor to take responsibility for the delivery of an aim, priority or action he believes is contrary to the principles of *Managing Public Money* (the main guidance for Accounting Officers) he may seek a written direction to continue. No written directions have been sought in the Treasury during 2015-16.

Until 31 March 2016 Nick Macpherson held the position of Permanent Secretary of the Treasury and as such was also the department's Accounting Officer for the financial year.

Nick Macpherson announced he was leaving the department at the beginning of January. In line with governance expectations, an open recruitment was undertaken, chaired by the then First Civil Commissioner, Sir David Normington, to appoint his successor.

An advert was issued externally on the Civil Service Jobs website and the Sunday Times Online. Shortlisted candidates underwent a leadership assessment, and references were taken in advance of interview. The panel (Sir David Normington; Baroness Hogg; Lord Terence Burns (Chair of the Independent Commission on Freedom of Information, and former Permanent Secretary at the Treasury); Sir Jeremy Heywood (Cabinet Secretary and Head of the Civil Service)) interviewed candidates.

The Prime Minister is the decision maker for Permanent Secretary appointments and, in early March 2016, he confirmed the appointment of Tom Scholar as Nick's successor. Tom will take up his post in the summer of 2016.

From 1 April 2016 John Kingman took over as Acting Permanent Secretary.

During the financial year, John Kingman, as Second Permanent Secretary (until 1 April 2016), had oversight of the economics ministry functions of the Treasury, including financial services, growth and infrastructure, and co-chaired the Major Projects Review Group.

There are 5 Directors General (DG) in the Treasury who act as senior policy advisers to the Chancellor on specific areas:

- James Bowler, DG Tax and Welfare
- Mark Bowman, DG International and EU
- Julian Kelly, DG Public Spending and Finance
- Dave Ramsden, Chief Economic Advisor
- Charles Roxburgh, DG Financial Services

James Bowler was appointed to his position as DG Tax and Welfare at the beginning of the year. Whilst a successor was appointed, and until they took up post, he covered both this post and that of Director, Strategy Planning and Budget.

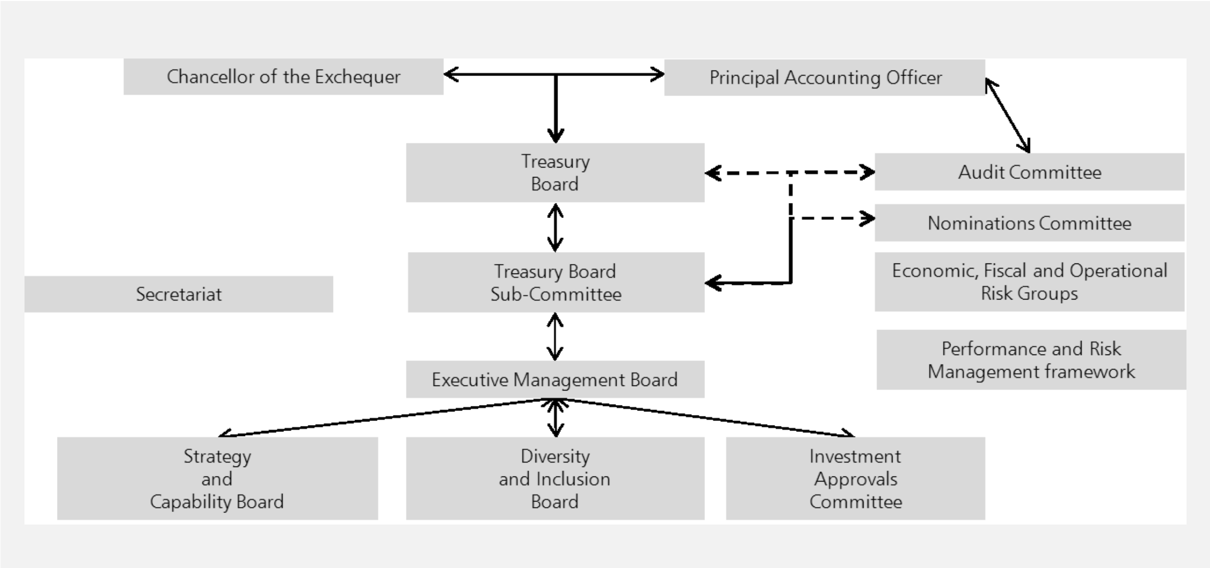
Clare Lombardelli was appointed and took up post as Director, Strategy Planning and Budget in September 2015. Clare came to the post with experience of the department, including as a member of the Strategy and Capability Board.

The Treasury's internal structure

The Treasury is divided into 14 Director-led groups. Each Director has responsibility delegated to them from the management board for the delivery of policy and management of risk within their group. They are also responsible for ensuring any policy or operational risks in their groups are shared across the department to help actively manage the cross-cutting risks facing the Treasury.

The group structure and split of responsibilities as of 31 March 2016 can be found on page 9 of this report.

The Treasury Board and its committees



The Treasury Board

The Treasury Board is the most senior of the department's oversight committees. It draws together ministerial and civil service leaders with experts from outside government.

The Board draws on the experience of attendees to provide advice, support and challenge to the effective running of the department in relation to the performance and risk management and progress against delivery of its objectives and priorities.

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

The Board met once during 2015-16 to discuss the priorities for the department. The session covered the priorities and challenges facing the department along with resourcing, including succession planning. They also discussed the number and content of fiscal events throughout the year and wider economic and fiscal policy including welfare reform, forecasts and financial stability.

All members attended this meeting, other than the Finance Director, Kirstin Baker, as she went on a career break on 25 February 2016. Sophie Dean, Kirstin's successor, started in post on 7 March 2016. To ensure finance was covered, Katherine Green, the Corporate Services Director, attended as her role and the Finance Director role share responsibility for Corporate Centre Group.

Treasury Board Sub-committee

The main sub-committee of the Board is the Treasury Board Sub-committee (TB(SC)). It is made up of the Non-Executive Board members and the Executive Management Board, joined by Edward Troup, the Executive Chair and First Permanent Secretary at HMRC.[2] Edward sits on TB(SC) in a non-executive capacity to strengthen the relationship between the 2 departments.

TB(SC) meets to consider the department's performance and key risks, and will also meet on an ad-hoc basis to discuss specific policy or Treasury Group related issues.

During 2015-16 TB(SC) met 6 times and the attendance of members is shown below.

Treasury Board (Sub-committee) attendance in 2015-16

	Eligible to attend	Attended
Non – Executive Members		
Baroness Sarah Hogg	6	6
Dame Amelia Fawcett	6	5
Richard Meddings	6	4
Tim Score	4	4
Edward Troup	6	5
Executive members		
Nick Macpherson	6	6
John Kingman	6	6
Dave Ramsden	6	5
Julian Kelly	6	5
Mark Bowman	6	5
Charles Roxburgh	6	5
James Bowler	6	5
Kirstin Baker	6	5
Katherine Green	6	6
Clare Lombardelli	4	4
Sophie Dean	1	1

Over the year the TB(SC) considered a broad range of the policy and corporate issues facing the Treasury including: planning for the results of the General Election, the shape of the Treasury, productivity and growth, the regions, performance and risk management, Board effectiveness, Building a great Treasury (the department's Change Programme), the department's Single Departmental Plan, and oversight of the Government Internal Audit Agency.

[2] Edward Troup was the Tax Assurance commissioner and Second Permanent Secretary at HMRC until 5 April 2016. From that date he became Executive Chair and Permanent Secretary whilst retaining the position of Tax Assurance Commissioner and took up appointment on 5 April 2016.

Board Effectiveness

Undertaking an annual review of a Board's own processes and practices is good practice and shows recognition of the need to continually improve. As set out in the Code of Practice on Corporate Governance[3] the Secretariat of Treasury Board Sub-committee TB(SC) undertook a board effectiveness evaluation in 2015-16. This sought to determine whether the Board was operating effectively and what improvements were required to enable it to improve further.

The effectiveness evaluation comprised of group and individual discussions, desk analysis and a review of the work undertaken by TB(SC). The evaluation covered:

- governance arrangements
- work of the board
- composition and culture
- support and organisation
- progress and impact

Baroness Hogg has outlined the key findings in her Lead Non-Executives Report.

To ensure wider improvements the department extended its Board Effectiveness programme this year and in March 2015 an exercise was undertaken for Strategy and Capability Board (a sub-committee of the Executive Management Board). This followed the same principles as undertaken for the TB(SC). Recommendations from that exercise will be implemented in 2016 with an updated Terms of Reference available in the coming financial year.

The Executive Management Board

The DGs and Permanent Secretaries make up the senior management team for the department, known as the Executive Management Board (EMB).

They are joined on EMB by the Directors for Finance, Corporate Services, and Strategy, Budget and Planning, and this executive team take personal and corporate responsibility for the operational success of the department.

EMB meets once a week to discuss corporate and policy issues, focusing its time on the management and coordination of the department as a whole. EMB also meets regularly for additional sessions where members will consider the strategic direction of specific Treasury policy areas.

An annual business planning process, overseen by EMB and cleared by Ministers, sets the department's priorities for the year ahead – focusing on the Treasury's core functions, ministerial priorities and identified risks. The Board also ensures delivery against the department's work programme and allocates resources efficiently and effectively.

[3] https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments

Sub-committees to the Executive Management Board

The Strategy and Capability Board (SCB), the Investment and Approvals Committee (IAC) and the Diversity and Inclusion Board (DIB) are sub-committees of EMB.

The Strategy and Capability Board (SCB) was established to support the senior management team in enhancing the department's strategy, delivery and capability. Membership is made up of the Directors of Strategy, Finance and Corporate Services, and three Directors from the policy delivery side of Treasury who provide direct input and challenge from policy groups and help ensure that decisions are made in the best interests of the department as a whole. It is chaired by the Deputy Director, Strategy, Planning and Projects and SCB meets fortnightly.

The Investment Approvals Committee (IAC) provides financial, commercial and business case approval for expenditure over £1 million. The IAC meets on an ad hoc basis dependent on the case load it is managing.

The Diversity and inclusion Board (DIB) oversees the diversity networks that exist in Treasury and sets the Diversity and Inclusion agenda. The Treasury has demonstrated its commitment to diversity and inclusion by having an EMB level Diversity Champion for over 10 years. DIB is chaired by Dave Ramsden, with a Director level vice chair who are joined by representatives of staff networks. The board meets monthly.

The Executive Management Board also has 3 sub-committees looking specifically at risk. The Economic, Fiscal and Operational Risk Groups report directly to the Board and are each chaired by an EMB member. They meet every 6 weeks and will hold additional ad hoc meetings where risk profiles require it. The Risk Groups contribute to the Treasury's risk management framework by tracking indicators, horizon-scanning, and assessing the likelihood, probable impact and potential mitigation of risks, enabling the Executive Management Board and senior managers to take action where appropriate.[4]

Audit Committee

The Audit Committee supports the Permanent Secretary and his Additional Accounting Officers in their responsibilities for managing risk, control and governance.

Members of the Committee are appointed by the Permanent Secretary. The Chair, who reports directly to the Permanent Secretary, is also a Non-Executive Member of the Treasury Board.

- Richard Meddings – see biography on page 42
- Tim Score – see biography on page 43
- Mike Ashley – Non-Executive Director, and Audit Committee Chairman, Barclays Plc.; Board membership (and Chair of Audit and Risk Committee) of the Charity Commission; and Chair of the Government Internal Audit Agency (GIAA) Board. Previously Head of Quality and Risk Management and Board Member, KPMG Europe LLP
- Peter Estlin - Senior Advisor, Barclays plc, (previously Group Financial Controller and acting Group CFO); Chairman, Bridewell Royal Hospital; Alderman, City of London Corporation
- Mary Hardy – Audit Committee Member: Non-Executive Director of the Royal Navy and Chair of its Audit Committee; non-executive member of Defence Audit Committee; non-executive

[4] Further information on how the department manages risk can be found on page x of the governance statement.

Director of the Oil and Gas Authority and Chair of its Audit and Risk Committee; Trustee of the Chartered Accountants Benevolent Association and Chair of its Audit and Risk Committee

- Abhai Rajguru – Non Executive Director, CPP Group PLC; Director, DBV Finance Ltd; Chairman, Alexander Rosse Ltd; Managing Partner, Pravara Capital LLP

The committee met 6 times in 2015-16 and attendance is shown in the table below

	Eligible to attend	Attended
Richard Meddings (Chair)	6	6
Mike Ashley[5]	2	2
Mary Hardy	6	6
Abhai Rajguru	6	6
Peter Estlin[6]	6	6
Tim Score[7]	2	1

Pre-meeting discussions with the National Audit Office were held before each session of the Audit Committee.

Over the course of the year, as well as scrutinising the Treasury's financial management and balance sheet risks, the Audit Committee considered a wide range of issues relating to the department's framework of governance, risk management and control, including: Data Mining Review of the Treasury's Financial Systems, progress on the Lloyds Banking Group sales; and the IT contracts.

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

Nominations Committee

The Nominations Committee meets to consider succession planning within the Department and review systems in place to identify and develop leadership potential. The Committee also considers performance and remuneration of the senior management team.

The Committee is made up of the Permanent Secretary with the Non-Executive Directors.

	Eligible to attend	Attended
Nicholas Macpherson	1	1
Baroness Sarah Hogg	1	1
Dame Amelia Fawcett	1	1
Richard Meddings	1	1
Tim Score	1	1

[5] Mike Ashley's appointment finished on 31 July 2015.

[6] Peter Estlin was appointed on 1 May 2015 and so was eligible to attend meetings from that point.

[7] Tim Score was appointed on 1st July 2015 and joined the Audit Committee on 1st January 2016. He was eligible to attend meetings from that point

Quality of Information

Recognising the need to ensure the department's board and committees receive sound advice and information, the department uses a template for board papers. This is structured to ensure risks and resource implications are highlighted and to ensure sufficient engagement and challenge during discussions. The board secretariat works with teams to ensure the information provided is of a good quality.

The structure and information contained in regular agenda items (including management information and Quarterly Performance and Risk reports have been scrutinised, improved and updated over the course of the year. The executive management board have welcomed these changes which have supported high quality discussions and decision making.

Conflicts of Interest

Ensuring the effective management of conflicts of interest is a key aspect of any effective governance framework and system of internal control. In support of this, relevant information is held by the department in a central register alongside mitigation measures taken.

The register of ministers' interests is held by Parliament. Non-executive board members' interests are set out in this document on pages 42 and 43. No executive members of the Board have flagged company directorships or other significant non-executive responsibilities that may conflict with their management responsibilities, and no members of the Executive Management Board have any conflict of interest recorded.

Whistleblowing

As well as ensuring any conflicts among senior staff are registered, making sure the department's staff feel able to come forward with concerns is an important step in ensuring effective governance and management across the organisation. The department's staff survey results in 2015 showed that 22% more staff than the civil service average believe that 'it is safe to challenge the way things are done in the Treasury'.

During 2015-16 the department's whistleblowing policy was refreshed to ensure that all staff were empowered to raise issues and feel confident in the process by which they can do so. Richard Meddings (non-executive), along with Head of Internal Audit (Chris Wobschall) and Lindsey Fussell (Director, Public Services) are nominated officers responsible for investigating staff concerns that are raised confidentially.

Transparency and Scrutiny

The roles and structures described above are designed to ensure the effective governance, control and management of risk within the department. Scrutiny from others, whether it be from internal audit, the National Audit Office, Parliament or members of the public is also important in this regard and the Treasury prides itself on welcoming this. Detail on transparency and scrutiny of the department by internal audit, the public, parliament and the Parliamentary and Health Service Ombudsman can be found on pages 36 to 38 of the Performance Report.

The National Audit Office (NAO) undertakes independent scrutiny of the department's performance; the value for money studies of relevance to Treasury can be found on the NAO's website.[8]

The Comptroller and Auditor General carries out the audit of the consolidated accounts of the Treasury Group. These audits are conducted under the Government Resources and Accounts Act 2000. The National Audit Office also performs other statutory audit activity, including value-for-money and assurance work. Remuneration for statutory audit activity and other audit services is disclosed in Note 32 on page 133 of this document. There is no remuneration for the value-for-money work.

Workforce Reporting

Finally, the Treasury's workforce is critical to its ability to operate effectively; it relies on the expertise of its staff, their hard work and dedication. Information on sickness absence, off payroll engagements and staff pension costs is within the Staff Report from 73 to 79.

Personal Data

No protected personal data incidents were recorded in the department during 2015-16.

John Kingman
Acting Permanent Secretary
27 June 2016

[8] https:/www.nao.org.uk/

Statement of Accounting Officer Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the department to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2015 numbers 632 and 2062 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at Note 33.3 to the Annual Accounts).

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

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

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

HM Treasury appointed the Permanent Head of the department as Accounting Officer of the department.

The Accounting Officer of the department has also appointed the Chief Executives or equivalents of its sponsored non-departmental and other arm's length public bodies as Accounting Officers of those bodies.

The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts.

Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or non-departmental or other arm's length public body for which the Accounting Officer is responsible, are set out in Managing Public Money[9] published by HM Treasury.

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

I also confirm that this annual report and accounts is whole, and I take personal responsibility for judgements made to ensure that it is fair, balanced and understandable.

John Kingman
Acting Permanent Secretary
27 June 2016

[9] www.gov.uk/government/publications/managing-public-money

Governance Statement

The governance statement outlines the risk management undertaken within the department this year, key challenges faced by the department, the roles of additional accounting officers within the department and the assurances received in preparing this report.[10]

Having recently taken over as Acting Permanent Secretary to the Treasury after Nick Macpherson stood down on 31 March 2016, I am writing this statement reflecting on the work the department has undertaken in the last financial year.

While I was not Permanent Secretary for the period that this report covers, Nick Macpherson and I met regularly and conducted a handover in the period before he left the department.

In addition, I was Second Permanent Secretary to the Treasury during the period covered by the report and was an Accounting Officer for the department, in parallel to Nick as Principal Accounting Officer. Essentially, I was the Accounting Officer for the department in Nick's absence. I am therefore fully aware of the effectiveness of risk management, governance and internal control systems that exist.

As part of wider governance oversight, I attended EMB and Board meetings, and chaired the department's Operational Risk Group. I worked closely with Kirstin Baker (former Finance Director) and Sophie Dean (current Finance Director) to ensure internal controls and systems were in place.

I set out in this Governance Statement the risks and challenges faced by the Treasury, the risk management framework used to manage them, the assurances I have received and information about the department's compliance with the corporate governance code.

Risk Management

The Treasury faces macro and micro level risks in its dual role as the UK's finance and economics ministry and a central government department and employer. The risks faced are diverse in nature and severity, in many areas will have a broad impact on the economy and financial health of the country and often will be influenced by externalities over which the department may have influence, but no control.

As the economics ministry, the department must react to uncertainty in the global economy and present policy solutions to contribute to the UK's recovery; as the department responsible for fiscal policy, the UK's rebalancing and restructuring requires significant Treasury focus and attention; and operationally, the department must make sure it spends its budget appropriately, ensuring value for money and delivering on its duty of care to both staff and stakeholders.

The department has a Risk Management Framework that underpins the work of 3 dedicated risk groups (Operational Risk, Economic Risk and Fiscal Risk) that monitor risk including the strategic, operational, reputational and financial risks to the department.

These groups periodically contribute a written analysis of overall risk and performance against the department's strategic objectives into a dashboard. This analysis looks at trends across key performance data and assesses the level of risk to delivery of the objective, giving a red, amber or green rating. This dashboard forms part of a report which is presented to EMB and the Treasury

[10] The governance framework, board structure and coverage, assessment of effectiveness, quality of data and information on ministerial directions are covered within the Directors' Report from pages 41 to 51.

Board Sub-committee on a quarterly basis, which reflects on risk and performance across the department. This enables EMB, TBSC and senior managers to take action where appropriate, as well as providing them with a strategic overview of the department's work.

The department has a sound system in place to consider the risks faced by the Treasury, challenge the assumptions made about these risks and, where appropriate, offer advice on how best to mitigate risk. Within this structure each individual has a role to play, with some key positions holding specific accountabilities.

Individual risk responsibilities within Treasury

Role	Responsibility for Risk
Permanent Secretary	• Ultimately accountable to Ministers and Parliament for risk within the department and across the Treasury Group
Directors General (as a member of EMB)	• Own and manage the major risks to the delivery of the department's work programme (including horizon scanning) • Identify and evaluate the interdependencies between risks • Challenge the Treasury's response to priority risks • Communicate key risks to the department
Directors General (as principal policy advisers)	• Manage major risks in a specific aspects of Treasury business
Risk Champion	• Assess and develop the Treasury's approach to risk management with the Risk Groups • Work with Directors on best practice in risk identification and management
Directors	• Managing the risk profile of their Group, including stewardship of any arms' length bodies (preferably with a Group Risk Plan) and escalating to fiscal, economic or operational risk groups as necessary • Communicate risks across teams and Group • Assess, with the Group Management Team, the Group's quarterly MI and KPIs and escalate any issues to the ORG • Succession plan for critical roles across their Group
Deputy Directors	• Manage the risk profile relating to their specific policy area or time limited project, escalating to Group Management level as required. • Challenge and support branches to help them identify and respond to risks • Succession plan for critical roles across their teams
All staff	• Identify risks and eventualities that would result in the Treasury failing to meet its objectives, escalating through the appropriate management chain or, where necessary, through the whistleblowing channels

A new initiative commenced in 2015-16 to raise levels of assurance and control through the department's risk management processes, both in terms of core business functions and the extended Treasury group. The project is mapping all areas of risk across the department and will align strategy, resource and governance to further improve the departments' management of areas of potential exposure.

The Treasury's identification and management of risk is based in part on management information; annual business plan assessments including six monthly reviews; the Quarterly Performance and Risk Report; and HR and Finance Management Information.

This business planning process enables the Treasury to consider and identify risk in the context of its core economics and finance ministry priorities for the year ahead, ensuring these are resourced within the limits of the Treasury's Spending Review settlement.

The Treasury's Quarterly Performance and Risk Report is the formal system by which the Treasury's Boards address, challenge and respond to identified risks. The Report includes outcome objectives, all of which the department seeks to influence (but may not control) and Departmental deliverables, all of which the Treasury seeks to achieve via policy interventions.

Additional Accounting Officers

To assist in the stewardship of public funds, and to maintain the system of internal control additional accounting officers have been appointed across the Treasury Group and details can be found on pages 12 and 13 at the front of this report.

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

Account Name	Accounting Officer	Notes
Consolidated Fund (CF)	Nick Macpherson (until 31 March 2016) John Kingman (from 1 April 2016)	The CF was first set up on 1787 and is akin to government's current account. It receives the proceeds of taxation and other government receipts
National Loans Fund (NLF)	Nick Macpherson (until 31 March 2016) John Kingman (from 1 April 2016)	The NLF was established in 1968 and is akin to the government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office and National Savings and Investments
Contingencies Fund	Julian Kelly	The Contingencies Fund is used to finance payments for urgent services in anticipation of parliamentary agreement and to provide funds temporarily to departments for working balances or meet other temporary cash deficiencies. All advances from the Fund must be repaid and where practical are recovered in the same financial year.

Exchange Equalisation Account (EEA)	Dave Ramsden	The EEA was established in 1932 to provide a fund that could be used, when necessary to regulate the exchange value of sterling. It holds, amongst other assets, the UK's reserves of gold and foreign currency assets and comprises the UK's official holdings of international reserves.
Whole of Government Accounts (WGA)	Julian Kelly	The WGA consolidates the audited accounts of around 6,000 public sector organisations to produce a comprehensive, accounts based picture of the financial position of the UK public sector.

Internal audit arrangements

Chris Wobschall, Group Chief Internal Auditor, Treasury Internal Audit, has provided an annual report on the adequacy and effectiveness of the Treasury Internal Audit framework of governance, risk management and control to the Accounting Officer and Audit Committee.

The Treasury Internal Audit function is provided by the cross-Whitehall Government Internal Audit Agency (GIAA), an executive agency of the Treasury.

Issues facing the Department in 2015-16

In preparing this governance statement I have considered issues which might prejudice the delivery of the Treasury's objectives or may undermine the integrity or reputation of the department.

People

Recognising the need to ensure staff are professional and expert in the way they work, the Treasury undertook to devise, develop and administer a graduate recruitment and development programme. Around 80 graduates were recruited and arrived in the department in September 2015. They undertook a two week development programme that included modules on corporate governance, propriety and ethics, fraud awareness and security.

The programme aimed to give them the skills and knowledge to become effective policy officials. A further programme during their first posting then built on that initial learning to broaden their knowledge of key Treasury priorities and policy areas whilst introducing sharper business skills such as creative thinking, handling negotiations and communicating with senior stakeholders.

In addition to this work to ensure a consistent intake of professionals capable of delivering the Treasury's priorities, the department also took steps to ensure the continuous professional development of all staff, including:

- a Prospects programme for business support staff was run over 11 months in the year. The programme included development workshops and coaching sessions
- a professionalising Personal Assistants (PAs) event that recognised the achievements and work of Treasury PAs. The event included external guest speakers and discussion groups
- a Senior Civil Service Assessment centre was undertaken during the year as part of a wider talent management programme. The centre appointed 17 people who performed strongly

against the Deputy Director competencies, and could demonstrate their ability to undertake a range of Treasury Deputy Director posts

Building a great Treasury is the department's corporate reform programme and its aims are crucial in both enabling staff to perform their roles effectively and to the well-being of all Treasury staff in the workplace. It was first published in December 2014[11] and recognising the need for continual improvement it underwent an annual internal review in 2015-16.

Recognising that an engaged and happy workforce are more productive and more likely to resist fraud or other misuses of resources, the Treasury's Executive Management Board pays close attention to the annual staff survey results. The Treasury's staff engagement score in the staff survey results for 2015 was 72%, a 1% increase on the previous year. The department is the most engaged in Whitehall and the 4th most engaged organisation in the entire survey. There were improvements in scores for each of the 9 themes (as detailed in the Staff Report on page 82) and activity is underway in a number of areas to drive further improvement through the department's change programme, *Building a great Treasury* and through the work of the Strategy and Capability Board.

One of the Executive Management Board's areas of focus for 2015-16 was on the important and debilitating issue of bullying and harassment. Although the numbers reporting incidents of bullying and harassment were extremely low for a department of Treasury's size, the Executive Management Board undertook work to go further in eradicating bullying and harassment. The Executive Board member who champions the department's approach to reducing bullying and harassment, Katherine Green, undertook some work to understand fully where these behaviours were taking place and how to tackle them, consulting Baroness Hogg, the lead Non-Executive Director.

Security

Cognisant of the importance of national security and data integrity, the Executive Management Board is regularly briefed on, and discusses, the protective security threats to the department and how it should minimise the risks. During 2015-16 the focus was on:

- Cyber security. The Board is always mindful of ensuring its sensitive information is secure and staff work within the Civil Service Code. To reflect this the Executive Management Board discussed departmental security with representatives from the Centre for Protection of National Infrastructure and Government Communications Head Quarters along with regular updates from the Departmental Security Officer. Separately, the Treasury, and other UK financial authorities conducted a joint exercise with the US Government and leading global financial firms to enhance the cooperation and ability to respond effectively to a cyber-incident in the finance sector

- Physical security. Ensuring that the Treasury estate is appropriately protected in the light of increased threats from self-organised groups and individuals

- Improving business continuity and incident management preparedness. Ensuring the department is able to continue to operate in times of threat is essential. Group business continuity and evacuation plans across the department were reviewed, amended and updated to ensure consistency and preparedness

[11] https://www.gov.uk/government/publications/hm-treasury-departmental-improvement-plan-building-a-great-treasury

A briefing on all aspects of protective security is included in the departmental induction course and in the Graduate Development Programme. There is an annual requirement for all staff to complete the appropriate level of '*Responsible for Information'* e-learning training. Additionally, there is comprehensive guidance on all aspects of security on the departmental intranet and prompts on specific security topics are regularly broadcast as intranet news items and notices.

The Treasury routinely monitors and assesses its information and security risks in order to identify and address any weaknesses; security breaches are reported monthly to Directors. Personal data incidents are noted on page 51 of the Directors' report.

Policy

A fundamental tenet of the civil service is that it serves the government of the day. When governments change, the civil service must ensure a new administration does not see the information and papers from the previous administration and to fail at this would damage the integrity of the organisation.

Following the May 2015 General Election, the Treasury undertook a project to ensure that new ministers and special advisers did not have access to the outgoing administration's work. This involved ensuring that new Ministers and Special Advisers had no access to the online system for storing papers and training and communications were put in place to ensure all staff understood the convention. Immediately after the election all papers from the previous administration were archived.

Arm's length bodies governance

The formation of new arm's length bodies to the Treasury may prejudice the achievement of the organisation's business plan or damage its reputation if the bodies are not set up with the appropriate oversight and internal control structures. Several new arm's length bodies were established, or were in the process of being established, in 2015-16, requiring careful management to ensure the most appropriate governance and oversight structures are in place. Details of the Treasury's arm's length bodies, including those new in 2015-16, is set out on pages 12 to 13.

One of these new bodies, the Government internal Audit Agency (GIAA), is responsible for internal audit services to government departments. The independence of GIAA's work is ensured by the requirement that Heads of Internal Audit are accountable to each Accounting Officer for their work and that they are line managed by the Agency's Chief Executive. Internal Auditors report the results of their work and opinions to respective Accounting Officers, and do not release their work to third parties without their authority.

Delivery

Similarly, without appropriate governance and corporate systems and processes challenging delivery responsibilities could undermine the integrity or reputation of the department. The Treasury has had responsibilities for a number of major delivery items this year.

The department has continued to bring down the deficit through share sales, with the focus on Lloyds and Royal Bank of Scotland. As at 31 March 2016, Lloyds share sales had raised a total of £16.6 billion.

Separately in August 2015, following advice from UK Financial Investments and in line with reducing the national debt and returning the Royal Bank of Scotland to the private sector, the first sale of the government's shareholding in the Royal Bank of Scotland was undertaken. The initial sale of 5.4% of the bank raised £2.1 billion that was used to pay down the national debt.

Home ownership is a key part of the government's long term plan to provide economic security for working people across the UK. The Help to Buy: mortgage guarantee scheme[12] was launched on 8 October 2013. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%.

The Help to Buy: ISA scheme launched on 1 December 2015 with 18 banks and building societies offering accounts by the end of March 2016. First time buyers saving in these accounts are eligible for a government bonus of 25% on savings up to a maximum of £3,000 to put towards an eligible first home. For the period to March 2016, 415,000 accounts had been opened with £494 million invested. Both Help to Buy: mortgage guarantee and Help to Buy: ISA are administered by UK Asset Resolution corporate services on behalf of HM Treasury.

Alongside the introduction of the pensions freedoms in April 2015, the government established Pension Wise to provide free and impartial guidance for individuals eligible to access a defined contribution pension under the reforms.

In the first year of the pension freedoms, 230,000 individuals have accessed over £4.3 billion of their pension savings flexibly. During the same period, the Pension Wise website received over 1.7 million visits, and nearly 61,000 Pension Wise guidance appointments were scheduled.

[12] https://www.helptobuy.gov.uk/

Challenging and reviewing decisions

Recognising the need to ensure value for money and efficient and effective decision making, the department continues to assess and review its own delivery projects even after procurements have been agreed and progressed. Where appropriate the department is not afraid to challenge and, in some cases, reverse decisions to protect its operations.

Treasury has participated in an independent shared service centre programme (ISSC1 and ISSC2) since November 2013, alongside Department for Transport; Department for Culture, Media and Sport; Department for Communities and Local Government and Civil Nuclear Constabulary. This was designed to provide Finance and HR transactional services for up to 14 departments and their arm's length bodies, as part of wider government plans to reduce costs and free-up resource from back-office functions.

The Treasury and Cabinet Office agreed a transition plan with a scheduled go live date of 3 November 2014. Throughout 2014-15 the department saw its migration plan deferred multiple times.

As a consequence, the department found itself with its current operating system (Oracle eBusiness Suite) unsupported in December 2015. This presented a significant risk to the department's operations – a risk that would only increase over time, particularly as the expansion of ALBs in the Treasury Group meant the number of users rapidly increased.

Given the lack of progress with the migration to ISSC1, coupled with the costs of maintaining a project team and extending the life of the existing and ageing system, the Treasury, along with other Government Departments participating in the programme, decided to withdraw from the programme and pursue alternative arrangements to protect the finance and HR operations. The NAO published a report into the Government's Shared Service Centres[13] in May 2016 which examined the problems the programme has faced.

The Corporate Governance Code

As part of the preparation of this annual report, the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code and is assured it complies with the principles of the Code, though the Treasury has separate Audit and Risk Committees. Information about the Audit Committee is found on pages 48 and 49 of the Directors' Report.

There are 3 separate risk groups to reflect the work of the department as a finance and economics ministry and recognising operational risks it may face; this enables a full coverage of risks. These risk groups adhere to the Risk Management Framework and can, as necessary, report into the Treasury Board Sub-Committee or Executive Management Board.

Over the course of 2015-16 the Treasury considered what action it could take to make the corporate governance of the department even more robust. In agreement with the Chancellor the Treasury recruited a further Non-Executive Director to fill the vacancy it had been carrying since Dame Deirdre Hutton stepped down in September 2013.

[13] https://www.nao.org.uk/report/shared-service-centres/

Tim Score was appointed in July 2015 and brings an increased challenge function to the department on financial management, and on emerging issues such as the new economy and the technology sectors.

Assurances

During the year there have been a number of independent assurances through the work of the Non-Executive Board Members, internal and external audit, and other bodies such as the Office of the Civil Service Commissioners.

In addition, a number of Parliamentary Committees, including the Public Accounts Committee have called witnesses from across the Treasury Group on key issues such as the sale of Eurostar, Universal Credit, accountability for taxpayers' money, and the memorandum on financial management in the EU. The Treasury welcomes the oversight, challenge and scrutiny this process provides, responds positively to the recommendations it receives, and implements them where appropriate.

For example, the October 2014 PAC report on the Centre of Government received a Government response (Treasury Minute) published in December 2014, with 2 recommendations implemented.

An update to *Treasury Minutes – progress report on the implementation of Government* accepted recommendations (February 2016) indicated that 3 of the 4 remaining recommendations had been implemented, with the remaining recommendation to be implemented in summer 2016. Further details about the Treasury's interaction with Parliamentary Committees can be found in the Performance report.

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

Particular assurances have been provided by:

- The Debt Management Office, the Financial Services Compensation Scheme, UK Financial Investments Ltd, UK Asset Resolution Ltd and the Money Advice Service, the Office for Budget Responsibility, the Royal Mint Advisory Committee and the Royal Household; HM Treasury Sovereign Sukuk plc; Sovereign Grant (Royal Household); Help to Buy (HMT) Ltd; Infrastructure Finance Unit Ltd; Government Internal Audit Agency; IUK Investments Ltd, IUK Investment Holdings Ltd
- the Treasury's Executive Management Board
- the Group Finance Director
- the Chief Economic Adviser, who has confirmed that an appropriate quality assurance framework is in place and is used for all business critical models
- the Head of the Treasury Legal Advisors, who has advised on outstanding legal and regulatory issues
- the Group Head of Internal Audit, who has provided reports to me and the Audit Committee throughout the period including on: Data Mining Review of the Treasury's Financial Systems; progress on the Lloyds Bank Group sales and IT Process Audit Report

Other Assurances

The Treasury Group Annual Accounts are audited by the Comptroller and Auditor General under the requirements of the Government Resources and Accounts Act 2000. His Certificate and Report is set out from page 95. The cost of the external audit is set out in Note 32 of the Annual Accounts on page 133 and is referenced in the Directors Report on page 51.

Alongside these assurances, I have placed reliance upon the Group Chief Internal Auditor view that, based on the internal audit work of his team throughout 2015-16, he is able to provide moderate assurance over the risk management, control and governance framework relevant to the annual report and accounts; and that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Governance Statement.

I have considered the evidence that supports this Governance Statement and I am assured the Treasury has a strong system of controls to support the Department's achievement of its policies, aims and objectives. I therefore have no disclosures of control weaknesses to make for the 2015-16 financial year.

John Kingman
Acting Permanent Secretary
27 June 2016

Remuneration and Staffing Report

Remuneration report[14]

Treasury Ministers – single total figure of remuneration

£[15]	2015-16 Salary and FYE	2015-16 Benefits in kind	2015-16 Pension benefits	2015-16 Total	2014-15 Salary and FYE	2014-15 Benefits in kind	2014-15 Pension benefits	2014-15 Total
George Osborne Chancellor of the Exchequer and First Secretary of State[16]	67,505	6,800	32,000	**106,000**	67,505	6,800	22,000	**96,000**
Greg Hands Chief Secretary to the Treasury (from 12/05/15)	26,400 (31,680)	-	11,000	**38,000**	-	-	-	-
David Gauke Financial Secretary to the Treasury (from 15/07/14); Exchequer Secretary to the Treasury (to 14/07/14)	31,680	-	15,000	**47,000**	29,004 (31,680)	-	10,000	**39,000**
Damian Hinds Exchequer Secretary to the Treasury (from 12/05/15)	18,885 (22,375)	-	6,000	**25,000**	-	-	-	-
Harriet Baldwin Economic Secretary to the Treasury (from 12/05/15)	18,885 (22,375)	-	5,000	**24,000**	-	-	-	-
Lord O'Neill Commercial Secretary to the Treasury (from 12/05/15)[17]	N/A	-	N/A	-	-	-	-	-
Danny Alexander Chief Secretary to the Treasury (to 08/05/15)[18]	7,077 (67,505)	-	N/A	**7,000**	67,505	-	18,000	**85,000**
Priti Patel Exchequer Secretary to the Treasury (15/07/14 to 11/05/15)[13]	3,729 (22,375)	-	12,000	**16,000**	15,289 (22,375)	-	6,000	**21,000**
Andrea Leadsom Economic Secretary to the Treasury (09/04/14 to 11/05/15)[13]	3,729 (22,375)	-	11,000	**15,000**	21,816 (22,375)	-	7,000	**29,000**
Lord Deighton Commercial Secretary to the Treasury (to 11/05/15)[12, 13]	N/A	-	N/A	-	N/A	-	N/A	-

[14] The following report has been audited.

[15] Salary and full year equivalent (FYE) are presented to the nearest £1. FYE is shown in brackets.
Benefits in kind are presented to the nearest £100, pension benefits and total remuneration to the nearest £1,000.

[16] The Chancellor's benefit in kind relates to the full-year occupancy of 11 Downing Street and is capped at 10% of gross pay.

[17] The Commercial Secretary to the Treasury is an unpaid role.

[18] Following the general election in May 2015, Danny Alexander and Lord Deighton left HM Treasury. Priti Patel was appointed Minister of State for Employment at the Department of Work and Pensions and Andrea Leadsom was appointed Minister of State at the Department of Energy and Climate Change. Ministers who have not attained the age of 65, and are not appointed to a relevant Ministerial or other paid office within three weeks, are eligible for a severance payment of one quarter of the annual Ministerial salary being paid.

Treasury Ministers – pension benefits

£000	Accrued pension at age as at 31/3/16	Real increase in pension at pension age	CETV at 31/3/16	CETV at 31/3/15[19]	Real increase in CETV
George Osborne Chancellor of the Exchequer and First Secretary of State	7.5-10	0-2.5	111	87	14
Greg Hands Chief Secretary to the Treasury	2.5-5	0-2.5	40	31	6
David Gauke Financial Secretary to the Treasury	2.5-5	0-2.5	49	38	6
Damian Hinds Exchequer Secretary to the Treasury	0-2.5	0-2.5	9	5	2
Harriet Baldwin Economic Secretary to the Treasury	0-2.5	0-2.5	5	-	3
Lord O'Neill Commercial Secretary to the Treasury	N/A	N/A	N/A	N/A	N/A
Danny Alexander Chief Secretary to the Treasury[20]	N/A	N/A	N/A	N/A	N/A
Priti Patel Exchequer Secretary to the Treasury[15]	0-2.5	0-2.5	11	5	6
Andrea Leadsom Economic Secretary to the Treasury[15]	0-2.5	0-2.5	13	6	7
Lord Deighton Commercial Secretary to the Treasury[15]	N/A	N/A	N/A	N/A	N/A

Additional ministerial salaries borne by HM Treasury

£000	2015-16	2014-15
David Cameron Prime Minister	75-80	75-80
Mark Harper Chief Whip, Commons (from 15/05/15)	25-30	-
Michael Gove Chief Whip, Commons (to 14/05/15)	0-5	20-25
Anne Milton Deputy Chief Whip, Commons (from 12/05/15)	25-30	-
Greg Hands Deputy Chief Whip, Commons (to 11/05/15)	5-10	30-35
Don Foster Deputy Chief Whip, Commons (to 08/05/15)	0-5	15-20
Lord Taylor of Holbeach Chief Whip, Lords (from 06/08/14)	115-120	75-80
Baroness Anelay of St John's Chief Whip, Lords (to 05/08/14)	-	45-50
Lord Gardiner of Kimble Deputy Chief Whip, Lords (from 12/05/15)	100-105	-
Lord Newby Deputy Chief Whip, Lords (to 08/05/15)	5-10	70-75
Baronesses and Lords in Waiting (6 posts, of which 1 unpaid)[21]	460-465	455-460
Government and Assistant Government Whips (16 posts, of which 2 unpaid)[22]	250-255	235-240

[19] Opening values are restated following a change in transfer factors used in the calculation.

[20] As noted previously, these ministers have now left the Treasury. Danny Alexander opted out of the scheme in year.

[21] Baronesses and Lords in Waiting comprise: Baroness Chisholm of Owlpen, Baroness Evans of Bowes Park, the Earl of Courtown, Viscount Younger of Leckie, Lord Ashton of Hyde, and Lord Bourne of Aberystwyth.

[22] Government and Assistant Government Whips comprise: Gavin Barwell MP, Kris Hopkins MP, David Evennett MP, Mel Stride MP, Charlie Elphicke MP, George Hollingbery MP, Margot James MP, Julian Smith MP, Guy Opperman MP, Sarah Newton MP, Stephen Barclay MP, Simon Kirby MP, Jackie-Doyle Price MP, Alun Cairns MP, John Penrose MP, and Andrew Selous MP.

Senior management – single total figure of remuneration

£000[23]	2015-16 Salary and FYE	2015-16 Bonuses	2015-16 Benefits in kind	2015-16 Pension benefits[19]	2015-16 Total	2014-15 Salary and FYE	2014-15 Bonuses	2014-15 Benefits in kind	2014-15 Pension benefits[24]	2014-15 Total
Nick Macpherson Permanent Secretary (to 31/03/16)[25,26]	185-190	15-20	-	N/A	200-205	180-185	15-20	-	N/A	200-205
John Kingman Second Permanent Secretary[20]	155-160	0-5	-	82	240-245	155-160	0-5	-	53	210-215
Mark Bowman Director General, International and EU	120-125	0-5	-	65	185-190	120-125	0-5	-	34	155-160
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service	125-130	5-10	-	40	170-175	125-130	0-5	-	27	155-160
Julian Kelly Director General, Public Spending & Finance (from 01/06/14)	120-125	0-5	-	100	220-225	95-100 (FYE 115-120)	10-15	-	137	245-250
Charles Roxburgh Director General, Financial Services[21]	140-145	15-20	-	N/A	155-160	140-145	10-15	-	N/A	155-160
James Bowler Director General, Tax and Welfare (from 21/03/15); Director, Strategy, Planning and Budget (to 31/08/15)	120-125	10-15	-	147	280-285	105-110	10-15	-	65	180-185
Clare Lombardelli Director, Strategy, Planning and Budget (from 01/09/15)	50-55 (FYE 90-95)	10-15	-	23	85-90	-	-	-	-	-
Katherine Green Director, Corporate Services (from 09/12/14)[27]	50-55	0-5	-	62	115-120	15-20 (FYE 50-55)	0-5	-	28	40-45
Sophie Dean Director, Finance and Commercial (from 07/03/16)[22]	0-5 (FYE 60-65)	5-10	-	5	15-20	-	-	-	-	-
Kirstin Baker Director, Finance and Commercial (to 25/02/16)[22]	50-55 (FYE 50-55)	0-5	-	37	90-95	50-55	0-5	-	26	75-80

[23] Salary, full year equivalent (FYE), bonuses and totals are presented in £5000 bands. FYE is shown in brackets. Benefits in kind are presented to the nearest £100 and pension benefits to the nearest £1,000.

[24] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decreases due to a transfer of pension rights. Figures are restated for retrospective updates and are reported before tax.

[25] Nick Macpherson left the department on 31 March 2016 and John Kingman was appointed Acting Permanent Secretary. Following an open competition, Tom Scholar has been appointed as the new Permanent Secretary from the summer of 2016.

[26] Nick Macpherson and Charles Roxburgh chose not to participate in the Civil Service pension scheme.

[27] Katherine Green worked part time at 0.6 FTE until 07/03/16, then 0.7 FTE from this date. Sophie Dean works 0.7 FTE and Kirstin Baker (currently on career break) 0.6 FTE.

Pay multiples

The pay multiple is the relationship between the remuneration of the highest-paid director in the organisation and the median remuneration of the organisation's workforce. Total pay includes salary, non-consolidated performance-related pay and benefits in kind, but excludes severance payments, employer pension contributions and the cash-equivalent transfer value of pensions.

The banded pay of the highest paid director in 2015-16 was £200-205,000 (2014-15, £200-205,000). This was 4.7 times (2014-15, 5.0 times) the median remuneration of the workforce, which was £43,088 (2014-15, £40,193). The decrease in remuneration ratio is primarily driven by the increase of the median salary due to the inclusion of the Government Internal Audit Agency, which became an agency of the Treasury on 1 April 2015.

Remuneration of Treasury employees ranged from £17,000 to £203,000 (2014-15, £17,000-£201,000). In 2015-16, as in the prior year, no employees received pay in excess of the highest paid director.

Senior management – pension benefits[28]

£000	Accrued pension at pension age as at 31/3/16 and related lump sum	Real increase in pension at pension age	CETV at 31/3/16	CETV at 31/3/15[29]	Real increase in CETV
Nick Macpherson Permanent Secretary[30]	N/A	N/A	N/A	N/A	N/A
John Kingman Second Permanent Secretary	45-50	2.5-5	650	545	39
Mark Bowman Director General, International and EU	35-40 plus lump sum 95-100	2.5-5 plus lump sum 0-2.5	557	473	31
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service	45-50 plus lump sum 140-145	0-2.5 plus lump sum 5-7.5	903	799	32
Julian Kelly Director General, Public Spending and Finance	35-40 plus lump sum 30-35	5-7.5 plus lump sum 0-2.5	552	445	55
Charles Roxburgh Director General, Financial Services[25]	N/A	N/A	N/A	N/A	N/A
James Bowler Director General, Tax and Welfare	30-35 plus lump sum 90-95	5-7.5 plus lump sum 12.5-15	486	359	80
Clare Lombardelli Director, Strategy, Planning and Budget	15-20	0-2.5	177	147	13
Katherine Green Director, Corporate Services	10-15 plus lump sum 40-45	2.5-5 plus lump sum 5-7.5	200	148	32
Sophie Dean Director, Finance and Commercial	10-15	0-2.5	158	136	11
Kirstin Baker Director, Finance and Commercial[31]	20-25 plus lump sum 70-75	0-2.5 plus lump sum 0-2.5	358	320	18

28 This table relates to pension benefits in the Civil Service pension scheme. There were no partnership pension contributions in 2014-15 or 2015-16.

29 Figures are restated where retrospective updates have been made to data.

30 Nick Macpherson and Charles Roxburgh chose not to participate in the Civil Service pension scheme.

31 Kirstin Baker is currently on career break.

Fees paid to Non-Executive Board members

£000[32]	2015-16 Fees	2015-16 Benefits in kind	2014-15 Fees	2014-15 Benefits in kind
Baroness Hogg Lead Non-Executive for HM Treasury	10-15	-	10-15	-
Richard Meddings Non-Executive Board member (from 01/07/14) and Chair of the Audit Committee (from 30/09/14)	10-15	-	10-15	-
Dame Amelia Fawcett Non-Executive Board member	5-10	-	5-10	-
Tim Score Non-Executive Board member (from 01/07/15) and member of the Audit Committee (from 01/03/16)	5-10	-	-	-
Mary Hardy Member of the Audit Committee	5-10	-	5-10	-
Abhai Rajguru Member of the Audit Committee	5-10	-	5-10	-
Peter Estlin Member of the Audit Committee (from 01/05/15)	5-10	-	-	-
Mike Ashley Member of the Audit Committee (to 31/07/15)[33]	0-5	-	5-10	-
Michael O'Higgins Non-Executive Board member and Chair of the Audit Committee (to 30/09/14)	-	-	5-10	-

During the year, Baroness Hogg, Dame Amelia Fawcett, Richard Meddings and Peter Estlin donated their fees to charity.

Remuneration policy

The pay of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. From time to time, the Review Body advises the Prime Minister on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In making its recommendations, the Review Body considers:

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

For the Permanent Secretary and Second Permanent Secretary, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the

[32] Fees are presented in £5,000 bands. Benefits in kind are presented to the nearest £100.

[33] Mike Ashley was appointed Non-Executive Board member of the shadow Government Internal Audit Agency in 2014-15, an executive agency of HM Treasury that launched on 1 April 2015. His remuneration for 2014-15 in that capacity was £5-10,000.

remaining executive members of the Treasury Board and the Chief Executives of DMO and GIAA, remuneration is determined by the Treasury's Pay Committee in line with this central guidance.

Service contracts

There is a legal requirement that all civil service appointments must be made on merit, and on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission explain the limited circumstances when other appointments can be made.[34]

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

Pay committees

Dependent on the grade of senior manager, the pay committees responsible for reviewing pay comprise either the Permanent Secretary and a senior outside member (usually a non-executive director), or Director Generals and a senior outside member.

Salary and Bonuses

Salary covers both pensionable and non-pensionable amounts and includes: gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the department.

In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. The salary for their services as an MP (£67,060 from 1 April 2014, £74,000 from 8 May 2015) and various allowances to which they are entitled are borne centrally. Ministers in the House of Lords do not receive a salary but rather an additional remuneration. This remuneration, alongside allowances to which they are entitled, is paid by the department and shown in full in this report.

Bonuses are based on performance levels achieved in 2014-15 and comparative bonuses on those achieved in 2013-14. Bonuses are made as part of the appraisal process.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HMRC as taxable. The Chancellor has the use of his official residence at 11 Downing Street. Expenses relating to its use, such as heating and lighting, are chargeable to tax under the terms of the Income and Corporation Taxes Act 1988. The benefit in kind is capped at 10% of gross salary.

In addition, Ministers and senior officials receive certain minor benefits in kind, such as subscriptions and taxi journeys. HM Treasury has agreed with HM Revenue & Customs to account for income tax on such benefits on an aggregate basis, as it is not practical to disclose individual amounts.

[34] civilservicecommission.independent.gov.uk

Ministerial pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out within the Ministerial Pension Scheme 2015.

Those ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, with transitional protection in place for those members who were aged 55 or older on 1 April 2013.

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings. The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 ministerial pension schemes.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced, the Civil Servants and Others Pension Scheme (alpha), which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS), which has four sections: three final salary schemes with a normal pension age of 60 (classic, premium, classic plus); and one providing benefits on a whole career basis with a normal pension age of 65 (nuvos).

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under all the above schemes are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt either for a defined benefit arrangement or a partnership pension account.

The following transition arrangements were put in place for the introduction of alpha:

- members within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015
- members who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha between 1 June 2015 and 1 February 2022
- all members who switch to alpha have their existing PCSPS benefits 'banked'. Any earlier final salary benefits members hold will be based on their final salary upon leaving alpha

The accrued pension quoted is the pension earned in PCSPS or alpha, as appropriate, that the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Where the official has benefits in both schemes the figure quoted is the combined value of their benefits.

Further details of the schemes:[35]

- **employee contributions** are salary-related, and range from 3-8.05% of pensionable earnings for members of classic (and for those who joined alpha from classic), and 4.6-8.05% for members of premium, classic plus, nuvos, and all other members of alpha
- **benefits** for classic accrue at a rate of 1/80th of final pensionable earnings for each year of service, for premium, the rate is 1/60th. Classic plus is essentially a hybrid, with benefits calculated broadly as per classic in respect of service before 1 October 2002, and as per premium since that date. Benefits in nuvos are based on pensionable earnings during the period of scheme membership, with 2.3% of member's pensionable earnings credited to their earned pension account at the end of each scheme year (31 March), and the accrued pension uprated in line with Pensions Increase legislation. alpha is similar to nuvos, except the accrual rate is 2.32%
- a **lump sum** equivalent to three years' pension is payable on retirement for members of classic. For premium, there is no automatic lump sum. In all cases members may give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004

Cash Equivalent Transfer Value (CETV)

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure benefits in another scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued. CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity (or, for ministers, their current appointment as minister). The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of them purchasing additional years of pension service in the scheme at their own cost.

Real increase in CETV

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

John Kingman
Acting Permanent Secretary
27 June 2016

[35] More information on Civil Service pension arrangements can be found at www.civilservicepensionscheme.org.uk.

Staffing Report

This report provides details of staff numbers and costs, including pension costs and exit packages for the Treasury Group in 2015-16. It also considers Treasury's workforce more broadly, considering reward and recognition, the composition of the Treasury, workforce dynamics and staff survey results. With the exception of the table which shows average staff numbers below, all staff numbers are presented on an actual basis as at the reporting date.

Analysis of staff costs

The following disclosures on staff costs (including pension costs), average number of persons employed and exit packages have been audited.

Staff costs

In £m	2015-16 Ministers	Special Advisors	Permanent Staff	Others[36]	Total	2014-15 Total
Salaries and wages	1	1	166	19	**187**	**173**
Social security costs	-	-	16	-	**16**	**15**
Staff pension costs	-	-	17	-	**17**	**18**
Sub total	**1**	**1**	**199**	**19**	**220**	**206**
Less recoveries for outward secondments	-	-	(3)	-	(3)	(2)
Net total	**1**	**1**	**196**	**19**	**217**	**204**
Core Treasury and Agencies	1	1	90	6	98	80
ALBs and other bodies	-	-	109	13	122	126
Total staff costs	**1**	**1**	**199**	**19**	**220**	**206**

Average number of persons employed[37]

	2015-16 Ministers	Special Advisors	Permanent Staff	Others	Total	2014-15 Total
Core Treasury and Agencies	6	9	1,461	95	**1,571**	**1,228**
ALBs and other bodies	-	-	2,643	301	**2,944**	**3,087**
Total	**6**	**9**	**4,104**	**396**	**4,515**	**4,315**

[36] 'Others' relates to non-permanent staff such as short term contract, agency and temporary staff, as well as staff seconded in from other bodies. Further information on HM Treasury's Core & Agencies' workforce is available on https://www.gov.uk/government/collections/workforce-management--2

[37] Total staff in ALBs and other bodies includes 2,127 UKAR staff, 437 Royal Household staff and 380 staff in other bodies. The increase in Core and Agencies staff numbers is primarily driven by: the establishment of the Government Internal Audit Agency, which has led to the reallocation of 153 staff from other government departments; an increase in average permanent staff in Core Treasury of 138, which is mainly due to the Treasury taking on new work streams including Pension Wise, the Financial Services Trade and Investment Board, the Costing Review and the creation of the National Infrastructure Commission.

Staff pension costs

Staff pension costs £18 million (2014-15: £18 million) are primarily employer contributions, including £14 million (2014-15: £11 million) payable to the Civil Service Pension Schemes, £7 million (2014-15: £6 million) payable to defined contribution schemes and £3 million credit (2014-15: £0.2 million cost) for United Kingdom Asset Resolution (UKAR) pension schemes and post-retirement healthcare benefits. The UKAR schemes are in surplus at the reporting date and the credit reflects the net interest income on the schemes.

From 1 April 2015 a new pension scheme for civil servants was introduced, the Civil Servants and Others Pension Scheme (alpha). Details on the transition arrangements between alpha and PCSPS are outlined on page 70. The PCSPS scheme actuary valued the scheme as at 31 March 2012. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation.

For 2015-16, employer's contributions of £14 million (2014-15: £11 million) were payable to the Civil Service Pension Schemes at one of four rates in the range of 20.0% to 24.5% of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accrued during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £0.1 million (2014-15: £0.1 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and, from 1 October 2015, range from 8.0% to 14.75% of pensionable pay. In addition, employer contributions of 0.8% of pensionable pay of £6,502 (2014-15: £9,900) were payable to the Civil Service Pension Schemes to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

The Financial Services Compensation Scheme (FSCS), Money Advice Service (MAS), United Kingdom Financial Investments Ltd (UKFI) and the Royal Household (RH) operate defined contribution schemes. The RH also operates an unfunded defined benefit scheme which is accounted for as a defined contribution scheme as the RH is unable to identify the share of the underlying assets and liabilities of the scheme attributable to employees funded by the Sovereign Grant (or its equivalent in previous years) on a consistent and reasonable basis.

The FSCS and RH additionally operate defined benefit schemes, which are accounted for as such. The amount recognised in the Statement of Financial Position is a net liability of £7 million (2014-15: net liability of £11 million). FSCS and RH estimate employer contributions in 2016-17 of £2 million and £1 million respectively in relation to these schemes.

UKAR operates a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, defined contribution pension plans and post-retirement healthcare benefits. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual.

The amount recognised in the Statement of Financial Position relating to Bradford & Bingley's (B&B) defined benefit scheme is a net asset of £253 million and a net liability for post-retirement medical benefits of £2 million (2014-15: net asset of £86 million and a net liability for post-retirement medical benefits of £9 million) and the amount recognised relating to Northern Rock Asset Management's (NRAM) defined benefit scheme is a net asset of £229 million (2014-15: net asset of £152 million).

Under an agreed plan to 2019, in 2015-16 UKAR contributed £39 million to address the deficit in B&B's defined benefit scheme (2014-15: £35 million), and £15 million to NRAM's defined benefit scheme (2014-15: £34 million), which, while in surplus on an accounting basis, is in deficit on a trustee's funding basis. The scheme is in deficit on a funding basis as a more prudent approach is taken for the Trustees valuation.

Details of the UKAR, FSCS, MAS, UKFI and RH pension schemes, including valuation assumptions for the defined benefit schemes, are included in their respective annual accounts.

Exit packages

Core Treasury and Agencies

	2015-16			2014-15		
Exit package cost band	Compulsory redundancies	Other departures	Total	Compulsory redundancies	Other departures	Total
<£10,000	-	-	-	-	1	1
£10,000- £25,000	-	2	2	-	1	1
£25,001 – £50,000	-	4	4	-	3	3
£50,001 – £100,000	-	3	3	-	4	4
£100,001 – £150,000	-	1	1	-	-	-
£150,001 – £200,000	-	-	-	-	-	-
£200,001 – £250,000	-	-	-	-	-	-
> £250,001	-	-	-	-	-	-
Total exit packages	-	10	10	-	9	9
Total Resource Cost (£000)	-	518	518	-	471	471

Group[38]

	2015-16			2014-15		
Exit package cost band	Compulsory redundancies	Other departures	Total	Compulsory redundancies	Other departures	Total
<£10,000	8	9	17	6	16	22
£10,000- £25,000	2	44	46	13	15	28
£25,001 – £50,000	3	30	33	11	16	27
£50,001 – £100,000	1	14	15	2	14	16
£100,001 – £150,000	1	2	3	1	2	3
£150,001 – £200,000	-	-	-	-	-	-
£200,001 – £250,000	-	-	-	-	1	1
> £250,001	-	-	-	-	-	-
Total exit packages	15	99	114	33	64	97
Total Resource Cost (£000)	360	3,013	3,373	889	2,402	3,291

[38] Exit packages are paid, where applicable, in accordance with the terms of the Civil Service Compensation Scheme. Some group entities, such as UKAR and FSCS, do not make payments under the above scheme but under other schemes as disclosed in their respective annual accounts.

Other HR data

Non – payroll

There were 70 Non payroll staff across the department and Agencies (an increase from 39 in 2015). These include people who are contingent staff, including agency workers, interim managers, specialist contractors and consultants.

Off Payroll Transactions

Off payroll arrangements are those where individuals, either self-employed or acting through a personal service company are paid gross by the employer. While off payroll arrangements may sometimes be appropriate in the public sector for those engaged on a genuinely interim basis, they are not appropriate for those in management positions or those working for a significant period with the same employer. The tables below show off-payroll engagements for bodies for which the Treasury holds management information data which it reports on a regular basis.

Off-Payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months

	Core Treasury	DMO	GIAA	OBR	UKFI
The total number of engagements as of 31 March 2016	7	7	4	-	-
Of which:					
Total number of engagements existing for less than one year at the time of reporting	3	2	4	-	-
Number of engagements that have existed for between 1 and 2 years at the timer of reporting.	4	1	-	-	-
Number of engagements that have existed for between 2 and 3 years at the time of reporting.	-	3	-	-	-
Number of engagements that have existed for between 3 and 4 years at the time of reporting.	-	1	-	-	-
Number of engagements that have existed for four years or more.	-	-	-	-	-
Of these:					
Number of appointments subject to a risk based assessment regarding the payment of tax.	7	7	4	-	-

New off-payroll appointments or those that reach six months in duration between 1 April 2015 and 31 March 2016 for more than £220 per day and that last for longer than six months.

	Core Treasury	DMO	GIAA	OBR	UKFI
The number of existing engagements, or those that reached six months in duration between 1 April 2015 and 31 March 2016.	8	3	4	-	-
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations.	8	3	4	-	-
Number for whom assurance has been requested.	8	3	4	-	-
Of which:					
Number for whom assurance has been received	7	3	4	-	-
Number for whom assurance has not been received	1	-	-	-	-
Number that have been terminated as a result of assurance not being received.	-	-	-	-	-

One appointee left the department prior to providing assurance.

Off-payroll arrangements of board members and/or senior officials with significant financial responsibility between 1 April 2015 and 31 March 2016

	Core Treasury	DMO	GIAA	OBR	UKFI
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	-	-	-	-	-
Total number of individuals on the payroll and off-payroll that have been deemed "Board members and/or, senior officials with significant financial responsibility" during the financial year.	11	4	2	6	1

Reward and recognition

The department has a policy to recognise those staff who have performed exceptionally in their roles through the payment of awards, paid in 2 circumstances:

- annual performance awards to the top 25 per cent of staff as part of the staff appraisal system
- special non-consolidated awards paid in-year to staff to recognise exceptional performance for specific contributions or pieces of work during the year

This is in line with practices within government departments and also across the private sector.

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

Core Treasury – performance awards payments (£)

	2015-16	2014-15
Performance awards	602,653	583,611
Special non-consolidated awards	226,130	163,210

Composition of the Treasury

Core Treasury

As at the 31st March 2016 staff numbers for core Treasury were 1,297 FTE. This compared to 1,140 FTE at the end of March 2015.

Core Treasury – Number of Senior Civil Servants by pay band

Range[39]	31 March 2016	31 March 2015
F	70	63
G	17	17
H	7	6
Total	**94**	**86**

Core Treasury – Staff composition at 31 March 2016

	Female	Male	Total
All employees	600	697	**1,297**
Of which:			
Directors	11	6	**17**
Senior Civil Service	38	56	**94**

Core Treasury Diversity as at 31 March 2016 (2015) (%)

Range[38]	Women	People from Minority ethnic backgrounds	People with disabilities
B	50.6 (64.7)	37.1(31.8)	6.7(7.1)
C	64.1(63.2)	33.3(33.6)	6.5(8.0)
D	44.0(44.0)	21.8(21.3)	6.7(6.4)
E	43.9(49.1)	12.5(8.8)	5.2(5.3)
E2	50.6(47.6)	7.2(4.9)	2.4(3.9)
F,G,H	42.9(42.1)	4.1(2.3)	2.9(3.4)

Recruitment

The Treasury's policy is to recruit through fair and open competition, in accordance with the Civil Service Recruitment Principles. Individual recruitment campaigns are handled by the recruiting

[39] The Treasury uses the term 'range' as an alternative to 'grade' or 'pay band' to describe the internal structure of the department. Range B are the most junior officials, ranges F to G are members of the Senior Civil Service.

manager with support from a small recruitment team. Bulk recruitment campaigns are managed with Human Resources.

Core Treasury recruitment 2015-16 (2014-15)

Range[38]	Permanent Appointments	Fixed term appointments	Loans from other Government Departments	Secondments	Total
B	15 (1)	56 (22)	0 (0)	0 (0)	71 (23)
C	29 (10)	11 (6)	1 (2)	0 (0)	41 (18)
D	182 (149)	4 (10)	14 (23)	10 (10)	210 (192)
E	41 (26)	8 (4)	20 (21)	6 (7)	75 (58)
E2	8 (6)	1 (0)	2 (4)	2 (1)	13 (11)
Commercial Specialists	7 (4)	1 (3)	0 (0)	7 (0)	15 (7)
SCS	1 (5)	0 (0)	5 (3)	1 (2)	7 (10)
Total	**283 (201)**	**81 (45)**	**42 (53)**	**26 (20)**	**432 (319)**

Key campaigns in 2015-16 included:

- a graduate recruitment campaign which brought in 91 policy advisers at Treasury Range D, joining in two cohorts in April and September
- a tailored campaign which recruited 24 Range C Business Support and Personal Assistant posts
- 24 apprentices recruited to Range B (15 in total) and Range C (9 in total) roles across the Treasury

In addition, the Treasury supports interchange opportunities, including loans to and from other government departments, secondments to private sector partner organisations or to and from finance ministries in other countries. These opportunities enable Treasury staff to gain greater breadth of experience and allow us to benefit from specialist skills which add value to our work.

2015-16 saw the introduction of the Pensions Guarantee Guidance Programme into the Treasury, which resulted in an increased number of Range Es joining the organisation, and the introduction of social mobility and diversity interns resulted in a rise of Range B fixed-term appointments.

Workforce Dynamics (including Diversity and Attendance)

Core Treasury workforce breakdown

		31 March 2016	31 March 2015
Workforce Dynamics	Recruitment Exemptions (number)	206	225
	Annual Turnover rate %	19.5	24.1
Workforce Diversity	Black and Minority Ethnic	18.7	17.4
	Women	47.0	48.6
	Disabled	5.3	5.7
Diversity of Senior Civil Servants only (%)	Black and Minority Ethnic	4.0	2.3
	Women	42.4	42.1
	Women (Top Management Posts)	46.2	41.7
	Disabled	2.9	3.4
	Part time	19.2	15.9
Attendance (AWDL)[40]	Actual (days)	2.5	3.6

Health, safety and wellbeing

The department actively promotes the health, safety and wellbeing of its staff, aware this helps to boost morale, staff engagement and performance. The department has continued to promote health and physical activity, including the *Cycle to Work* scheme, *Walk to Work* week and weekly lunchtime wellbeing walks.

Sickness absence in the Treasury continues to be low compared with the average for government departments. In the 12 month period to December 2015 the number of sickness absence days lost remained similar compared to the same period in the previous year. Mental and behavioural disorders, (including stress, anxiety, depression and other clinical mental disorders) remain the primary cause of long term absence but this has dropped considerably over the course of the year.

	Jan – Dec 2015 (AWDL)[40]	Jan – Dec 2014 (AWDL)[40]
Government departments	7.4	7.4
Treasury and its agencies	3.1	3.6
Core Treasury	2.5	3.6

Days lost (in Core Treasury) to mental and behavioural disorders

	Jan – Dec 2015	Jan – Dec 2014
Total days lost	587	1213
Long term absences days lost	408	906
Short term absences days lost	179	307

[40] AWDL: Average working days lost

Staff with no sickness absence

	Jan – Dec 2015	Jan – Dec 2014
Treasury and its agencies	68%	67%
Core Treasury	70%	70%

The Treasury wants to end the stigma and discrimination associated with mental health conditions. We have acted on the recommendations made by *Time to Change* in their Organisational Health Check report received at the end of financial year 2014-15 which, with the ongoing work of the Health and Safety Team, HR Advisers and the Treasury's mental wellbeing network, has helped to improve understanding and engagement around mental health.

This commitment seems likely to have contributed to the reduction in sickness absence days lost to mental and behavioural disorders and helped to improve employees' confidence to speak freely about mental health conditions including stress.

Occupational Health and Employee Assistance

The Treasury continues to provide a confidential employee assistance programme, an occupational health service, and staff eye care, services which are also open to the Government Internal Audit Agency and the new UK Government Investments body.

Health and Safety

A quarterly programme of DSE checks took place to ensure employees know how to appropriately adjust their workstation set up to suit their individual needs. This is particularly important in a desk-sharing environment and can help prevent the onset of DSE related musculoskeletal problems which can lead to sickness absence.

There were 8 *Accident, Near Miss or Work Related Ill Health* reports, compared to 12 in the previous year. The reports detailed 3 falls on steps, 1 banged head, 2 collisions in the office, 1 due to ill health symptoms and 1 personal safety incident. One fall met the criteria for reporting to the Health & Safety Executive under the *Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013*.

Diversity

The Treasury seeks to promote a culture which values difference and recognises that diversity enriches the economy and society. We have a long-standing commitment to diversity and inclusion and in the past year have made considerable progress with the introduction of mandatory diversity objectives for all our Directors and the introduction of Senior Civil Service level Disability Champions in all our Groups. There has also been a significant amount of work carried out by our employee Diversity Networks and additional resource provided in our Diversity and Inclusion Team.

In addition to this work our commitment to diversity and promoting an inclusive culture is also reflected in the department's improvement plan *Building a Great Treasury*.

During 2016 we will continue to build upon the work of embedding diversity and inclusion into the heart of what we do. In accordance with the principles outlined in our Public Sector Equality Duty Objectives, our diversity plan is aimed at developing and retaining a diverse workforce, creating a culture where everyone can flourish irrespective of their backgrounds and holding our leaders to account for our performance against our objectives.

Core Treasury Diversity as at 31 March 2016 (31 March 2015) Gender

	Male	Female
Executive Management Board members and Group Directors	53.9 (54.5)	46.1 (45.5)
Senior Managers (SCS, not including EMB)	56.2 (54.9)	43.8 (45.1)
All staff	53.0 (51.4)	47.0 (48.6)

HR colleagues have worked with volunteers from our employee staff networks to make progress across a range of activities.

Area for focus	Progress
Disability	During 2015-16 the Business Disability Forum (BDF) undertook an audit of our key HR Policies to determine if there was an adverse impact on staff with disabilities. The BDF found that the policies were inclusive and well written but recommended disability awareness training for line managers. Training has been developed and will be rolled out to all line managers in 2016-17.
Unconscious bias	The Treasury continues to embed unconscious bias training. All line managers must complete the Civil Service Learning e-learning module on unconscious bias. This will also feature in the Treasury wide management training programme during 2016-17.
Flexible working	The Treasury is a keen supporter of flexible working and continues to promote alternative working patterns. All staff have the capacity to work flexibly, supported by effective IT, and many take up this opportunity. The Treasury has the highest level of women in the Senior Civil Service working part-time, across 17 departments (45%).
Bullying and harassment	The 2015-16 people survey indicated that 7% (89) of employees felt they had experienced bullying and harassment and 6% (88) of employees felt that they had been discriminated against. During 2015-16 the Treasury continued to run anti-bullying and harassment awareness raising seminars and training. The Treasury's Permanent Secretary signed-up to the Stonewall #nobystanders campaign and this has been promoted within the department.
Mental well-being	The employee Mental Wellbeing Network's work has been embedded across the department. The Network has been in place for 3 years.
Ethnicity	In September 2014, Treasury's senior management launched an initiative in collaboration with the Ethnic Minority Network to address issues on BAME staff's progression at middle management level. This initiative has been successful and we have seen significant improvement in the numbers of BAME employees being promoted to Range E which is the feeder grade for the Senior Civil Service. We are continuing to embed this initiative and consolidate progress by ensuring the annual talent management process pays particular attention to BAME staff, and identifies a clear pipeline of talent to the Senior Civil Service.
Outreach	Work with the National Mentoring Consortium, a programme that provides support to Black and Asian undergraduates planning managerial and professional careers has continued. This year 19 Treasury mentors have been trained and are taking part.
Development Programmes	In 2015-16 the Treasury continued to run a development programme, Prospects, for business support staff. This development programme has had good success in preparing business support staff for opportunities at the next level and in developing skills that are also valuable in current roles. To increase opportunities for staff additional places and an extra development centre were funded this year. Additionally the Treasury has increased its participation in the "Positive Action Pathway", a Civil Service-wide development programme for employees from under-represented groups.

Staff Survey

The Treasury uses its annual staff survey results as an indicator of progress on staffing matters. In October 2015 the department took part in the annual Civil Service People Survey and with a 90% response rate, the department can have a high level of confidence in the results.

The departmental highlights report[41] shows the staff engagement level has increased and the Employee Engagement Index – the key indicator of staff opinion – rose by 1% from the previous year to 72%. The Executive Management Board was pleased to see the average scores for all nine supporting themes had also increased.

Again this sets the Treasury well above the civil service average of 58%, and when just the highest performing organisations are considered, the department is 9% more engaged than our peers from this category.

Civil Service People Survey – Treasury's results for 2015

	Treasury	Civil Service High Performers	Civil Service
Employee Engagement Index	72	63	58
Leadership and Managing change	64	51	43
My work	84	78	74
My manager	76	71	68
Organisational objectives and purpose	89	86	82
Pay and benefits	22	36	30
Resources and workload	77	77	73
Inclusion and fair treatment	83	79	75
My team	87	83	80
Learning and development	60	56	49

In addition to measuring levels of engagement, the survey takes views on 68 core questions across 9 themes. The scores for all themes are increased from 2014 results and in all but one (Inclusion and fair treatment) these increases are statically significantly significant.

John Kingman
Acting Permanent Secretary
27 June 2016

[41] https://www.gov.uk/government/publications/hm-treasury-staff-survey-2015

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply and related notes

For the period ended 31 March 2016

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

Voted totals and the Net Cash Requirement figures shown below are subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the Estimate of Administration costs will also result in an excess vote. Explanations of variances between Estimate and outturn are given in the notes to the SoPS. The SoPS and supporting notes are subject to audit.

		2015-16							2014-15
		Estimate			Outturn			Voted Outturn compared with Voted Estimate	
In £000	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Saving/ (excess)	Total
Departmental Expenditure Limit									
Resource	SoPS 1.1	132,682	11,000	**143,682**	126,577	10,821	137,398	6,105	**125,217**
Capital	SoPS 1.2	(657,250)	-	**(657,250)**	(660,102)	-	(660,102)	2,852	**35,632**
Annually Managed Expenditure									
Resource	SoPS 1.1	18,739,829	3,765	**18,743,594**	(13,818,833)	3,878	(13,814,955)	32,558,662	**(49,809,804)**
Capital	SoPS 1.2	(25,665,751)	-	**(25,665,751)**	(29,065,617)	-	(29,065,617)	3,399,866	**(12,714,401)**
Total Budget		(7,450,490)	14,765	**(7,435,725)**	(43,417,975)	14,699	(43,403,276)	35,967,485	**(62,363,356)**
Non-Budget		-	-	-	-	-	-	-	-
Total		**(7,450,490)**	**14,765**	**(7,435,725)**	**(43,417,975)**	**14,699**	**(43,403,276)**	**35,967,485**	**(62,363,356)**
Total Resource		18,872,511	14,765	**18,887,276**	(13,692,256)	14,699	(13,677,557)	32,564,767	**(49,684,587)**
Total Capital		(26,323,001)	-	**(26,323,001)**	(29,725,719)	-	(29,725,719)	3,402,718	**(12,678,769)**
Total		**(7,450,490)**	**14,765**	**(7,435,725)**	**(43,417,975)**	**14,699**	**(43,403,276)**	**35,967,485**	**(62,363,356)**
Net Cash Requirement	SoPS 3			**(14,348,975)**			**(19,349,191)**	5,000,216	**(8,770,590)**
Administration costs				**141,584**			**141,299**	285	**142,146**

SoPS1.1 Analysis of net resource outturn by section

In £000		2015-16										2014-15
		Administration			Programme			Outturn	Estimate	Outturn	Outturn	Outturn
		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	net total	net total	compared to Estimate	compared to Estimate, adjusted for virements	net total
Spending in Department Expenditure Limit (DEL)												
Voted												
A	Core Treasury	167,454	(31,708)	135,746	26,564	(40,298)	(13,734)	122,012	127,274	5,262	4,317	105,656
B	Debt Management Office	15,981	(1,817)	14,164	4,255	(884)	3,371	17,535	18,017	482	482	17,629
C	Government Internal Audit Agency	13,455	(12,614)	841	-	-	-	841	1,651	810	810	-
D	Office of Tax Simplification	483	-	483	-	-	-	483	512	29	29	387
E	UK Financial Investments (net)	3,777	-	3,777	-	-	-	3,777	2,832	(945)	-	3,169
F	Office for Budget Responsibility (net)	2,101	-	2,101	-	-	-	2,101	2,146	45	45	1,987
G	Infrastructure Finance Unit Limited (net)	-	-	-	(4,354)	-	(4,354)	(4,354)	(4,220)	134	134	(4,459)
J	HM Treasury UK Sovereign Sukuk	-	-	-	(5)	-	(5)	(5)	1	6	6	-
K	Royal Mint Advisory Committee (net)	-	-	-	-	-	-	-	1	1	1	-
L	Eurostar	-	(16,250)	(16,250)	-	-	-	(16,250)	(16,250)	-	-	-
N	UK Government Investments Limited (net)	437	-	437	-	-	-	437	718	281	281	-
-	Business Finance Partnership	-	-	-	-	-	-	-	-	-	-	(10,627)
Total Voted spending in DEL		**203,688**	**(62,389)**	**141,299**	**26,460**	**(41,182)**	**(14,722)**	**126,577**	**132,682**	**6,105**	**6,105**	113,742
Non-voted												
O	Banking and gilts registration services	-	-	-	10,821	-	10,821	10,821	11,000	179	179	11,475
Total spending in DEL		**203,688**	**(62,389)**	**141,299**	**37,281**	**(41,182)**	**(3,901)**	**137,398**	**143,682**	**6,284**	**6,284**	**125,217**

Spending in Annually Managed Expenditure (AME)												
Voted												
P	Provisions	-	-	-	298,092	-	298,092	298,092	82,600	(215,492)	-	447,832
Q	UK coinage manufacturing costs	-	-	-	35,148	-	35,148	35,148	36,500	1,352	1,352	40,650
R	UK coinage metal costs	-	-	-	23,204	(8,468)	14,736	14,736	16,600	1,864	1,864	8,712
S	Royal Mint Dividend	-	-	-	-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	(4,000)
T	Investment in Bank of England	-	-	-	-	(105,000)	(105,000)	(105,000)	(50,000)	55,000	55,000	(92,827)
U	Administration of the Equitable Life payment scheme	-	-	-	3,787	-	3,787	3,787	5,100	1,313	1,313	5,999
V	Sale of shares	-	-	-	-	(5,805,388)	(5,805,388)	(5,805,388)	(4,610,106)	1,195,282	1,195,282	(988,522)
W	National Loan Guarantee Scheme (described as 'Credit Easing' in 2014-15)	-	-	-	-	(63,038)	(63,038)	(63,038)	(63,000)	38	38	(64,251)
X	Loans to Ireland	-	-	-	-	(83,997)	(83,997)	(83,997)	(83,967)	30	30	(83,967)
Y	Assistance to financial institutions	-	-	-	(6,329,179)	(281,281)	(6,610,460)	(6,610,460)	24,850,000	31,460,460	31,203,483	(47,342,642)
Z	Sovereign Grant funding of the Royal Household (net)	-	-	-	39,786	-	39,786	39,786	40,100	314	314	35,691
AA	Money Advice Service (net)	-	-	-	(2,708)	-	(2,708)	(2,708)	1	2,709	2,709	786
AB	Financial Services Compensation Scheme (net)	-	-	-	(332,906)	-	(332,906)	(332,906)	(300,000)	32,906	32,906	(393,493)
AC	UK Asset Resolution Ltd (net)	-	-	-	(1,264,258)	-	(1,264,258)	(1,264,258)	(1,200,000)	64,258	64,258	(1,230,992)
AD	Help to Buy (HMT) Limited (net)	-	-	-	157	-	157	157	1	(156)	-	515
AE	Help to Buy ISA	-	-	-	61,216	-	61,216	61,216	20,000	(41,216)	-	-
-	Northern Rock (Virgin Money)	-	-	-	-	-	-	-	-	-	-	(152,903)
Total Voted spending in AME		-	-	-	(7,467,661)	(6,351,172)	(13,818,833)	(13,818,833)	18,739,829	32,558,662	32,558,549	(49,813,412)
Non-voted												
AF	Royal Household Pensions	-	-	-	4,333	(814)	3,519	3,519	3,406	(113)	-	3,249
AG	Civil List	-	-	-	359	-	359	359	359	-	-	359
Total spending in AME		-	-	-	(7,462,969)	(6,351,986)	(13,814,955)	(13,814,955)	18,743,594	32,558,549	32,558,549	(49,809,804)
Total resource outturn		203,688	(62,389)	141,299	(7,425,688)	(6,393,168)	(13,818,856)	(13,677,557)	18,887,276	32,564,833	32,564,833	(49,684,587)

SoPS1.2 Analysis of net capital outturn by section

In £000		2015-16 Gross	Income	Outturn Net total	Estimate net total	Outturn net total compared to Estimate	Outturn net total compared to Estimate, adjusted for virements	2014-15 Total
Spending in Department Expenditure Limit (DEL)								
Voted								
A	Core Treasury	276	(121)	155	2,993	2,838	2,755	8,569
B	Debt Management Office	175	-	175	100	(75)	-	733
C	Government Internal Audit Agency	-	-	-	-	-	-	-
E	UK Financial Investments	8	-	8	-	(8)	-	33
G	Infrastructure Finance Unit Limited (net)	(4,690)	-	(4,690)	(4,607)	83	83	(4,510)
H	IUK Investments Limited (net)	288	-	288	301	13	13	-
I	IUK Investments Holdings Limited (net)	-	-	-	1	1	1	-
L	Eurostar	-	(740,850)	(740,850)	(740,850)	-	-	-
M	Asian Infrastructure Investment Bank	84,812	-	84,812	84,812	-	-	-
-	Business Finance Partnership	-	-	-	-	-	-	30,807
Capital spending in DEL		**80,869**	**(740,971)**	**(660,102)**	**(657,250)**	**2,852**	**2,852**	**35,632**
Annually Managed Expenditure (AME)								
Voted								
V	Sale of shares	-	(10,414,369)	(10,414,369)	(9,170,251)	1,244,118	1,244,118	**(1,802,737)**
Y	Assistance to financial institutions	-	(900,441)	(900,441)	(250,000)	650,441	650,441	**(1,227,266)**
Z	Sovereign Grant funding of the Royal Household (net)	1,984	-	1,984	4,500	2,516	2,516	**2,485**
AA	Money Advice Service (net)	356	-	356	-	(356)	-	**155**
AB	Financial Services Compensation Scheme (net)	(294,230)	-	(294,230)	-	294,230	293,874	**(586,753)**
AC	UK Asset Resolution (net)	(17,458,917)	-	(17,458,917)	(16,250,000)	1,208,917	1,208,917	**(9,100,285)**
Capital spending in AME		**(17,750,807)**	**(11,314,810)**	**(29,065,617)**	**(25,665,751)**	**3,399,866**	**3,399,866**	**(12,714,401)**
Total capital outturn		**(17,669,938)**	**(12,055,781)**	**(29,725,719)**	**(26,323,001)**	**3,402,718**	**3,402,718**	**(12,678,769)**

SoPS2 Reconciliation of outturn to net operating income

In £000	Note	2015-16	2014-15
Total resource outturn in SoPS	SoPS1.1	(13,677,557)	(49,684,587)
Add: Capital grants		-	3,205
Add: Eurostar adjustment		(415,851)	-
Less: Income payable to the Consolidated Fund		(204,406)	(64,315)
Less: Other		-	-
Net operating income in the SoCNE		**(14,297,814)**	**(49,745,697)**

The Eurostar adjustment has arisen as the Consolidated Budgeting Guidance allows a proportion of the gain on the sale of the asset to score to RDEL. The remainder of the gain on the sale of Eurostar has been scored to CDEL.

The income payable to the Consolidated Fund relates to Pool Re premiums. These have been accrued for and will be paid over to the Consolidated Fund when they have been received by the Treasury.

SoPS3 Reconciliation of net resource outturn to net cash requirement

			2015-16	
In £000	Note	Estimate	Outturn	Outturn Net total compared with Estimate: saving/(excess)
Resource Outturn	SoPS1.1	**18,887,276**	**(13,677,557)**	**32,564,833**
Capital Outturn	SoPS1.2	**(26,323,001)**	**(29,725,719)**	**3,402,718**
Accruals to cash adjustments:		**(6,898,485)**	**24,068,784**	**(30,967,269)**
Of which:				
Adjustments to remove non-cash items:				
Depreciation		(7,699)	(8,165)	466
BEAPFF fair value movements		(25,000,000)	10,483,973	(35,483,973)
New provisions and adjustments to previous provisions		(83,000)	(359,460)	276,460
Other non-cash items		(200)	1,438,041	(1,438,241)
Adjustments for ALBs and other bodies:				
Remove voted resource and capital		17,704,967	12,236,275	5,468,692
Add cash grant-in-aid		47,047	42,225	4,822
Adjustments to reflect movements in working balances:				
Increase/(decrease) in inventory		-	2,183	(2,183)
Increase/(decrease) in receivables		-	(244,253)	244,253
(Increase)/decrease in payables		-	91,544	(91,544)
Use of provisions		440,400	386,421	53,979
Subtotal		**(14,334,210)**	**(19,334,492)**	**5,000,282**
Removal of non-voted budget items:				
Banking and gilts registration service		(11,000)	(10,821)	(179)
Royal Household Pension Scheme		(3,406)	(3,519)	113
Civil List		(359)	(359)	-
Net cash requirement		**(14,348,975)**	**(19,349,191)**	**5,000,216**

Explanation of variances between Estimate and outturn as at 31 March 2016

Net resource outturn against Estimate

Spending in Department Expenditure Limit (DEL)
The Treasury's DEL outturn was £6 million less than the amount included in the Estimate. Factors contributing to the variance include savings on IT and consultancy of £3 million, £1 million in the Government Internal Audit Agency and £1 million on the Help to Buy: ISA scheme.

Annually Managed Expenditure (AME)
The Treasury's net AME expense was £32.6 billion less than the amount included in the Estimate. The group's more unpredictable expenditure is included within AME and large variances can arise as a result of changes in the value of financial instruments.

The most significant variance relates to a £2.0 billion increase in the fair value of the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative which was £38.4 billion at the end of March. At the time of the Supplementary Estimate the BEAPFF derivative had decreased in value by approximately £14 billion and had been following a downward trend for some time, therefore provision was made in the Supplementary Estimate for an annual decrease of £25 billion. However, in the months after the Supplementary Estimate the derivative experienced a large upturn in value, leading to the large variance between actual and Estimate shown in the table above.

Net capital outturn against Estimate

Capital spending in Department Expenditure Limit
Net capital DEL income was £2.9 million higher than in the Main Estimate. This underspend relates to savings made throughout the year, including lower costs than budgeted with suppliers for Treasury's IT network infrastructure of £1 million and £1 million of funds not utilised on the Independent Shared Service Centre 1 scheme. More details on the latter are disclosed in Losses and special payments within the Accountability Report.

Capital Annually Managed Expenditure
Net capital AME receipts were £3.4 billion higher than estimated primarily due to: higher than expected income from the sale of Lloyds Banking Group and RBS shares by £1.2 billion; £1.2 billion from UKAR operations, mainly in relation to the sale of NRAM portfolio assets; £0.7 billion higher than expected recoveries in relation to Dunfermline and Icesave; £0.3 billion of additional administrative recoveries paid to the FSCS.

Net cash requirement

The £5 billion positive variance in the net cash requirement is primarily due to the partial repayment (£5.5 billion) of the NRAM government loan.

SoPS4.1 Income payable to the Consolidated Fund

In addition to income and capital receipts retained by the Treasury, the following amounts are payable to the Consolidated Fund.

	2015-16		2014-15	
In £000	**Outturn Income**	**Outturn Cash receipts**	**Outturn Income**	**Outturn Cash receipts**
Operating income outside the scope of the Estimate	204,406	*32,943*	64,315	*33,713*
Capital receipts outside the scope of the Estimate	-	*8,527,974*	-	*10,737,487*
Excess cash surrendered to the Consolidated Fund	19,349,172	*19,349,172*	8,769,737	*8,769,737*
Excess cash surrenderable to the Consolidated Fund	867	*867*	853	*853*
Total amounts paid and payable to the Consolidated Fund	**19,554,445**	***27,910,956***	**8,834,905**	***19,541,790***

Operating income outside the scope of the Estimate mainly comprises Pool Re insurance premiums received by Core Treasury. The difference between income recognised and cash receipts paid over arises from income accrued but not yet received. Capital receipts outside the scope of the Estimate relate to transfers of excess cash from the Bank of England Asset Purchase Facility Fund.

SoPS4.2 Exclusion of Consolidated Fund income

Consolidated Fund income shown in note 4.1 above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement published as a separate section of this Annual Report and Accounts.

Parliamentary Accountability Disclosures

Losses and special payments (audited)

The Department entered into a framework agreement with Arvato on 1 June 2013 for the provision of a shared service solution, and in so doing, joined the government's first Independent Shared Service Centre 1 (ISSC1). In November 2015, DfT and Cabinet Office agreed that DfT would lead in negotiating an exit from the Arvato contracts for 4 other Government departments (Department for Culture, Media and Sport, Department for Communities and Local Government, the Treasury and Civil Nuclear Constabulary – an agency of Department for Energy and Climate Change).

At year end, the commercial negotiations with Arvato have been successfully concluded and the 4 other Government Departments were released from their contractual obligations under the framework agreement. A constructive loss of £120,000 was recognised for costs previously incurred that will no longer result in benefit being received. A special payment of £278,379 was also recognised, representing exit payments to release the Treasury from the contract.

During the current year, the Treasury and its agencies made other special payments of £49,651 (2014-15: £173,410).

In addition, a £625,347 exchange rate loss was realised on a UK guarantee fee trade receivable. The guarantee fees are invoiced in Euros.

Payment of suppliers

In May 2010, the government introduced a 5 day target for Small and Medium sized Enterprise suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2015-16, the Treasury Group made 71.40% of all supplier payments within 5 days, against a target of 90% (2014-15: 68.05%). This represents a small improvement over the previous year, but the department is looking to further improve payment processes in order to enhance performance further.

Auditors

The Comptroller and Auditor General carries out the audit of the consolidated accounts of the Treasury Group under the Government Resources and Accounts Act 2000 (see note 32 to the Accounts).

Remote contingent liabilities (audited)

Financial guarantees, indemnities and letters of comfort

The Department has entered into the following guarantees and indemnities. None are contingent liabilities under IAS 37 as the likelihood of a transfer of economic benefit in settlement is too remote. As financial instruments, they are measured following the requirements of IAS 39.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, to effect what is known as quantitative easing, the Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The government has indemnified the Bank of England and the fund specially created to implement the facility from any losses arising out of or in connection with the facility. The gilts held by the fund are valued at market rates which are sensitive to fluctuations in interest rates. At 31 March 2016, the fund held £406.7 billion of gilts at market value (2014-15: £407.1 billion), and a BEAPFF derivative asset of £38.4 billion (2014-15: £36.4 billion) is carried at fair value on the SoFP as at the reporting date (see Note 14 to the Accounts).

UK Guarantees

The Treasury has provided guarantees under the UK Guarantee Scheme. As at 31 March 2016, guarantees were provided in respect of eight projects, totalling an estimated £1.0 billion (2014-15: £0.9 billion) of outstanding principal and one year of unpaid interest of £24 million (2014-15: £23 million), as the maximum potential liabilities. Up to £40 billion of guarantees could be offered.

National Loan Guarantee Scheme

The Treasury provides guarantees under the National Loan Guarantee Scheme (NLGS) to help business access cheaper finance. £2.9 billion worth of NLGS bonds are in issue under the scheme and therefore this is deemed to be the amount of the contingent liability.

The Help to Buy: mortgage guarantee scheme

The Treasury has provided guarantees under the Help to Buy: mortgage guarantee scheme. The scheme rules provide for a maximum contingent liability of £12 billion. As at 31 March 2016, maximum potential liabilities under this intervention are estimated to be £1.1 billion (2014-15: £0.6 billion). As at the reporting date, the mortgages three months or more in arrears and in default represent 0.03% (2014-15: 0.03%) of the total completions at reporting date. The first claim under the scheme was paid in April 2016. For further details on this guarantee scheme and those detailed above, see Note 22 to the Accounts.

Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) is an international development bank founded to support financing for infrastructure projects across Asia. The UK's AIIB membership received formal ratification on 3 December 2015, and the bank was established on 25 December. The UK's capital contribution will total approximately £2.0 billion (US$3.1 billion), comprising 20% of 'paid-in' capital contribution which is payable in five annual payments and 80% of 'callable capital' which the AIIB would be able to call on in the unlikely event that the bank was not able to meet its obligations.

The Treasury, on behalf of the UK government, made the initial instalment of £85 million (equivalent to US$122 million) in January 2016 of paid-in capital, as disclosed in Note 10 to the accounts. In line with the Articles of Agreement, a contingent liability rises in line with the amount of callable capital paid. As such, the UK will incur a proportionate contingent liability of US$0.5 billion (approximately £0.3 billion).

Although the AIIB has the right to call for payment of this callable capital if there is a crisis affecting the bank's assets or loans, this will only occur if it cannot meet its arrears or losses without recourse to its other assets. No such instance has occurred in any major multilateral development bank in the past. Therefore the contingent liability is considered to be remote.

Deposit guarantees for NRAM plc

The Treasury has provided guarantees in relation to certain borrowings and derivative transactions of, and certain wholesale deposits held in accounts with, NRAM plc, which are detailed in Note 22 to the accounts. Maximum potential liabilities under this intervention were estimated to be £0.3 billion as at the reporting date (2014-15: £6.5 billion), however there is no contingent liability at the group level. The substantial decrease is primarily due to the sale of securitised loans which had been subject to deposit guarantees.

Deposit guarantees for Bradford & Bingley

The Treasury has provided guarantees in relation to certain wholesale borrowings and deposits with Bradford & Bingley which are detailed in Note 22 to the accounts. Maximum potential liabilities under this intervention were estimated to be £1.5 billion as at 31 March 2016 (2014-15: £2.4 billion), however there is no contingent liability at the group level.

Director indemnities

The Treasury has guaranteed indemnities provided by the incorporated companies within the Treasury Group to their directors and company officers who are also Treasury employees against liabilities and losses incurred in the course of their actions whilst the companies are in public ownership. Maximum potential liabilities are considered unquantifiable.

The Treasury has also guaranteed indemnities provided by the BEAPFF for its officers and directors against liabilities and losses incurred in the course of their actions in relation to the operation of the Asset Purchase Facility. Maximum potential liabilities are considered unquantifiable.

Decommissioning Relief Deeds – oil and gas industry

The Treasury provides guarantees to the UK oil and gas industry in the form of Decommissioning Relief Deeds. These deeds provide companies with certainty on the level of tax relief they will receive on future decommissioning of North Sea oil fields. Currently there have been no changes to the tax regime that would generate a liability to be paid under any decommissioning relief agreements, of which there were 72 in force at the end of March 2016. The maximum potential liability under this scheme cannot be quantified at present.

Treasury core tables

Total resource and capital spending for the Treasury Group

Resource

In £m	Outturn					Budget
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Resource DEL						
Core Treasury	117	(232)	(282)	106	122	138
Debt Management Office	12	16	18	18	18	20
Government Internal Audit Agency	-	-	-	-	1	2
Office Of Tax Simplification	-	-	-	-	-	1
UK Financial Investments	5	2	2	3	3	3
Office For Budget Responsibility	2	2	2	2	2	3
Infrastructure Finance Unit Ltd	-	5	(4)	(4)	(4)	(2)
Eurostar	-	-	-	-	(16)	-
UK Government Investments Ltd	-	-	-	-	-	12
Business Finance Partnership	-	-	-	(11)	-	-
Asset Protection Agency	(1)	1	-	-	-	-
Non-Voted: Banking & gilts registration	11	11	11	11	11	8
Total Resource DEL	**146**	**(195)**	**(253)**	**125**	**137**	**185**
Resource AME						
Provisions	(19)	38	107	448	298	-
Coinage Manufacturing	14	20	33	41	35	29
Coinage Metal Costs	24	17	5	9	15	53
Investment In The Royal Mint	(4)	(4)	(4)	(4)	(4)	(4)
Investment In The Bank Of England	(2,298)	(55)	(80)	(93)	(105)	(50)
Equitable Life Administration	20	20	16	6	4	5
Financial Stability	(16,138)	(17,699)	8,439	(48,570)	(12,500)	(175)
Credit Easing	-	49	(68)	(64)	(63)	(63)
Sovereign Grant	-	33	36	36	40	43
MAS	-	(4)	-	1	(3)	-
FSCS	-	(405)	(736)	(393)	(333)	19
UKAR	-	(1,319)	(1,485)	(1,231)	(1,264)	(750)
Help To Buy	-	-	2	1	-	-
Help To Buy ISA	-	-	-	-	61	195
Core Treasury building impairment	-	7	-	-	-	-
Non-Voted: Royal Household Pension scheme	3	3	3	3	4	3
Non-Voted: Civil List	8	-	-	-	-	-
Total Resource AME	**(18,390)**	**(19,299)**	**6,268**	**(49,810)**	**(13,815)**	**(695)**
Total Resource DEL And AME (Net)	**(18,244)**	**(19,494)**	**6,015**	**(49,685)**	**(13,678)**	**(510)**

Note: data for years beyond 2016-17 is currently held at a high level only. Analysing this data arbitrarily into the sub-headings above would not add value to the table so only five historic years and one future year is included.

Resource DEL

The negative balance of £16 million against Eurostar in 2015-16 arose as a result of the sale of the Treasury's stake in Eurostar and represents the portion of the book value that could be recorded in RDEL in accordance with the Consolidated Budgeting Guidance. The remainder of the book value was recorded under CDEL (see below).

Resource AME

'Financial Stability' comprises fair value movements in derivatives, changes to financial stability provisions, fees and interest arising from financial stability interventions, impairments of financial instruments and proceeds from the sale of Lloyds and RBS shares.

Provisions relate primarily to the Equitable Life Payment Scheme and a tax provision (in 2014-15) relating to a court ruling against the Government Actuaries Department. In addition, there is a provision relating to claims on Decommissioning Relief Deeds, signed between members of the oil & gas industry and HM Treasury (see note 18.2 to the accounts).

Capital

£m	Outturn					Budget
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Capital DEL						
Core Treasury	36	-	(3)	9	-	3
Debt Management Office	-	1	-	1	-	1
Infrastructure Finance Unit Ltd	-	17	(3)	(5)	(4)	(2)
Eurostar	-	-	-	-	(741)	-
Business Finance Partnership	-	5	284	31	-	-
Asian Infrastructure Investment Bank	-	-	-	-	85	80
Total Capital DEL	**36**	**23**	**278**	**36**	**(660)**	**82**
Capital AME						
Assistance To financial Institutions	(4,571)	(461)	(4,937)	(3,030)	(11,314)	30
Sovereign Grant	-	-	-	2	2	7
MAS	-	2	1	-	-	-
FSCS	-	1	-	(587)	(294)	-
UKAR	-	(6,471)	(7,073)	(9,100)	(17,459)	(3,600)
Total Capital AME	**(4,571)**	**(6,929)**	**(12,009)**	**(12,715)**	**(29,065)**	**(3,563)**
Total Capital DEL And AME (Net)	**(4,535)**	**(6,906)**	**(11,731)**	**(12,679)**	**(29,725)**	**(3,481)**
Total Departmental Spending*	**(22,779)**	**(26,400)**	**(5,716)**	**(62,364)**	**(43,403)**	**(3,991)**

* Resource and Capital

Capital DEL

The Eurostar total of £741 million represents the portion of the book value of the Treasury's interest in Eurostar that could not be allocated to resource (see above).

The Treasury's involvement with the Asian Infrastructure Investment Bank (AIIB) began in 2015-16 and will continue for the foreseeable future. The figure of £85 million was the first of five annual instalments to the AIIB, representing 'paid-in' capital, the total of which will be approximately £2 billion. The reason for the slightly higher figure in 2015-16 was that the first instalment had to be paid in US Dollars and there was an exchange rate impact on the value resulting in a higher cost. This additional cost had been anticipated and covered in the Supplementary Estimate for 2015-16.

Capital AME

Assistance to financial institutions can fluctuate considerably due to the nature of the activity. The large increase in 2015-16 was due to the sale of a significant number of shares. Equally, the increase in UKAR figures is due to the continued sale of the mortgage loan book held by UKAR's subsidiaries, Northern Rock Asset Management and Bradford & Bingley.

An analysis of administration income and expenditure is required to be included within the Core Tables and the table below provides that analysis.

Analysis of administration costs

£m	Outturn					Budget
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Core Treasury	117	117	109	123	136	131
Debt Management Office	8	13	14	14	14	15
Government Internal Audit Agency	-	-	-	-	1	2
Office Of Tax Simplification	-	-	-	-	-	1
UK Financial Investments	5	2	2	3	4	3
Office For Budget Responsibility	2	2	2	2	2	3
UK Government Investments	-	-	-	-	-	12
Asset Protection Agency	(1)	1	-	-	-	-
Eurostar	-	-	-	-	(16)	-
Total Net administration costs	**131**	**135**	**127**	**142**	**141**	**167**
Of which:						
Staff Costs	86	81	79	80	102	73
Other expenditure	73	90	95	91	101	137
Income	(28)	(36)	(47)	(29)	(62)	(43)

Staff costs

Staff costs increased due to the commencement of the Government Internal Audit Agency (GIAA) from 1 April 2015 and an increase in core Treasury headcount during the year.

Other expenditure

The main reasons for the increase in 'Other expenditure' were the cost of administering Pension Wise and the costs associated with the GIAA.

Income

Administration income increased significantly in 2015-16 due to £12 million generated by GIAA and £28 million from Pension Wise.

John Kingman
Acting Permanent Secretary
27 June 2016

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2016 and of the Department's net income and Departmental Group's net income for the year then ended;
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- The Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I certify that I have audited the financial statements of HM Treasury and of its Departmental Group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016. The financial statements comprise the Department's and Departmental Group's:

- Statement of Comprehensive Net Expenditure;
- Statement of Financial Position;
- Statement of Changes in Taxpayers' Equity;
- Statement of Cash Flows; and
- the related notes.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

The regularity framework described in the table below has been applied.

Regularity Framework	
Authorising legislation	Government Resources and Accounts Act 2000
Parliamentary Authorities	Supply and Appropriations Act
HM Treasury and related authorities	Managing Public Money

Respective responsibilities of the Accounting Officer and the auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the Department's and the Departmental Group's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and with International Standards on Auditing (UK & Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Overview of my audit approach

Risks significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year.

I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole and any comments I make on the results of my procedures should be read in this context.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around fraud due to management override of controls or fraud in revenue recognition, an area where my work has not identified any matters to report.

The areas of focus were discussed with Audit Committee.

Risk	My response
Recoverability and valuation of HM Treasury loans to UK Asset Resolution Ltd and the mortgage assets held by UK Asset Resolution Ltd.	
The valuation of UK Asset Resolution Ltd's mortgages in the Departmental Group financial statements, which totalled £35.6 billion at 31 March 2016, are subject to significant management judgement in determining the level of impairment provision required. The key assumptions in reaching this judgement are the probability of customer default and the valuation of any underlying security. HM Treasury's Statement of Financial Position includes loans to UK Asset Resolution Ltd with a value of £28.1 billion at 31 March 2016, including £15.7 billion lent through the Financial Services Compensation Ltd. The repayment of loans by UK Asset Resolution Ltd to HM Treasury will be made over the next 10 to 15 years, using the cash flows from interest payments and redemptions of the mortgages held by Bradford & Bingley and Northern Rock Asset Management (NRAM) and any portfolio sales that take place. If the future cash flows from these mortgages are insufficient to repay the loans from HM Treasury, then this may indicate a need for HM Treasury to reduce the carrying value of the loans.	I reviewed UK Asset Resolution Ltd's business plans to consider whether the assumptions and conclusions made by HM Treasury around recoverability are reasonable and can be corroborated. I considered whether the business plan reflected the impact of significant transactions which may have an impact on the future cash flows. I reviewed the impairment procedures undertaken by HM Treasury including its consideration of the UK Asset Resolution Ltd business plans. I confirmed that the business plans support the forecast cash flows used to measure the value of the Bradford & Bingley loan and provides evidence that the HM Treasury loans to both NRAM and Bradford & Bingley are fully recoverable based on current forecasts. I considered the impact of announcement in the Budget in March 2016 that HM Treasury and UK Asset Resolution Ltd have been exploring further sales of mortgages designed to raise sufficient proceeds for UK Asset Resolution Ltd. to

Risk	My response
I consider there to be a risk for my audit opinion in relation to the valuation of the HM Treasury loan to UK Asset Resolution Ltd in the Department's financial statements and the underlying mortgages in the Departmental Group's financial statements.	repay its £15.7 billion loan to FSCS and the corresponding loan to HM Treasury. The financial statements do not take account of the impact of this potential transaction which may change the timing of repayment of the Bradford & Bingley loan and could have a material impact on its measurement in future years. I am content that this announcement does not impact on the valuation of the loans at 31 March 2016 as the Budget stated that any sales are subject to market conditions and ensuring value for money. I relied upon the work of UK Asset Resolution Ltd's auditors to conclude that the valuation of mortgages and commercial loans in the HM Treasury group accounts, including any impairment, is materially correct and that judgements and assumptions made by UK Asset Resolution Ltd management are reasonable. The results of my testing indicate that there is no evidence that HM Treasury's loans to UK Asset Resolution Ltd will not be fully recovered. I have also been able to conclude that the management judgements and assumptions made in relation to the impairment provisions of UK Asset Resolution Ltd's mortgages are reasonable and that the value of the mortgages is not materially misstated.
Changes to HM Treasury accounts model	
The consolidation process for producing the Departmental Group accounts is complex, due to the differing activities of HM Treasury and the other significant components of the group: UK Asset Resolution Ltd and the Financial Services Compensation Scheme Ltd. As the group includes government bodies, a bank and a financial services body, the format of the financial information underlying each of the group bodies' accounts varies significantly. As a government department, HM Treasury is also required to prepare a Statement of Parliamentary Supply, at a group level, to report its outturn against estimates voted by Parliament. To address this challenge, HM Treasury revised its accounts model in 2015-16. This was intended to streamline the accounts production process and reduce reliance on manual adjustments. Given the extent of the changes, the complexity of the accounts and the fundamental role of the model in producing the accounts, I assessed that the changes to the financial accounts model represented a significant risk of material misstatement for my audit of the Departmental group.	I reviewed the new model used to produce the group financial statements including: • testing of the design and implementation of controls used to identify and prevent errors in the production of the accounts; • agreement of financial information for significant components of the group used by HM Treasury in the model to the information audited by the component auditors; • testing of significant manual adjustment and eliminations to supporting evidence. • testing of the arithmetical accuracy of the model; and • testing of the mapping of trial balance to the financial statements including the Statement of Parliamentary Supply. The results of my testing of the group consolidation model have not identified any evidence of material misstatement in the Departmental Group financial statements.

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the Department's financial statements at £535 million and for the Departmental Group's financial statements at £574 million, which is approximately 0.5% of total assets. I chose this benchmark as I consider it to be the principal consideration for users in assessing the financial performance of the Department and the Departmental Group.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example the disclosures of remuneration in the Remuneration and Staff Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable reporting framework, as well as the size of the misstatement.

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

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £1 million as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences report to the Audit Committee have increased net assets by £21 million for the Department and £37 million for the Departmental Group.

Scope of my audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group and parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition I read all the information and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Group audit approach

The significant components of the Departmental Group are HM Treasury, the Financial Services Compensation Scheme Limited and UK Asset Resolution Limited and its subsidiaries. Significant components were identified based on their contribution to the Group's total assets.

I audited the consolidation and the full financial information of HM Treasury and the Financial Services Compensation Scheme. The component auditors of UK Asset Resolution Limited performed an audit of the financial information of the component on my behalf. This work covered substantially all of the group's assets and net income, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.

Other matters on which I report

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

I have nothing to report arising from this duty.

Report issued under the Government Resources and Accounts Act 2000

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP
28 June 2016

Financial Statements

Statement of Comprehensive Net Expenditure

for the period ended 31 March 2016

		Core Treasury and Agencies		Group	
In £m	**Note**	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Income from sale of goods and services		(9)	(19)	(9)	(19)
Other operating income	1	(367)	(244)	(904)	(743)
Total operating income		**(376)**	**(263)**	**(913)**	**(762)**
Staff costs	2	98	80	220	206
Purchase of goods & services	3	146	154	365	377
Other operating expenditure	4	458	538	625	1,155
Total operating expenditure		**702**	**772**	**1,210**	**1,738**
Net operating expenditure/(income) before financing		**326**	**509**	**297**	**976**
Capital grant in kind income		-	(325)	-	(325)
Capital grant in kind expenditure		-	320	-	328
Finance income	5	(1,175)	(1,494)	(2,374)	(2,953)
Finance expense	6	4,198	(48)	4,209	(23)
Revaluation of financial assets and liabilities	7	(10,484)	(46,945)	(10,453)	(46,862)
Net (gain) on disposal of assets	10	(6,237)	(1,128)	(6,235)	(1,088)
Net (income) before tax		**(13,372)**	**(49,111)**	**(14,556)**	**(49,947)**
Taxation		-	-	258	201
Net (income) after tax		**(13,372)**	**(49,111)**	**(14,298)**	**(49,746)**
Other comprehensive net (income)/ expenditure					
Items that may be reclassified to net operating expenditure when specific conditions are met					
Net loss/(gain) on assets recognised in reserves		4,271	(4,481)	5,106	(3,578)
Net transfer from reserves and recognised as income in year	10	5,958	903	5,958	911
Net loss/(gain) in hedging reserve		-	-	237	(46)
Total		**10,229**	**(3,578)**	**11,301**	**(2,713)**
Items that will not be reclassified to net operating expenditure					
Revaluation of property, plant & equipment		-	(36)	-	(36)
Actuarial gain on pension scheme liabilities		-	-	(156)	(86)
Total		**-**	**(36)**	**(156)**	**(122)**
Net comprehensive income for the year		**(3,143)**	**(52,725)**	**(3,153)**	**(52,581)**

The Notes on pages 107 to 145 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2016

		Core Treasury and Agencies		Group	
In £m	**Note**	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Non-current assets					
Property, plant and equipment	8	148	154	179	185
Intangible assets		7	10	45	53
Trade and other receivables	9	482	302	1,101	723
Available-for-sale financial assets	10	35,784	54,612	27,945	47,717
Loans and advances	11	31,483	38,648	3,719	4,892
Loans to banking customers	12	-	-	34,575	51,693
Loan hedging asset	13	-	-	425	456
Derivative financial assets	14	-	-	451	2,801
Total non-current assets		**67,904**	**93,726**	**68,440**	**108,520**
Current assets					
Cash and cash equivalents	15	1	1	6,069	9,486
Trade and other receivables	9	724	973	774	937
Inventory		15	13	15	14
Assets classified as held for sale	16	-	757	-	757
Loans to banking customers	12	-	-	958	990
Loan hedging asset	13	-	-	12	11
Derivative financial assets	14	38,394	36,438	38,724	36,599
Total current assets		**39,134**	**38,182**	**46,552**	**48,794**
Total assets		**107,038**	**131,908**	**114,992**	**157,314**
Current liabilities					
Trade and other payables	17	(128)	(175)	(1,045)	(826)
Provisions	18	(118)	(503)	(225)	(881)
Cash Collateral	19	-	-	(554)	(2,186)
Debt securities in issue	20	-	-	(1,835)	(1,392)
Derivative financial liabilities	21	-	-	(12)	(18)
Financial guarantees	22	(125)	(120)	(86)	(81)
Total current liabilities		**(371)**	**(798)**	**(3,757)**	**(5,384)**
Non-current liabilities					
Trade and other payables	17	(360)	(192)	(727)	(606)
Provisions	18	(817)	(460)	(927)	(504)
Debt securities in issue	20	-	-	(3,324)	(19,555)
Derivative financial liabilities	21	-	-	(516)	(552)
Other financial liabilities		-	-	(8)	(17)
Financial guarantees	22	(516)	(563)	(184)	(210)
Total non-current liabilities		**(1,693)**	**(1,215)**	**(5,686)**	**(21,444)**
Total assets less liabilities		**104,974**	**129,895**	**105,549**	**130,486**
Equity					
General fund	SoCTE	91,713	106,405	98,895	112,687
Available-for-sale reserve	SoCTE	13,214	23,443	5,327	16,391
Revaluation reserve	SoCTE	47	47	47	47
Hedging reserve	SoCTE	-	-	3	240
Pension reserve	SoCTE	-	-	154	(2)
Merger reserve	SoCTE	-	-	1,123	1,123
Total equity		**104,974**	**129,895**	**105,549**	**130,486**

The Notes on pages 107 to 145 form part of these accounts.

John Kingman
Acting Permanent Secretary
27 June 2016

Statement of Changes in Taxpayers Equity
for the period ended 31 March 2016

Core Treasury and Agencies

In £m	General fund	Available-for-sale reserve	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Non-controlling interests	Total reserves
Balance at 31 March 2014	**76,858**	**19,865**	**11**	**-**	**-**	**-**	**-**	**96,734**
Net income after tax	49,111	-	-	-	-	-	-	49,111
Change in CFERs payable to the Consolidated Fund	(31)	-	-	-	-	-	-	(31)
CFERs paid to the Consolidated Fund	(10,771)	-	-	-	-	-	-	(10,771)
Excess cash payable to the Consolidated Fund	(1)	-	-	-	-	-	-	(1)
Excess cash paid to the Consolidated Fund	(8,770)	-	-	-	-	-	-	(8,770)
Consolidated Fund standing service	4	-	-	-	-	-	-	4
Other movements	5	-	-	-	-	-	-	5
Revaluation gains and losses	-	3,578	36	-	-	-	-	3,614
Balance at 31 March 2015	**106,405**	**23,443**	**47**	**-**	**-**	**-**	**-**	**129,895**
Net income after tax	13,372	-	-	-	-	-	-	13,372
Change in CFERs payable to the Consolidated Fund	(171)	-	-	-	-	-	-	(171)
CFERs paid to the Consolidated Fund	(8,561)	-	-	-	-	-	-	(8,561)
Excess cash payable to the Consolidated Fund	(1)	-	-	-	-	-	-	(1)
Excess cash paid to the Consolidated Fund	(19,348)	-	-	-	-	-	-	(19,348)
Consolidated Fund standing services	4	-	-	-	-	-	-	4
Other movements	13	-	-	-	-	-	-	13
Revaluation gains and losses	-	(10,229)	-	-	-	-	-	(10,229)
Balance at 31 March 2016	**91,713**	**13,214**	**47**	**-**	**-**	**-**	**-**	**104,974**

The Notes on pages 107 to 145 form part of these accounts.

Statement of Changes in Taxpayers Equity
for the period ended 31 March 2016

Group

In £m	General fund	Available-for-sale reserve	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Non-controlling interests	Total reserves
Balance at 31 March 2014	**82,482**	**13,724**	**11**	**194**	**(88)**	**1,123**	**196**	**97,642**
Net income after tax	49,746	-	-	-	-	-	-	49,746
Change in CFERs payable to the Consolidated Fund	(31)	-	-	-	-	-	-	(31)
CFERs paid to the Consolidated Fund	(10,771)	-	-	-	-	-	-	(10,771)
Excess cash payable to the Consolidated Fund	(1)	-	-	-	-	-	-	(1)
Excess cash paid to the Consolidated Fund	(8,770)	-	-	-	-	-	-	(8,770)
Consolidated Fund standing service	4	-	-	-	-	-	-	4
Other movements	28	-	-	-	-	-	(196)	(168)
Revaluation gains and losses	-	2,667	36	46	86	-	-	2,835
Balance at 31 March 2015	**112,687**	**16,391**	**47**	**240**	**(2)**	**1,123**	**-**	**130,486**
Net income after tax	14,298	-	-	-	-	-	-	14,298
Change in CFERs payable to the Consolidated Fund	(171)	-	-	-	-	-	-	(171)
CFERs paid to the Consolidated Fund	(8,561)	-	-	-	-	-	-	(8,561)
Excess cash payable to the Consolidated Fund	(1)	-	-	-	-	-	-	(1)
Excess cash paid to the Consolidated Fund	(19,348)	-	-	-	-	-	-	(19,348)
Consolidated Fund standing services	4	-	-	-	-	-	-	4
Other movements	(13)	-	-	-	-	-	-	(13)
Revaluation gains and losses	-	(11,064)	-	(237)	156	-	-	(11,145)
Balance at 31 March 2016	**98,895**	**5,327**	**47**	**3**	**154**	**1,123**	**-**	**105,549**

The Notes on pages 107 to 145 form part of these accounts.

Statement of Cash Flows
for the period ended 31 March 2016

		Core Treasury and Agencies		Group	
In £m	**Note**	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Cash flows from operating activities					
Net operating (income)/expenditure before financing	SoCNE	326	509	297	976
Other non-cash transactions	23	(375)	(455)	(1,514)	293
Changes in working capital		229	7	230	44
Loans to banking customers		-	-	(5,659)	(6,414)
Proceeds: sale of loans to banking customers		-	-	(11,571)	(2,471)
Net movement: derivatives and other financial instruments attributable to loans to banking customers		-	-	1,464	113
Corporation tax paid		-	-	205	284
Use of provisions		386	94	489	164
Net cash flows from operating activities		**566**	**155**	**(16,059)**	**(7,011)**
Cash flows from investing activities					
Proceeds: derivative financial instruments		(8,528)	(10,737)	(8,528)	(10,737)
Proceeds: sale of shares UK listed entities		(9,554)	(1,898)	(9,554)	(1,847)
Proceeds: sale of investment securities and other assets		(1,950)	-	(4,237)	(1,033)
Net cash outflows from debt securities in issue		-	-	16,546	3,996
Proceeds: interest, dividend and other finance income		(1,230)	(1,367)	(2,530)	(2,958)
Purchases: financial assets		851	31	98	231
Proceeds: repayment of financial assets		(8,072)	(5,742)	(1,230)	(1,819)
Other investing activities		9	18	1,003	214
Net cash inflow from investing activities		**(28,474)**	**(19,695)**	**(8,432)**	**(13,953)**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		(4)	(4)	(4)	(4)
Advances from the Contingencies Fund		(103)	(10)	(103)	(10)
Repayments to the Contingencies Fund		103	10	103	10
Proceeds from Sukuk issue		-	-	-	(200)
Capital element of the PFI contract		2	2	2	2
Net cash flows from financing activities		**(2)**	**(2)**	**(2)**	**(202)**
Net increase in cash and cash equivalents before adjustments		**27,910**	**19,542**	**24,493**	**21,166**
Payments of amounts due to the Consolidated Fund	SoCTE	(8,561)	(10,771)	(8,561)	(10,771)
Excess cash paid to the Consolidated Fund	SoCTE	(19,348)	(8,770)	(19,348)	(8,770)
Payment of prior year balance to the Consolidated Fund		(1)	(1)	(1)	(1)
Net decrease/(increase) in cash and cash equivalents after adjustments	15	**-**	**-**	**(3,417)**	**1,624**
Cash and cash equivalents at the beginning of the period	SoFP	1	1	9,486	7,862
Cash and cash equivalents at the end of the period	15	**1**	**1**	**6,069**	**9,486**

The Notes on pages 107 to 145 form part of these accounts.

Notes to the Resource Accounts

1. Other operating income

In £m	Core Treasury and Agencies 2015-16	Core Treasury and Agencies 2014-15	Group 2015-16	Group 2014-15
Fees, levies and charges	90	136	461	502
Insurance premiums	204	64	204	64
Recoveries and recharges	39	15	113	115
Other operating income	34	29	126	62
Total	**367**	**244**	**904**	**743**

Fees, levies and charges for the Group decreased due to a reduction in the levy amounts collected by the FSCS for compensation cost payments.

The Group increase in insurance premiums of £0.1bn relates to an increase in premiums paid by the Pool Re scheme. The increase in premiums is a consequence of the contract renegotiation where HM Treasury secured a greater share of Pool Re's annual premiums from 10% to 50%.

Other operating income for the Group increased by £64m due to the sale of assets by UKAR.[1]

2. Staff costs and numbers

See the Remuneration and Staff Report (pages 64 to 82).

3. Purchase of goods and services

In £m	Core Treasury and Agencies 2015-16	Core Treasury and Agencies 2014-15	Group 2015-16	Group 2014-15
UK coinage: metal and manufacturing costs	58	68	58	68
Professional & office services	59	55	180	191
Other purchase of goods and services	29	31	127	118
Total	**146**	**154**	**365**	**377**

The Group decrease in professional & office services of £11m is due to reduced spending on consultancy.

Other purchase of goods and services for the Group increased by £9m during the period due to an increase in the cost of providing the MAS debt advice services (2015-16: £44m, 2014-15: £35m). The increased cost has been driven by increased demand for the service.

4. Other operating expenditure

In £m	Core Treasury and Agencies 2015-16	Core Treasury and Agencies 2014-15	Group 2015-16	Group 2014-15
FSCS compensation costs	-	-	269	299
Movement in provisions	358	448	256	771
Other operating expenditure	100	90	100	85
Total	**458**	**538**	**625**	**1,155**

During the period other operating expenditure for the Group increased by a net of £15m mainly due to £10m increase in grants paid to Pension Wise service delivery partners reflecting a full years operation (2014-15: four months).

[1] All movements under £0.1bn are explained in millions.

5. Finance income

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Interest and fee income from loans	774	939	2061	2,533
Dividend income	297	427	297	424
Amortisation of loans	104	128	16	(4)
Total	**1,175**	**1,494**	**2,374**	**2,953**

Interest and fee income from loans for the Group decreased by £0.5bn as a result of the continued reduction in the Group's loan portfolio (Notes 11 and 12).

6. Finance expense

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Impairments/(impairment reversals) of financial assets	4,189	(57)	4,070	(224)
Interest expense	-	-	130	192
Interest element of the PFI contract	9	9	9	9
Total	**4,198**	**(48)**	**4,209**	**(23)**

Group impairment of financial assets has increased by £4.3bn due to £4.1bn impairment of RBS shares and £0.2bn other impairment movements. RBS shares were revalued at balance date to a level below the previously impaired level and the decline in share price in-year was deemed to be significant. Consequently the RBS shares were written down (Note 10).

Interest expense at a Group level decreased by £62m during the year, which was mainly due to reduced interest expense for UKAR debt securities.

7. Revaluation of assets and liabilities in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Fair value gain on derivatives	(10,484)	(46,945)	(10,484)	(46,945)
Fair value loss on financial assets	-	-	2	8
Hedge ineffectiveness	-	-	29	75
Total	**(10,484)**	**(46,945)**	**(10,453)**	**(46,862)**

The decrease in fair value gain on derivatives for the Group of £36.5bn relates to smaller fair value gains on the BEAPFF derivative (2015-16: (£10.5bn), 2014-15: (£46.9bn)). Fair value gains on the BEAPFF derivative arise from gilt price increases offset by cash transfers to HM Treasury.

Hedge ineffectiveness for the Group decreased by £46m in-year, attributable to smaller hedging ineffectiveness charges on UKAR hedging instruments in 2015-16 (£29m) than 2014-15 (£75m). UKAR hedge ineffectiveness arises from different movements in the fair value of hedging instruments and the instrument being hedged. The difference is charged to the SoCNE.

8. Property, plant and equipment

In £m	Core Treasury and Agencies 2015-16	Core Treasury and Agencies 2014-15	Group 2015-16	Group 2014-15
Land – net book value	45	45	45	45
Buildings – net book value	93	96	106	108
Other – net book value	10	13	28	32
Total	**148**	**154**	**179**	**185**

9. Trade and other receivables

In £m	Core Treasury and Agencies 2015-16	Core Treasury and Agencies 2014-15	Group 2015-16	Group 2014-15
Current receivables				
Trade receivables	10	7	54	15
Accrued interest and dividend income	506	665	161	238
Accrued insurance income	33	32	33	32
Levies receivable	-	-	338	389
Guarantee fees receivable	71	94	57	66
Other	104	175	131	197
Total current	**724**	**973**	**774**	**937**
Non-current receivables				
Accrued insurance income	242	71	242	71
Guarantee fees receivable	160	231	113	145
Pension asset	-	-	483	238
Deposit with the National Loans Fund	-	-	200	200
Other	80	-	63	69
Total non-current	**482**	**302**	**1,101**	**723**
Total receivables	**1,206**	**1,275**	**1,875**	**1,660**

The Pension asset relates to a number of retirement benefit plans operated by UKAR for its current and former employees. For more information see the Staffing Report in this document.

10. Available-for-sale assets

10.1 Group current year

In £m	At 1 April 2015	Additions, disposals & transfers	Fair value adjustment	Impairments	At 31 March 2016
Listed entities					
RBS ordinary shares	13,478	14,239	(4,708)	(4,226)	18,783
RBS B shares	17,340	(16,381)	(959)	-	-
Lloyds Banking Group ordinary	12,174	(7,079)	(668)	-	4,427
Unlisted investments					
RBS Dividend Access Share	1,159	(1,193)	34	-	-
Bank of England share capital	3,399	-	1,191	-	4,590
Asian Infrastructure Investment Bank	-	85	-	-	85
Other shareholdings	9	-	-	-	9
Group entities					
UKAR	7,053	-	837	-	7,890
Total Core Treasury and Agencies	**54,612**	**(10,329)**	**(4,273)**	**(4,226)**	**35,784**
Intra-group eliminations	(7,053)	-	(837)	-	(7,890)
UKAR investment securities	158	(117)	8	2	51
Total	**47,717**	**(10,446)**	**(5,102)**	**(4,224)**	**27,945**

The decrease in the value of the Lloyds Banking Group ordinary shares was due to share sales £7.1bn and revaluation of £0.7bn. The share sales generated a realised gain of £4.1bn. £3.7bn of the realised gain was recycled from the Available-for-sale reserve and the remaining balance is attributable to an in-year gain.

The movement in the RBS shares is explained by the reconciliation in the table below:

In £m	RBS ordinary shares	RBS B shares
Balance at 1 April 2015	**13,479**	**17,340**
Write-down of the RBS B shares prior to share conversion	-	(959)
Conversion of RBS B shares to RBS ordinary shares	16,381	(16,381)
Revaluation of RBS ordinary shares	(8,935)	-
Sale of RBS ordinary shares	(2,142)	-
Balance at 31 March 2016	**18,783**	-

In the table above:

- the revaluation of the RBS ordinary shares of £8.9bn was charged against the existing Available-for-sale reserve; of £4.7bn. The remaining £4.2bn was recognised as an impairment expense in the SoCNE
- the sale of RBS ordinary shares of £2.1bn produced a realised gain of £0.5bn; £0.6bn of this was transferred from the Available-for-sale reserve offset by a £0.1bn downward revaluation on the shares at the time of sale

The RBS Dividend Access Share (DAS) was repaid in full in March 2016. The full value of the DAS was recycled from the Available-for-Sale-Asset reserve and reflected as a realised gain in-year in the SoCNE.

The table below sets out a reconciliation between the related items in SoCNE.

	Core Treasury and Agencies		Group	
In £m	2015-16	2014-15	2015-16	2014-15
Net (gain) on disposal of assets	(6,237)	(1,128)	(6,235)	(1,088)
Made up of:				
Net transfer from reserves and recognised as income in year	(5,958)	(903)	(5,958)	(911)
Net gains and losses recognised in year	(279)	(225)	(277)	(177)
Total	**(6,237)**	**(1,128)**	**(6,235)**	**(1,088)**

10.2 Group prior year

In £m	At 1 April 2014	Additions, disposals & transfers	Fair value adjustment	Impairments	At 31 March 2015
Listed entities					
RBS ordinary shares	12,330	-	1,148	-	13,478
RBS B shares	15,861	-	1,479	-	17,340
Lloyds Banking Group ordinary	13,266	(1,657)	565	-	12,174
Unlisted investments					
RBS Dividend Access Share	1,485	-	(326)	-	1,159
Bank of England share capital	3,047	-	352	-	3,399
Other shareholdings	155	(146)	-	-	9
Group entities					
UK Asset Resolution share capital	6,144	-	909	-	7,053
Total Core Treasury and Agencies	**52,288**	**(1,803)**	**4,127**	**-**	**54,612**
Intra-group eliminations	(6144)	-	(909)	-	(7,053)
UKAR investment securities	321	(161)	(4)	2	158
Business Finance Partnership	296	(297)	1	-	-
Total	**46,761**	**(2,261)**	**3,215**	**2**	**47,717**

10.3 Group shareholdings

In accordance with the FReM the details of the most significant shareholdings are shown below:

	2015-16			2014-15		
In £m	Stake %	Total net assets	Entity's reported profit/(loss) for the year	Stake %	Total net assets	Entity's reported profit/(loss) for the year
Bank of England	100	4,590	209	100	3,399	179
RBS ordinary shares	72	54,147	(1,185)	79	58,709	(2,711)
Lloyds Banking Group ordinary shares	9	46,980	956	22	49,903	1,499

The profits and losses of the above entities are disclosed for the reporting period to the end of February for the Bank of England and December for RBS and Lloyds Banking Group. 2014-15 net assets for RBS are restated to be in line with their latest published accounts. Further information on the restatement is available in the RBS Annual Report 2015.

11. Loans and advances

11.1 Core Treasury and Agencies

In £m	At 1 April 2015	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2016
Working capital facility	2,535	400	(475)	-	2,460
Loans	32,767	367	(6,697)	-	26,437
Statutory debt	3,346	-	(900)	140	2,586
Total	**38,648**	**767**	**(8,072)**	**140**	**31,483**

The working capital facility decreased by a net of £0.1bn, following a £0.4bn advance to repurchase UKAR covered bonds and £0.5bn of repayments.

Loans reduced by a net £6.3bn (including £5.0bn related to the Granite sale) which was driven by proceeds from the sale of UKAR's loans to banking customers (Note 12).

In £m	At 1 April 2014	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2015
Working capital facility	4,975	-	(2,440)	-	2,535
Loans	35,132	30	(2,075)	(320)	32,767
Statutory debt	4,388	-	(1,227)	185	3,346
Total	**44,495**	30	**(5,742)**	**(135)**	**38,648**

11.2 Group

In £m	At 1 April 2015	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2016
Loans	3,679	-	(299)	-	3,380
Statutory debt	848	-	(900)	88	36
Investment securities	365	12	(95)	21	303
Total	**4,892**	**12**	**(1,294)**	**109**	**3,719**

Group loans decreased by a net of £0.3bn. This was due to FSCS recoveries from administrators.

Group statutory debt decreased by a net of £0.8bn following £0.5bn of Icesave loan repayments and £0.4bn Dunfermline loan repayments. This was offset by £0.1bn of other adjustments. During the year the Icesave loan was repaid in full.

In £m	At 1 April 2014	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2015
Loans	4,271	-	(592)	-	3,679
Statutory debt	2,022	-	(1,227)	53	848
Investment securities	754	-	(373)	(16)	365
Total	**7,047**	-	**(2,192)**	**37**	**4,892**

12. Loans to banking customers

12.1 Group

In £m	At 1 April 2015	Advances	Redemptions & repayments	Impairments & reversals	At 31 March 2016
Residential mortgages	51,086	24	(16,493)	84	34,701
Commercial loans	537	-	(84)	(12)	441
Unsecured loans	1,060	-	(724)	55	391
Total	**52,683**	**24**	**(17,301)**	**127**	**35,533**
Current	990				958
Non-current	51,693				34,575

Mortgages decreased by £16.4bn due to portfolio sales and redemptions. On 13 November 2015 UKAR announced that NRAM had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure. The sale of these Granite loans resulted in a sale price in excess of par and a premium in the region of £0.3bn. The sale of these Granite loans generated a profit of £59m before tax. Of the sales proceeds £5.0bn was used to repay government loans (Note 11). During the year NRAM also released £3m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required.

In £m	At 1 April 2014	Advances	Redemptions & repayments	Impairments & reversals	At 31 March 2015
Residential mortgages	59,345	45	(8,373)	69	51,086
Commercial loans	623	-	(98)	12	537
Unsecured loans	1,282	-	(151)	(71)	1,060
Total	**61,250**	**45**	**(8,622)**	**10**	**52,683**
Current	842				990
Non-current	60,408				51,693

12.2 Redemptions

	2015-16		2014-15	
£m	Balances	Redemptions	Balances	Redemptions
Residential mortgages	34,701	4,962	51,085	5,320
Commercial loans	440	75	536	90
Unsecured loans	392	95	1,061	104
Total	**35,533**	**5,132**	**52,682**	**5,514**

Redemptions comprise full redemptions, voluntary partial redemptions and cash receipts from possession but exclude overpayments and regular monthly payments.

12.3 Allowance for impairment

£m	At 1 April 2015	Sale of assets	Impairments & reversals	Write-offs	At 31 March 2016
Residential mortgages	888	(85)	(45)	(95)	663
Commercial loans	77	-	13	(4)	86
Unsecured loans	205	(94)	2	(17)	96
Total	**1,170**	**(179)**	**(30)**	**(116)**	**845**

£m	At 1 April 2014	Sale of assets	Impairments & reversals	Write-offs	At 31 March 2015
Residential mortgages	1,152	-	(110)	(154)	888
Commercial loans	91	-	(2)	(12)	77
Unsecured loans	215	-	22	(32)	205
Total	**1,458**	**-**	**(90)**	**(198)**	**1,170**

13. Loan hedging asset

	Group	
In £m	**2015-16**	**2014-15**
Current	12	11
Non-current	425	456
Total	**437**	**467**

Loan hedging assets relate exclusively to UKAR's loans to banking customers.

14. Derivative financial assets

	Core Treasury and Agencies		Group	
£m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Balance at 1 April	36,438	230	39,400	4,846
Movements in year	1,956	36,208	(225)	34,554
Balance at 31 March	**38,394**	**36,438**	**39,175**	**39,400**
Current	38,394	36,438	38,724	36,599
Non-current	-	-	451	2,801

The £2.0bn movement at the Core Treasury and Agencies level is attributable to HM Treasury's BEAPFF derivative asset. This was driven by fair value gains of £10.5bn (Note 7) which were offset by £8.5bn of cash transfers. BEAPFF is a derivative financial instrument and is sensitive to changes in the macroeconomic environment. Further information on BEAPFF and a sensitivity analysis can be found in Note 28 under 'Market Risk'. The Group includes additional derivative assets held by UKAR. UKAR uses derivative instruments to mitigate against interest and foreign exchange rate risk through its business operations.

15. Cash and cash equivalents

	Core Treasury and Agencies		Group	
£m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Balance at 1 April	1	1	9,486	7,862
Net change in cash balances	-	-	(3,417)	1,624

Total	**1**	**1**	**6,069**	**9,486**
The following balances were held at 31 March				
Government Banking Service	1	1	2,601	3,031
Bank of England	-	-	1,643	4,163
Commercial banks and cash in hand	-	-	1,825	2,292
Total	**1**	**1**	**6,069**	**9,486**

16. Assets held for sale

2015-16: Nil. (2014-15: £757m) The sale of the government's 40% stake in Eurostar International Ltd (EIL) was completed on 28 May 2015, generating cash proceeds of £757m and an accounting gain of £432m, transferred from reserves. The stake in EIL was transferred to HM Treasury during 2014-15 for £325m and was recognised as a grant in kind. The stake in EIL was transferred so that HM Treasury could act as an independent sales agent on behalf of government.

17. Trade and other payables

	Core Treasury and Agencies		**Group**	
£m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Current payables				
Trade payables	4	-	10	5
Accrued expenditure	27	46	176	142
Pool Re payable to Consolidated Fund	33	32	33	32
Amounts due to levy payers	-	-	366	358
Corporation tax payable	-	-	153	111
PFI contract	2	2	2	2
Other	62	95	305	176
Total current	**128**	**175**	**1,045**	**826**
Non-current payables				
Pool Re payable to Consolidated Fund	242	71	242	71
Amounts due to levy payers	-	-	58	64
Sukuk certificates	-	-	200	200
PFI contract	118	121	118	121
Deferred tax	-	-	97	103
Other	-	-	12	47
Total non-current	**360**	**192**	**727**	**606**
Total payables	**488**	**367**	**1,772**	**1,432**

Pool Re payable to the Consolidated Fund reflects payments yet to be received from the reinsurance companies (Note 9).

18. Provisions

18.1 Core Treasury and Agencies

£m	Equitable Life	Tax provision	Oil & gas	Customer redress	Other	Total
Balance at 1 April	488	474	-	-	1	**963**
Provided during the year	13	-	327	-	63	**403**
Provisions not required	-	(124)	-	-	(2)	**(126)**
Unwind of discount and changes in the discount rate	81	-	-	-	-	81
Provisions utilised in the year	(60)	(325)	-	-	(1)	**(386)**
Balance at 31 March	**522**	**25**	**327**	**-**	**61**	**935**
Within one year	23	25	10	-	60	**118**
Between one and five	157	-	261	-	1	**419**
Later than five years	342	-	56	-	-	**398**

18.2 Group

£m	Equitable Life	Tax provision	Oil & gas	Customer redress	Other	Total
Balance at 1 April	488	474	-	388	35	**1,385**
Provided during the year	13	-	327	89	141	**570**
Provisions not required	-	(124)	-	(268)	(3)	**(395)**
Unwind of discount and changes in the discount rate	81	-	-	-	-	**81**
Provisions utilised in the year	(60)	(325)	-	(43)	(61)	**(489)**
Balance at 31 March	**522**	**25**	**327**	**166**	**112**	**1,152**
Within one year	23	25	10	90	77	**225**
Between one and five	157	-	261	76	33	**527**
Later than five years	342	-	56	-	2	**400**

Equitable Life	The Equitable Life Payments Scheme is for eligible policy holders who purchased an Equitable Life pension policy between 1 September 1992 and 31 December 2000. In 2010 the government committed to pay in the region of £1.5bn to policy holders in the scheme; as at the reporting date £1.1bn has been paid. The scheme was closed to new claims from 31 December 2015. Of the movement in discounts, £81m reflects revised HM Treasury discount rates to provisions effective from 1 April 2015, where the long term discount rate changed from 2.2% to minus 0.80%.
Tax provision	Following a ruling against the Government Actuaries Department by the Pensions Ombudsman in May 2015, the Treasury was required to fund tax costs associated with pension payments and additional lump sum payments due to around 34,000 eligible retired police and fire service officers, and associated interest. The actual amount required to settle the liability was less than anticipated. The majority of the tax liabilities were paid in March 2016, and £0.1bn was released because it was not required.
Oil and gas	This provision relates to claims on Decommissioning Relief Deeds (the deeds). The deeds were signed between members of the oil & gas industry and HM Treasury. The deeds indemnify the industry for changes in tax codes or the default of their partners in decommissioning North Sea oil fields, allowing them to claim relief potentially otherwise available to the field from HMRC through the tax system. At the reporting date HM Treasury received notification of intent to make a claim from one company. HM Treasury recognises a provision when a claim is notified and the amount can be measured reliably. The value of the provision of £0.3bn represents the best estimate of the historic and future costs to settle.

Customer redress	Recognised by UKAR as an estimate of expected customer compensation claims, primarily relating to Payment Protection Insurance and Consumer Credit Act non-compliance. Prior to 6 April 2008, NRAM made unsecured loans for sums in excess of £25,000 using documentation which incorrectly stated that these loans were regulated under the Consumer Credit Act (CCA). In November 2014 UKAR brought forward a test case at the High Court to determine if it was required to remediate customers. The Court of Appeal found in favour of UKAR in 2015, and as a result UKAR released £0.3bn of this provision. Further details are available in UKAR's Annual Report and Accounts.
Other	Other includes the Help to Buy ISA scheme which commenced on 1 December 2015 and offers first time buyers government bonuses to be claimed on a successful property purchase. The government will award a 25% bonus based on an individual's monthly savings in a HTB ISA account. There is a minimum £400 bonus and a maximum £3,000 bonus.

19. Cash collateral

UKAR holds cash collateral for its derivatives of £554m (2014-15: £2,186m) and has provided collateral pledges of £521m (2014-15: £549m). In addition to the collateral amounts shown above, UKAR also received collateral in the form of securities. In the absence of counterparty default, the Group has no right to sell or re-pledge the securities collateral received and therefore in accordance with the provisions of IAS 39 such securities are not recognised on the Balance Sheet.

20. Debt securities in issue

	Group	
£m	**2015-16**	**2014-15**
Current	1,835	1,392
Non-current	3,324	19,555
Total	**5,159**	**20,947**

The Group decrease in debt securities in issue of £15.8bn is primarily due to the Granite sale, refer to Note 12. Note 22 of the UKAR 2015-16 Accounts also provides further detail on the movements.

21. Derivative financial liabilities

	Group	
£m	**2015-16**	**2014-15**
Balance	570	446
Movements in year	(42)	124
Total	**528**	**570**
Current	12	18
Non-current	516	552

22. Financial guarantees

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
UK guarantees	122	114	122	113
National Loan Guarantee Scheme	64	125	64	125
Help to Buy guarantees	84	53	84	53
Deposit guarantees	371	391	-	-
Total	**641**	**683**	**270**	**291**
Current	125	120	86	81
Non-current	516	563	184	210

The financial risks and management policies associated with financial guarantees are detailed in Note 28. This note details the maximum exposure to HM Treasury as a result of issuing these guarantees.

UK guarantees	The UK Guarantees scheme was announced on 18 July 2012. The scheme aims to support infrastructure projects that may have stalled because of adverse credit conditions. As at 31 March 2016, eight projects were guaranteed.
National Loan Guarantee Scheme	The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and helps businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. The NLGS is not open for new guarantees.
Help to Buy: mortgage guarantee scheme	The Help to Buy: mortgage guarantee scheme was launched on 8 October 2013. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%.
Deposit guarantees	HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with Bradford & Bingley with effect from 2008 and certain borrowings, derivative transactions, and wholesale deposits for NRAM plc with effect from 2010. These are eliminated at Group level.

23. Non-cash transactions

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Adjustment for non-cash transactions				
Net provisions provided in year	(359)	(448)	(257)	(771)
Depreciation and amortisation	(8)	(6)	(33)	(25)
Profit/(loss) on sale of loans to banking customers	-	-	63	22
Non-voted – banking and gilts registration services	(11)	(11)	(11)	(11)
Other non-cash adjustments relating to UKAR	-	-	(1,272)	1,102
Other non-cash adjustments	3	10	(4)	(24)
Total	**(375)**	**(455)**	**(1,514)**	**293**

24. Commitments

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Capital commitments				
Multilateral development banks	340	-	340	-
Other capital commitments	-	-	1	5
Total	**340**	**-**	**341**	**5**
Financial commitments				
Loan commitments	760	752	1,379	2,182
Other financial commitments	-	9	1	25
Total	**760**	**761**	**1,380**	**2,207**

The Group increase in the multilateral development bank commitment of £0.3bn relates to future capital commitments to the Asian Infrastructure Investment Bank, which was set up in 2015-16. The Group decrease in loan commitments of £0.8bn is due to a reduction in future loan commitments at UKAR level.

HM Treasury has provided a £0.8bn (2014-15: £0.8bn) standby refinancing facility to Transport for London – GLA for the Northern Line extension as part of the UK Guarantees scheme. Additionally at Group level, loan commitments represent contractual amounts of £0.6bn (2014-15: £1.4bn) to which UKAR is committed for extension of credit to its banking customers.

HM Treasury also provides a working capital facility to B&B and NRAM. As at 31 March 2016, the undrawn working facilities for B&B and NRAM were £2.6bn and £2.1bn respectively (2014-15: £3.0bn and £2.5bn). These facilities are intra-group balances and as such are not shown in the table above.

25. Operating leases

	Core Treasury and Agencies		Group	
In £m	**2015-16**	**2014-15**	**2015-16**	**2014-15**
Within one year	1	2	**7**	13
Between one and five years	5	5	**21**	21
Later than five years	-	1	**10**	18
Total	**6**	**8**	**38**	**52**

HM Treasury has entered into operating leases for buildings and equipment. The table above analyses total future minimum lease payments under operating leases according to the period in which the lease expires.

26. PFI contract

In May 2000, HM Treasury entered into a 35-year PFI contract with Exchequer Partnership for HM Treasury's building at 1 Horse Guards Road. The substance of the contract is that HM Treasury has a finance lease and that payments comprise two elements: imputed finance lease charges and service charges.

26.1 Finance lease obligations

	Core Treasury and Agencies	
In £m	**2015-16**	**2014-15**
Within one year	11	11
Between one and five years	45	45
Later than five years	185	196
Gross present value of future obligations	241	252
Finance charges allocated to future periods	(120)	(129)
Total	**121**	**123**

26.2 Minimum service charges

	Core Treasury and Agencies	
In £m	**2015-16**	**2014-15**
Within one year	13	13
Between one and five years	62	58
Later than five years	413	429
Total	**488**	**500**

HM Treasury is committed to pay minimum service charges in future years as shown above. The total amount charged in the SoCNE for the service element (including contingent rent) was £13m (2014-15: £12m).

27. Contingent liabilities

Pool Re and Pool Re (Nuclear) Limited	Pool Re and Pool Re (Nuclear) are mutual reinsurance companies providing terrorism cover for damage to industrial and commercial property or nuclear facilities and consequential business interruption in Great Britain (excluding Northern Ireland). The total reserves of Pool Re and of Pool Re (Nuclear) as at the date of their latest annual accounts are £6.0bn (2014-15: £5.7bn) and £29m (2014-15: £28m) respectively. In the event of losses exceeding their available resources, HM Treasury will fund the difference which will be repaid over time. Maximum potential liabilities under this arrangement are considered unquantifiable. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.
Virgin Money	HM Treasury provided a tax indemnity to Virgin Money under the terms of the sale of Northern Rock. The tax indemnity is time-limited (expires in January 2017) and subject to an overall cap of 35% of the final consideration received. Maximum potential liabilities under this indemnity are estimated to be £0.4bn as at the reporting date (2014-15: £0.4bn), being 35% of the consideration received of £1.0bn.
NRAM plc	HM Treasury has confirmed to the Financial Conduct Authority (FCA) its intention to take appropriate steps to ensure that NRAM plc will continue to operate above the minimum regulatory capital requirements. HM Treasury is committed to converting up to £1.6bn of NRAM loans to meet this requirement if needed. If this contingent liability crystallised, it would result in a transaction between HM Treasury and NRAM, which would be eliminated from the Group position.
Bradford & Bingley plc	HM Treasury has confirmed to the FCA its intention to take appropriate steps to ensure that Bradford & Bingley will continue to operate above the minimum regulatory capital requirements. Maximum potential liabilities under this intervention are the minimum regulatory capital requirements as defined by the FCA which may vary as circumstances demand. If this contingent liability crystallised, it would result in a transaction between HM Treasury and Bradford & Bingley, which would be eliminated from the Group position. In addition, the Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 requires HM Treasury to give a guarantee or to make other arrangements for the purposes of securing that the assets of the remaining section of the Bradford & Bingley Pension Scheme are sufficient to meet its liabilities. As such, HM Treasury guarantees to pay or procure the payment of any benefit amount which falls due from the remaining section at a time when there are insufficient assets to pay that amount. As at 31 March 2016, there is no contingent liability to report (2014-15: Nil) as the Bradford & Bingley Pension Scheme is showing a surplus.
Royal Mint Trading Fund	The Royal Mint Trading Fund has a Memorandum of Understanding arrangement with the National Loans Fund by which it can draw down against a financing facility, with an upper limit of £36m. Parliamentary authority limits the overall amount of public money available to the Royal Mint at £50m. If the Royal Mint Trading Fund was unable to repay any drawdowns against this commitment the National Loans Fund funding conditions dictate that the amount outstanding would have to be met by HM Treasury.
Legal action	Where HM Treasury is party to certain legal action the information that is ordinarily required under IAS 37 is not disclosed on the grounds that it may be prejudicial to legal privilege and the outcome of the litigation. This election is made in accordance with IAS 37.92.

28. Financial risk management objectives and policies and sensitivity analysis

Introduction

HM Treasury is responsible for responding to economic risk on behalf of the government. Economic risk can include changes in regional, national and international economies and can be triggered by external events such as macroeconomic events, conflict, natural disasters or by changes in government policy and legislation. Depending on the nature of the change an economic risk can have positive or negative impacts.

In the recent past, HM Treasury has reacted to uncertainty in the global and national economies by creating policy solutions that contribute to the UK's fiscal and economic recovery. These policy solutions include the financial stability interventions, which are designed to:

- stabilise and restore confidence in the financial system
- protect depositors' money
- protect taxpayers' interests
- ensure continued lending to creditworthy borrowers

HM Treasury's Accounts include a number of financial assets and liabilities. These financial assets and liabilities expose the Treasury to financial risks, which are: market risk, credit risk and liquidity risk. These risks are discussed below.

The HM Treasury Board is ultimately responsible for the establishment and oversight of the Group's risk management programme. Risk management forms a core part of day-to-day operations for HM Treasury's policy teams, sub-committees and UK Financial Investments Limited (UKFI) - a wholly-owned subsidiary of HM Treasury - which manages the government's investments in Royal Bank of Scotland (RBS), Lloyds Banking Group and UK Asset Resolution Limited (UKAR).

The largest concentration of financial risk outside HM Treasury is in UKAR. UKAR is a wholly-owned subsidiary of HM Treasury which was set up to manage the government owned assets of NRAM (formerly Northern Rock) and Bradford & Bingley. These assets represent loans to banking customers in the form of residential, commercial and wholesale mortgages. Further information on the financial risks of UKAR can be found in the UKAR annual report http://www.ukar.co.uk.

Group

This section focuses on the risks associated with the Treasury Group. At Group level, material financial risk primarily relates to UKAR. It also includes credit risk for loans and advances provided by Group entities.

Market Risk- UKAR

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Where relevant this is shown in the table below.

Activity	Risk	Derivative instrument used to mitigate risk
Legacy funding in sterling involving either fixed rate instruments or instruments with embedded options	Interest rate risk	Interest rate swaps
Fixed and capped rate mortgages and Legacy investment involving either fixed rate instruments or instruments with embedded options	Interest rate risk	Interest rate swaps and options
Variable rate mortgage balances	Interest rate risk	Interest rate swaps
Legacy investments and funding in foreign currencies	Foreign exchange risk	Cross currency interest rate swaps and foreign currency exchange contracts

Loans to banking customers represents residential, commercial and wholesale loans attributable to the government owned businesses of NRAM and B&B. UKAR is the holding company for both businesses.

The UKAR Board has responsibility for the design and management of the risk framework. UKFI, under the UKFI Framework Agreement, is responsible to HM Treasury for providing oversight.

Interest rate risk- UKAR

Interest rate risk typically arises from mismatches between the re-pricing dates of interest-bearing assets and liabilities on UKAR's Statement of Financial Position and from the investment profile of UKAR capital and reserves. UKAR measures, monitors and controls the following interest rate risks and sensitivities: mismatch risk, yield curve, prepayment risk, basis risk, and reset risk.

Exposures are reviewed as appropriate by its senior management and Board with a frequency between daily and monthly, related to the granularity of the position. Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps.

UKAR also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to UKAR. Interest rate sensitivities are reported monthly and are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve.

In relation to the mortgage business, derivative instruments support the strategic and operational business activities of UKAR and reduce the risk of loss arising from changes in interest rates and exchange rates. Derivative instruments are used to hedge risk exposure and the objective is to ensure that the risk-to-reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges.

However, IAS 39 requires certain tests to be satisfied before hedge accounting is permitted. Consequently, not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected or because satisfying these tests would be prohibitively onerous.

In £m	Cash flow hedges	Fair value hedges	Economic hedges	At 31 March 2016	At 31 March 2015
Total derivative financial assets held by UKAR	770	-	12	782	2,963
Total derivative financial liabilities held by UKAR	(12)	(499)	(17)	(528)	(570)
Fair value of hedging instruments	758	(499)	(5)	254	2,393

Interest rate sensitivities are reported monthly and are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve.

The change in value of UKAR's net worth due to a notional 2% parallel move in market and base rates.

In £m	At 31 March 2016	At 31 March 2015
2% increase	(29)	18
2% decrease	30	(13)

The sensitivity of UKAR's interest margin over 12 months due to a notional 2% parallel move in market and base rates.

In £m	At 31 March 2016	At 31 March 2015
2% increase	516	518
2% decrease	(131)	(126)

Foreign currency risk- UKAR

UKAR's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently at 31 March 2016 and 31 March 2015 UKAR had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on UKAR's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 March 2016 or 31 March 2015.

The table below summarises UKAR's exposure to foreign currency exchange rates at the Balance date. Included in the table are UKAR's financial instruments under relevant currency headings. The amounts disclosed are the sterling equivalents of the notion amounts due on maturity, including interest accrued at the Balance date, less any impairment provisions.

At 31 March 2016	€ In £m	$ In £m	In other £m	Total
Financial assets:				
Cash at bank and in hand	570	27	-	597
Investment securities	209	10	-	219
Derivative financial instruments	3,036	834	176	4,046
Total financial assets	**3,815**	**871**	**176**	**4,862**
Financial liabilities:				
Amounts due to banks	551	-	-	551
Derivative financial instruments	313	35	-	348
Debt securities in issue	2,950	839	176	3,965
Total financial liabilities	**3,814**	**874**	**176**	**4,864**
Net currency gap	**1**	**(3)**	**-**	**(2)**

At 31 March 2015	In €m	In £m	In other £m	Total
Financial assets:				
Cash at bank and in hand	772	237	-	1,009
Investment securities	333	54	-	387
Derivative financial instruments	10,676	5,326	488	16,490
Total financial assets	**11,781**	**5,617**	**488**	**17,886**
Financial liabilities:				
Amounts due to banks	1,041	203	-	1,244
Derivative financial instruments	(313)	123	-	(190)
Debt securities in issue	11,055	5,289	488	16,832
Total financial liabilities	**11,783**	**5,615**	**488**	**17,886**
Net currency gap	**(2)**	**2**	**-**	**-**

Liquidity risk - UKAR

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

UKAR closely monitors its liquidity position against its liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

The table below looks at UKAR's liquidity position as used by management to monitor its liquidity risk, evaluated by comparing its financial assets and liabilities on a stand-alone basis, including balances with HM Treasury, into relevant maturity groupings.

In £m	On demand	Up to 3 months	3-12 months	Over 1 year	At 31 March 2016
Total financial assets	5,829	578	549	35,768	42,724
Total financial liabilities	(28,888)	(2,151)	(340)	(3,407)	(34,786)
Net liquidity gap	**(23,059)**	(1,573)	209	32,361	7,938
Net liquidity gap excluding HMT loans	5,273	(1,551)	209	32,361	36,292

In £m	On demand	Up to 3 months	3-12 months	Over 1 year	At 31 March 2015
Total financial assets	8,991	803	840	55,205	65,839
Total financial liabilities	(36,778)	(2,050)	(2,198)	(17,420)	(58,446)
Net liquidity gap	**(27,787)**	(1,247)	(1,358)	37,785	7,393
Net liquidity gap excluding HMT loans	6,803	(1,218)	(1,358)	37,785	42,012

The total financial liabilities above include the loans and working capital advances that HM Treasury has provided to the UKAR Group. HM Treasury expects these items to be repaid out of cash flows generated from UKAR asset sales. It is not possible to predict the contractual maturity dates of the loans. Consequently these items have been included in the table above as if they were repayable on demand. Excluding the loans and working capital advances from HM Treasury the UKAR Group has a positive liquidity gap.

The table below analyses UKAR's cash flows for derivative and non-derivative financial liabilities into relevant maturity groupings:

In £m	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Non-derivatives: at 31 March 2015	38,202	2,010	2,367	13,294	5,377	61,250
Derivatives: at 31 March 2015	-	16	47	203	809	1,075
Non-derivatives: at 31 March 2016	29,500	2,106	360	2,072	1,085	35,123
Derivatives: at 31 March 2016	-	12	41	149	570	772

Credit risk- Group

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

HM Treasury Group is exposed to credit risk through loans and advances provided by the Government to external counterparties. Adverse changes in the credit quality of borrowers or a general deterioration in economic conditions could affect the recoverability or value of loans, and therefore the financial performance of the Group.

These loans include loans to external counterparties which were made at a time when they could not obtain financing from the financial markets and loans provided to make payments to deposit holders in failed institutions. The bilateral loan to Ireland forms part of an international financial package to support the Irish economy and banking system.

With the exception of UKAR investment securities, there are no current market prices available and it is not possible to provide a reliable estimate of the current fair values of these loans. Where fair values are not available, the table below provides an indication of the cost to HM Treasury of providing the loans, at current rates of interest, by discounting future cash flows receivable at HM Treasury's cost of borrowing, as approximated by UK gilt prices of a comparable maturity ("Discounted Value").

	2015-16		2014-15	
In £m by counterparty	**Carrying Value**	**Discounted Value**	**Carrying Value**	**Discounted Value**
Loans to Ireland	3,227	3,420	3,227	3,437
Loans from Infrastructure Unit Finance Ltd	99	115	103	124
FSCS recoverables: financial institutions	55	56	349	361
UKAR investment securities held as loans	302	284	365	398
Loans sub-total	**3,683**	**3,875**	**4,044**	**4,320**
Statutory debt: Icesave	-	-	446	467
Statutory debt: Dunfermline	23	22	390	388
Statutory debt: other institutions	13	14	12	13
Statutory debt sub-total	**36**	**36**	**848**	**868**
Total	**3,719**	**3,911**	**4,892**	**5,188**

Bilateral loan to Ireland	Under the terms of the Loans to Ireland Act 2010 this loan forms part of the international finance package to support the Irish economy and banking system. In December 2015 the Ireland Debt Governance Board made a positive assessment, forecasting 100% recovery with repayment expected to take place in 2019-2020.
UKAR investment securities held as loans	Loans and advances include UKAR investment securities held as loans and receivables and carried at amortised cost at the reporting date. The fair value of unsecured investment loans shown in the table above is based on prices supplied by third parties.
FSCS recoverables	FSCS recoverables: financial institutions includes the amounts that FSCS considers recoverable from the administration of failed institutions. In 2015-16 this relates to London Scottish Bank and Kaupthing Singer & Friedlander (KSF). Further information is available in FSCS's Annual Accounts.
Statutory debt	Outstanding statutory debt loans include Dunfermline, KSF, London Scottish Bank and Heritable. Statutory debt is managed by specialist external administrators and impairment reviews are performed during the year and at reporting date.

HM Treasury has statutory debts with various institutions over which it has limited control because they are in administration. The recoverability of these loans is assessed by the administrators. A sensitivity analysis of the level of capital recovery for statutory debt loans is shown below:

	At 31 March 2016			At 31 March 2015	
	Total amount lent £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2015-16 +/- 5% £m	Current forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2014-15 +/- 5% £m
Stat Debt: KSF*	494	83/(85)	24/(10)	83/(85)	24/(7)
Stat Debt: London Scottish*	31	50/(58)	2/(2)	50/(58)	2/(2)
Stat Debt: Heritable	92	98/(98)	1/-	94/(94)	5/-
Stat Debt: Dunfermline**	1,540	99/(100)	-/-	75/(100)	-/-
Total	**2,157**		**27/(12)**		**31/(9)**

* KSF and London Scottish 2014-15 figures have been restated
**HM Treasury expects to recover 100% of the principal claim in Dunfermline, with any potential shortfall being met through a levy on the financial services industry

Credit risk- UKAR

Credit risk is the largest risk UKAR faces. The most significant credit risk for UKAR is the exposure to retail, commercial and wholesale counterparties failing to meet their obligations.

As no new lending is now being undertaken, UKAR's ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity, and credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from: changes in the underlying economic environment; assumptions about the future trends in the economy; changes in the specific characteristics of individual loans; and the credit risk strategies developed to add value to the book whilst mitigating credit risk.

A credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. UKAR closely monitors its credit risk against its credit policies and employs credit behaviour scoring and fraud detection techniques to support loss minimising strategies.

The UKAR board has approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures are continually monitored and controlled. The credit limit structure adopts a risk based matrix whereby lower rated counterparties are afforded lower overall levels of limit.

Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation is also used in the limit assignment process. Counterparties are assigned maximum limits in accordance with the ratings matrix, based on the lowest rating afforded to any part of the counterparty group.

UKAR has investments in a range of investment securities issued by government bodies and banks and in asset-backed securities, in both the UK and overseas. UK government securities, bank and supranational bonds comprise 0% (2015: 6%) of investment securities held. 53% (2015: 42%) of the asset-backed securities are backed by UK assets. Further details about concentrations in the wholesale assets portfolio are detailed in Note 11 'Wholesale Assets' of UKAR's 2015-16 Annual Accounts.

UKAR operates primarily in the UK, and adverse changes to the UK economy could impact all areas of UKAR's business. Residential mortgages are all secured on property in the UK. 57% (2015: 42%) of residential mortgages are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £34.7bn (2015: £51.1bn) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 43% (2015: 41%) of the book.

Within the commercial mortgage portfolio and housing association loans, there are 71 loans (2015: 89) totalling £0.4bn (2015: £0.5bn), with the largest 10 loans accounting for 88% (2015: 73%) of the portfolio. All of these loans are secured on commercial properties.

	At 31 March 2016				At 31 March 2015
In £m	**Residential mortgages**	**Commercial loans**	**Unsecured loans**	**Total**	**Total**
Neither past due nor impaired	33,402	329	398	34,129	49,814
Past due, but not impaired					
- less than 3 months	981	-	15	996	1,925
- 3 to 6 months	364	-	6	370	722
- over 6 months	253	-	59	312	608
Impaired	364	197	10	571	783
Total loans to customers	**35,364**	**526**	**488**	**36,378**	**53,852**
Impairment allowances	(663)	(85)	(96)	(844)	(1,170)
Total loans to customers net of impairment allowances	**34,701**	**441**	**392**	**35,534**	**52,682**

Impaired loans are those which are 12 months or more in arrears, in possession or held for sale with an LPA receiver, and others which management consider to be individually impaired.

Residential mortgages: collateral held and loan to value

For residential mortgages, UKAR holds collateral in the form of mortgages over residential properties. The fair value of this collateral, estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the reporting date is as follows:

In £m	**At 31 March 2016**	**At 31 March 2015**	**At 31 March 2014**
Neither past due nor impaired	54,998	74,689	80,745
Past due, but not impaired	2,296	4,079	4,652
Impaired	434	659	785
Total collateral held in respect of residential mortgages	**57,728**	**79,427**	**86,182**

If the collateral amount on each individual loan were capped at the amount of the balance outstanding, and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

In £m	**At 31 March 2016**	**At 31 March 2015**	**At 31 March 2014**
Neither past due nor impaired	33,274	47,989	55,140
Past due, but not impaired	1,581	3,026	3,758
Impaired	336	539	695
Total collateral held in respect of residential mortgages	**35,191**	**51,554**	**59,593**

The indexed loan to value ('LTV') of residential mortgage balances, weighted by loan balance, falls into the following ranges:

%	At 31 March 2016	At 31 March 2015	At 31 March 2014
To 50% loan to value	13	10	8
50% to 75% loan to value	44	34	22
75% to 100% loan to value	39	48	53
Over 100% loan to value	4	8	17
Total	**100**	**100**	**100**

Residential mortgage and unsecured loans: arrears and possessions

Arrears and possessions are monitored for residential and unsecured loans as follows:

		At 31 March 2016		At 31 March 2015	
		Residential mortgages	Unsecured loans	Residential mortgages	Unsecured Loans
Arrears 3 months and over					
- Number of cases (proportion of total cases)	No.	5,870 (2.0%)	4,307 (10.2%)	11,005 (2.4%)	8,877 (8.4%)
- Asset value (proportion of book value)	£m	859 (2.5%)	70 (17.8%)	1,576 (3.1%)	148 (14.0%)
- Total value of payments overdue (portion of book)	£m	36 (0.1%)	17 (4.4%)	63 (0.1%)	26 (2.5%)
Possessions					
- Number of cases (proportion of total cases)	No.	507 (0.2%)	-	971 (0.2%)	-
- Asset value (proportion of book value)	£m	76 (0.2%)	-	134 (0.3%)	-
- Total value of payments overdue (portion of book)	£m	4 (<0.1%)	-	9 (<0.1%)	-
Arrears 3 months and over and possessions					
- Number of cases (proportion of total cases)	No.	6,377 (2.1%)	4,307 (10.2%)	11,976 (2.6%)	8,877 (8.4%)
- Asset value (proportion of book value)	£m	935 (2.7%)	70 (17.8%)	1,709 (3.4%)	148 (14.0%)
- Total value of payments overdue (portion of book)	£m	40 (0.1%)	17 (4.4%)	72 (0.1%)	26 (2.5%)
Payments overdue in respect of all arrears and possessions	£m	49 (0.1%)	18 (4.5%)	91 (0.2%)	27 (2.5%)
Loan impairment provision: as % of total balances	%.	2	20	2	16
Loan impairment provision: new possessions	No.	1,853	-	2,856	-

Core Treasury and Agencies

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Where relevant these are discussed below.

The Bank of England Asset Purchase Facility Fund (BEAPFF) is a quantitative easing mechanism that was set up to purchase gilts financed by the creation of a central bank reserve, to the sum of £375bn. The £375bn was loaned by the Bank of England to a subsidiary company, BEAPFF Ltd, to manage the quantitative easing program.

HM Treasury provides an indemnity to the Bank of England for any losses or profits from operating BEAPFF. The derivative is valued on the basis of the difference between the fair value of BEAPFF Ltd's underlying assets and liabilities. It is difficult to predict the movement in the BEAPFF derivative as the fair value of its assets are re-priced in response to market changes.

The Bank of England manages risk associated with BEAPFF on HM Treasury's behalf. Subject to the policy objectives, the aim is to minimise overall risk through the appropriate choice of portfolio and risk management practices. A set of high-level financial risk parameters is in place for the Company's operations, agreed to by HM Treasury and the Bank of England, relating to eligible asset classes, investment limits, credit risk and counterparties.

Market risk associated with the BEAPFF derivative arises as a natural consequence of its policy objectives, principally through the re-pricing of its assets as a result of market changes. Interest rate risk is monitored in the form of 'delta', which is the decline in the valuation of BEAPFF Ltd's underlying assets from a 1 basis point increase in market interest rates. The delta at 31 March 2016 is £0.4bn (2014-15: £0.4bn).

Risk is also monitored through 'value at risk'. Value at risk estimates the potential loss that might arise if existing positions were unchanged for 10 business days under normal market conditions, given the historic volatility of the returns on different types of assets, and the correlation between their returns. The value at risk at 31 March 2016 is £10.5bn (2014-15: £13.6bn).

The amount due to or from HM Treasury under the indemnity does not indicate whether the public sector as a whole made a profit or loss from the operations of BEAPFF. Market interest rate rises and the unwinding of the BEAPFF is intended to boost spending and economic activity, in the process raising tax revenues and reducing benefit payments for HM Government, offsetting any loss sustained by HM Treasury under the indemnity.

Price Risk

UK listed shares represent shareholdings in RBS and Lloyds Banking Group. HM Treasury purchased shares in RBS and Lloyds Banking Group as part of the financial stability interventions. The shares in RBS and Lloyds were not purchased for commercial reasons. The purchase of the shares and the resulting injection of capital was necessary to ensure the financial survival of both entities and to avoid a collapse of the UK banking sector.

The fair value of the UK listed shares fluctuates as a result of changes in market prices. Market prices for a particular share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market.

UKFI, under the UKFI Framework Agreement, is responsible for the development and execution of an investment strategy for disposing of the investments in RBS and Lloyds Banking Group in an orderly and active way, within the context of protecting and creating value for the taxpayer.

The analysis below shows the impact on net operating income and reserves based on a 10% and a 25% increase/decrease in the market price of the share investments in RBS and Lloyds Banking Group.

In £m	Net Operating Income		Reserves	
	2015-16	2014-15	2015-16	2014-15
Increase +10%	-	-	2,321	4,299
Increase +25%	-	-	5,803	10,748
Decrease -10%	(1,878)	-	(443)	(4,299)
Decrease -25%	(4,696)	(1,046)	(1,107)	(9,703)
Investments – listed entities	-	-	23,211	42,992

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

HM Treasury's liquidity management controls include monitoring cash flows to ensure that daily cash requirements are met and re-assessing the net cash requirement on a regular basis and reporting this to Parliament through Estimates. HM Treasury is not exposed to significant liquidity risk because it can apply for Parliamentary approval for additional cover to pay for any liquidity gap.

Due to the magnitude of the financial stability interventions, liquidity requirements can fluctuate significantly.

HM Treasury's liquidly risk principally relates to BEAPFF. Monthly cash inflows are generated from gilt coupon interest and maturity proceeds which are offset by further gilt purchases, monthly loan interest payments to the Bank of England and HM Treasury cash payments. The Treasury will only be required to make payments to BEAPFF if the losses from gilt sales exceed the cash reserves held by BEAPFF.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

HM Treasury is also exposed to credit risk for guarantees provided to group entities and external counterparties.

HM Treasury offers guarantees to support the government's policy objective to support significant infrastructure and lending to small and medium businesses projects which have been affected by a shortage of financing or other risk issues. Guarantee fees are paid to compensate Treasury for its expected losses under the schemes. The schemes are not entered into for commercial gain. The guarantees do not involve direct cash support but they do expose HM Treasury to potential liabilities if the guarantees are called.

Treasury monitors the guarantees on an ongoing basis and assesses the likelihood of a pay out by the Treasury. For example UK guarantees has a Head of Portfolio Management who undertakes day to day oversight of guarantees, including early warning monitoring and planning mitigating action. If a pay-out is required, HM Treasury is legally entitled to recover as much as possible from the borrower. As in prior years, a call on any of the guarantees resulting in a significant pay-out is not considered probable and therefore the credit risk exposure is deemed to be immaterial.

Maximum exposure for financial guarantees is disclosed under Remote contingent liabilities in the Accountability Report. HM Treasury also has credit risk associated with loans as shown from page 125.

Project	Description	Maximum exposure in £m 31 March 2016	31 March 2015	Projected end date
University of Northampton	Relocation of university to a new site	301	299	Mar-2056**
Mersey Gateway	Construction of a new toll bridge	267	267	Mar-2043
INEOS Grangemouth	Construction of an ethane import and storage facility	227*	208*	Jul-2019
Drax biomass	Partial conversion of a coal power station to biomass	76	76	Jun-2018
Speyside	Construction of a biomass power station	50	50	Jun-2028
National Car Parking	Installation of energy saving lighting	5	7	Dec-2017
University of Gloucestershire	New student village and refurbishment of existing university facilities	39	-	Sep-2051
Countesswells	Construction of a new community including homes and other facilities	86	-	Mar-2031
National Loan Guarantee Scheme	Reducing the cost of bank loans for businesses	2,900	2,900	May-2017
Help to Buy guarantees	Offers lenders the option to guarantee high loan-to-value mortgages	1,067	631	Dec-2030
Deposit guarantees***	Wholesale borrowings and deposits with B&B and borrowings, derivative transactions, and wholesale deposits in respect of NRAM plc	1,743	8,900	Jun-2027

* The amount guaranteed is €285m. This is converted to £ GBP at 31 March 2015 and 2016 using the exchange rate per www.xe.com
** Following drawdown of loans in March 2016, the end date of the guarantee was updated from July 2058
*** Eliminated on consolidation

29. Group financial instruments - fair value hierarchy

In £m	2015-16 Level 1	Level 2	2014-15 Level 1	Level 2
Available-for-sale financial assets				
Investments – listed entities	23,210	-	42,993	-
Investments – unlisted entities	-	4,684	-	4,566
Derivative financial assets and liabilities				
Derivative financial assets	-	39,176	-	39,400
Derivative financial liabilities	-	(528)	-	(570)
Other financial assets				
Investment securities	-	52	-	158
Assets held for sale	-	-	-	757

HM Treasury has no Level 3 investments

Introduction	All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole. There were no reclassifications between the hierarchies.
Level 1	The value is determined using quoted prices (unadjusted) in active markets for identical assets and liabilities the entity can access at the measurement date.
Level 2	The value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly. Unlisted entities use net assets as a proxy for their value. Derivatives are calculated by using discounted future cash flows using observable market parameters including swap rates, interest rates and currency rates.
Other	These assets cannot be classified within the fair value hierarchy because the FReM requires them to be held at historic cost. These amounts are not shown in the table above on the basis of materiality. 2015-16: £6m (2014-15: £6m)..

30. Financial Instruments – Assets and Liabilities

The accounting policies for financial instruments have been applied to the line items below. The carrying amount below represents fair value unless stated otherwise. The table below shows the difference between fair value and carrying value.

30.1 Core Treasury and Agencies

In £m	2015-16 Fair Value	2015-16	2014-15 Fair Value	2014-15
Financial assets: at amortised cost				
Cash and cash equivalents	-	1	-	1
Trade and other receivables*	-	1,194	-	1,272
Loan hedging asset**	-	-	-	-
Loans and advances	32,252	31,483	39,486	38,648
Financial assets: available-for-sale assets				
Available-for-sale assets	-	35,784	-	54,612
Financial assets: fair value through SoCNE				
Derivative financial assets	-	38,394	-	36,438
Financial assets: held for sale				
Assets held for sale	-	-	757	757
Financial liabilities and guarantees: amortised cost				
Trade and other payables***	-	(484)	-	(363)
Financial guarantees	-	(641)	-	(683)

30.2 Group

In £m	2015-16 Fair Value	2015-16	2014-15 Fair Value	2014-15
Financial assets: at amortised cost				
Cash and cash equivalents	-	6,069	-	9,486
Trade and other receivables*	-	1,854	-	1,643
Loan hedging asset**	-	437	-	468
Loans and advances	3,909	3,719	5,188	4,892
Loans to banking customers	32,563	35,533	49,933	52,683
Financial assets: available-for-sale assets				
Available-for-sale assets	-	27,945	-	47,717
Financial assets: fair value through SoCNE				
Derivative financial assets	-	39,175	-	39,400
Financial assets: held for sale				
Assets held for sale	-	-	757	757
Financial liabilities and guarantees: amortised cost				
Trade and other payables***	-	(1,457)	-	(1,206)
Other financial liabilities	-	(9)	-	(17)
Debt securities in issue	(5,104)	(5,159)	(21,439)	(20,947)
Cash collateral due to banks	-	(554)	-	(2,186)
Financial guarantees	-	(270)	-	(291)
Financial liabilities: fair value through SoCNE				
Derivative financial liabilities	-	(528)	-	(570)

* Trade and other receivables are shown net of non-financial assets
** The fair value of the loan hedging asset is £nil
*** Trade and other payables are shown net of non-financial liabilities

Loans to customers include loans of varying rates and maturities. Fair value is estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of the Group's fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value, however, as the Group's policy is to hedge fixed rate loans in respect of interest rate risk, the Group has no material exposure to this difference in fair value.

31. Related party transactions

HM Treasury and the entities listed in Note 33.3 are regarded as related parties. The Treasury has had material transactions with UKAR and FSCS during the year, including material loan balances and repayments (Note 11).

Although the Bank of England, the Royal Mint, Local Partnerships, RBS and Lloyds Banking Group fall outside the accounting boundary, their share capital is either wholly owned or partially owned by HM Treasury. Dividends and other income received from these bodies are material and recorded in the SoCNE.

HM Treasury received payments from RBS against the Dividend Access Share of £1.2bn and dividends from Lloyds of £187m. RBS and Lloyds Banking Group participate in the Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme and pay guarantee fees which are recognised as income in HM Treasury's Accounts.

In addition, HM Treasury and its Group entities have transactions with other government departments and central government bodies. The most significant of these are with HM Revenue and Customs and the Financial Conduct Authority.

No Minister, Board member, key manager or other related party has undertaken any material transaction with HM Treasury during the year. Details of compensation for key management personnel can be found in the Remuneration Report section of the Accountability Report.

32. Auditor's remuneration

Remuneration for the audit of the Treasury Group was a notional cost of £360k (2014-15: £360k). In addition, £379k (2014-15: £349k) was charged by the NAO for other audit services, of which £107k (2014-15: £42k) was notional. The increase is due to the Government Internal Audit Agency being audited for the first time. No payments (2014-15: nil) were made to the NAO in respect of non-audit services.

33. Statement of accounting policies

These financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) and the Government and Resource Accounts Act 2000. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HM Treasury for the purpose of giving a true and fair view has been selected.

The particular policies adopted by HM Treasury are described below. In addition to the primary statements prepared under IFRS, the FReM requires HM Treasury to prepare a Statement of Parliamentary Supply and supporting notes analysing the net resource outturn and capital outturn against control totals voted by Parliament through the Estimate. These are included within the Parliamentary Accountability section of this document.

HM Treasury is domiciled in the United Kingdom and is located at 1 Horse Guards Road, London. The presentational and functional currency is pound sterling.

The presentation of these Accounts is different to the presentation of the prior year's Accounts. All comparative figures have been restated.

33.1 IFRS in issue but not effective

The disclosures below detail the effect that new accounting standards are expected to have on HM Treasury's accounts.

IFRS 9 Financial Instruments:- All equity instruments within the scope of IFRS 9 are to be measured at fair value in the SoFP, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to report value changes in other comprehensive income.

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

IFRS 9 is expected to have significant implications in relation to impairment of loans to banking customers, hedging and which assets are carried at amortised cost and which at fair value.

33.2 Accounting convention

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

33.3 Basis of consolidation

These accounts consolidate Core Treasury and Agencies and those entities which fall within the Departmental Boundary as defined in the FReM and make up the Departmental Group. 'Core Treasury and Agencies' includes HM Treasury plus the UK Debt Management Office and the Government Internal Audit Agency, Office of Financial Sanctions Implementation, Office of Tax Simplification and Infrastructure UK. Transactions between entities included in the reporting boundary are eliminated on consolidation. Unless otherwise stated, all entities have a 31 March reporting date. The 'Group' includes:

Entity Name	Principal Activity
UK Asset Resolution Ltd (UKAR)	Financial institution
Financial Services Compensation Scheme	Deposit guarantee scheme
UKGI Financing plc	Not trading – dormant shell
UK Financial Investments Ltd	Manage government investments
UK Government Investments Ltd	Not trading – dormant shell
Infrastructure Finance Unit Ltd	Provides infrastructure loans
IUK Investments Holdings Ltd	Investment in PF2 projects
Help to Buy (HMT) Ltd	Delivers the mortgage guarantee scheme
The Money Advice Service	Independent advice service
Office for Budget Responsibility	Independent fiscal watchdog
Royal Household Sovereign Grant	Public funding for the Royal Household
Royal Mint Advisory Committee	Advisory
HM Treasury UK Sovereign Sukuk plc	Issue of Sukuk

UKAR includes the consolidation of a number of Arm's Length Bodies relating to NRAM and Bradford & Bingley plc: http://www.ukar.co.uk/media-centre/press-releases/2016.

Refer to Note 10 to see HM Treasury's ownership interests in other entities not discussed above. HM Treasury has been authorised by the relevant authority to apply IAS 39 *Financial Instruments: Recognition and Measurement* as adapted by the FReM, allowing Treasury to continue to use its fair value as a measure of its shareholdings in Lloyds Banking Group Plc. This overrides the requirement in the 2015-16 FReM to equity account for shareholdings in entities that are considered associates under IAS 28 Investments in Associates and Joint Venture, and will maintain alignment with HM Treasury's measurement of its other temporary shareholdings in public sector banks that are valued in line with the FReM.

HM Treasury has also applied IAS 39 to measure at fair value its temporary holding of shares in Eurostar International Limited which is classified as 'an asset held for sale' in accordance with IFRS 5 Non-current Assets Held for Sale.

33.4 Significant judgements and estimates

Impairment losses on loans and advances

The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date.

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. A sensitivity analysis of capital recoveries for these loans is included in Note 28 Credit risk.

In addition to assessing the amount of repayment, timing is also considered for interest free loans.

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

Impairment losses on loans to banking customers

In respect of loans to banking customers, loan impairments are reviewed on a monthly basis and individual impairment losses are assessed by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans are calculated using a statistical model. The key assumptions used in this model are: the probability of any balance entering into default as a result of an event that had occurred prior to the reporting date; the probability of this default resulting in possession or write-off; and the estimated subsequent loss incurred.

These key assumptions are based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance would be an estimated £40m lower (2014: £76m) or £47m higher (2014: £87m) respectively.

Impairment of available-for-sale financial assets

In determining whether an impairment loss has been incurred in respect of RBS and LBG shares, HM Treasury assesses whether there has been a significant or prolonged decline in its fair value below original cost price. Significant is deemed to be 20% and prolonged as 9-12 months.

Provisions

Provisions are recognised in accordance with IAS 37 when a present obligation exists as the result of a past event, when it is probable that economic benefits will flow from HM Treasury in order to settle the liability and that a reliable estimate can be made of the sum required to make a final settlement. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Future payments may be subject to discount rates based on the expected timing of cash flows to arrive at the net present value of all expected future cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations. In accordance with IAS 1, provisions are separately disclosed as current and non-current.

33.5 Revenue recognition

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met.

33.6 Property, plant and equipment

Property, plant and equipment assets are initially recognised at cost. The threshold for capitalising non-current assets is £5,000 except for antiques where no threshold is set. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When an asset is disposed of, any gain or loss on disposal is calculated as the difference between the disposal proceeds and the carrying value of the asset, and is recognised as profit or loss in the SoCNE.

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

Freehold and long leasehold buildings	40 to 50 years
Property improvements	7 to 50 years
Plant and machinery	3 to 12 years
Furniture, fixtures and fittings	5 to 20 years
IT equipment and other non-IT equipment	3 to 10 years

33.7 Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are provided in Note 23, non-cash transactions.

Impairments are permanent diminutions in the service potential of non-current assets. All assets are assessed annually for indications of impairment. An impairment loss is recognised in the SoCNE to the extent it cannot be offset against the Revaluation Reserve.

Any reversal of an impairment charge is recognised in the SoCNE to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised in the SoCNE. The remaining amount is recognised in the Revaluation Reserve.

33.8 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risks of change in value, and bank overdrafts.

33.9 Financial instruments: financial assets

Classification

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. The classification of financial assets depends on the purpose for which the financial assets were acquired. Financial assets are classified on initial recognition into the following categories: at fair value through profit or loss, loans and receivables, and available for sale financial assets.

Financial assets at fair value through profit and loss	Financial assets and liabilities at fair value through profit or loss are financial assets held for trading or designated as at fair value through profit and loss. Derivatives, including separate embedded derivatives, are also classified as held for trading unless they are designated as hedges.
Loans and Receivables	Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They are included in current assets, except for loans and receivables with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.
Available-for-sale Financial Assets	Available-for-sale financial assets are non-derivative assets that are either designated as available-for-sale or are assets that do not meet the definition of loans and receivables and are not derivatives or assets held at fair value through profit or loss.

Initial recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, which is the date on which the Department commits to purchase or sell the asset. Financial assets are recognised initially at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the SoCNE.

Subsequent measurement

After initial recognition financial assets are measured at their fair values except for loans and receivables which are measured at amortised cost using the effective interest method.

Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Note 33.4
Disclosures of fair value measurement hierarchy	Note 29
Financial Instruments	Note 30

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices in active markets and, where these are not available, using appropriate present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments.

In the absence of observable market data for investments in entities outside the departmental boundary, net asset value per recent audited accounts is used as a measure for determining fair value. This applies to HM Treasury's investments in the Bank of England, Local Partnerships and UKAR although this is eliminated at Group level. Fair value changes reflect the changes in value of total assets less current liabilities held by these bodies.

Movements in fair value are recognised in the SoCNE, except in the case of instruments categorised as 'available-for-sale', in which the fair value movements are taken to the 'available-for-sale' reserve, until realised when they are reclassified to the SoCNE.

Derivative Financial Assets

Derivatives are recognised at fair value. Derivatives are measured initially at fair value and subsequently re-measured to fair value. Fair values are obtained from quoted market prices in active markets and, where these are not available, from other valuation techniques including discounted cash flow models.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and reward of ownership. The investments in available-for-sale assets have been disclosed on a tranche by tranche basis where different lots of the same security have been purchased at a different price levels. The gain or loss on these securities will be accounted for on a first in first out basis when they are eventually disposed of.

33.10 Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Assets carried at amortised cost	
Loans and advances	Note 11
Loans to banking customers	Note 12
Available-for-sale assets	Note 10

Impairment identification

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of an impairment loss for each financial asset category is detailed below.

Assets carried at amortised cost

For financial assets carried at amortised cost, the Group first considers whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

Loans and advances

Objective evidence of an impairment loss include delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions and deterioration in the value of collateral.

Loans to banking customers

For loans to banking customers, an assessment is made as to whether an impairment provision should be made on an individual or collective basis. Loans where an individual assessment is made include all loans in possession or held for sale with a Law of Property Act ('LPA') receiver and others which management consider to be individually impaired.

All loans that have been assessed as having no individual impairment are then assessed collectively, grouped by loans with similar characteristics. An assessment is made of impairment arising due to events which are believed to have occurred by the reporting date but have not yet been reported, taking into account economic conditions in the market.

Available for sale assets

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Generally, for investments in this classification, an impairment review is carried out at the reporting date. Indicators of impairment include net cash outflows or other operating losses, a reduction in total assets less current liabilities and other factors influencing recoverable amount. This assessment is performed on a tranche by tranche basis where multiple lots of the same security have been purchased at different price levels.

Impairment measurement

Assets carried at amortised cost- The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the Treasury discount rate applicable at the inception of the loan (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced in the Statement of Financial Position and the loss is recognised in the SOCNE.

Collective impairment is reflected by reducing the carrying value of the total loans by applying an impairment allowance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

Available-for-sale assets- Where there is evidence of impairment, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the SOCNE, are removed from equity and recognised in the SOCNE.

Impairment losses recognised in the SOCNE are not subsequently reversed until this related financial asset is de-recognised.

33.11 Provisions, contingent liabilities and contingent assets

Provisions are carried in respect of certain known or forecast future expenditure. As per IAS 37, provisions are recognised when there is a present obligation, it is probable that a transfer of economic benefits will be required, and a reliable estimate can be made. Where the future payment amount is unknown provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. In calculating provisions, future payments may be subject to discount rates depending on the expected timing of cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

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

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

33.12 Financial Guarantees

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

The fair value of financial guarantee liabilities at initial recognition is estimated as the fair value of the guarantee fee income, assuming the fee has been set at a market rate.

Subsequent measurement of liabilities under financial guarantees is measured at the higher of: the initial measurement, less amortised fee income recognised in the SOCNE as the service is provided; and the best estimate of the probable expenditure required to settle any financial obligation arising at the reporting date. Any increase in the liability relating to guarantees is taken to the SOCNE.

33.13 Debt and equity securities in issue

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

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

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

33.14 Financial Instruments: Financial Liabilities

Classification

Financial liabilities are classified on initial recognition as either at fair value through profit and loss, or financial liabilities measured at amortised cost.

Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through profit or loss are liabilities held for trading or designated as at fair value through profit and loss.
Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Trade and other payables, borrowings and bank overdrafts are classified as financial liabilities measured at amortised cost.

Recognition

Financial liabilities are initially recognised on the date on which they are originated.

Measurement

Financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities at fair value through profit and loss.

Derivative Financial Liabilities

Derivatives are recognised at fair value. Derivatives are measured initially at fair value and subsequently re-measured to fair value. Fair values are obtained from quoted market prices in active markets and, where these are not available, from other valuation techniques including discounted cash flow models.

Derecognition

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

33.15 Pensions

The Group operates a number of retirement benefit plans for its employees, including defined benefit plans, defined contribution plans and post-retirement healthcare benefits.

Defined Benefit Schemes

Pension benefits are provided through Civil Service pension arrangements as detailed from page 70 of the Remuneration Report.

HM Treasury recognises the expected cost of future pension liabilities in a systematic and rational basis over the period during which it benefits from employees' service by payment to Civil Service pension schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

The FSCS, UKAR group (including B&B and NRAM), and the Royal Household also operate defined benefit schemes that are separate from the Civil Service pension schemes and accounted for under IAS 19.

Defined contribution schemes

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

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

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

33.16 Tax

Value Added Tax

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

Corporation Tax

The charge for taxation is based on UKAR and HM Treasury UK Sovereign Sukuk plc results for the year.

33.17 Hedging activities

Hedging activities are used for commercial management of exposures to interest rate risks and foreign currency risks. The Group has adopted cash flow hedge accounting and fair value hedge accounting. Hedging activities only relate to UKAR. For further disclosures refer to UKAR's Annual Report and Accounts.

33.18 Cash flow hedge accounting

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

33.19 Fair value hedge accounting

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

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the IAS 39 classification of '*highly effective*', the associated hedged item is carried on the SoFP at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the SOCNE, mitigating the fair value movements on the associated derivative financial instruments.

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

33.20 Embedded Derivatives

Derivatives may be embedded in another contractual agreement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of the qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SoFP together with the host contract.

33.21 Sales and repurchase agreements

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

33.22 Foreign currencies

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

33.23 Off-Balance Sheet loan commitments

Off-Balance sheet loan commitments are disclosed in Note 24 'Commitments'. They comprise commitments to advance cash sums, and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of lifetime mortgages which involved the advance of a lump sum on which interest continues to accrue but is not payable until the loan is redeemed, the commitment reflects an estimate of the interest expected to roll up until redemption. In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

33.24 Operating segment reporting

In accordance with the relevant reporting requirements, including IFRS 8, the Statement of Parliamentary Supply and supporting notes reflect net resource and capital outturn in line with the control totals voted by Parliament. The figures within SoPS 1.1 provide the income and expenditure totals associated with key business activities within the Group and therefore reflect the HM Treasury Business plan and the management information reported to the Board during the period.

33.25 Events after the reporting period

UKAR sale to Cerberus

On 13 November 2015 UKAR announced that NRAM had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure plus a further £1bn of non-Granite assets. The sale of the Granite loans was recognised in December 2015 when the beneficial interest of those loans transferred to Cerberus.

The second stage of this transaction completed in April and May 2016 as follows:

29 April – NRAM was acquired by NRAM (No.1) Limited in a share-for-share exchange. At this point HM Treasury committed to providing financing facilities and guarantee arrangements to NRAM (No.1) Limited and confirmed its intentions to continue to provide funding to NRAM (No.1) Limited until at least 1 January 2018.

30 April – NRAM declared a dividend of £3.8bn to NRAM (No.1) Limited and paid the dividend in specie, using mortgage loans.

30 April – NRAM transferred certain assets and liabilities to NRAM (No.1) Limited. These assets and liabilities were those that were not to be included in the sale to Cerberus and included all of NRAM's investments in subsidiary undertakings, £9.9bn of loans to customers, NRAM's 30 April balances in respect of certain bank accounts, investment securities, retirement benefit assets, HM Treasury loans, the debt securities in issue and derivative financial assets and liabilities. These balances were transferred at their carrying amounts and a net balance owed to NRAM by NRAM (No.1) Limited was left outstanding.

5 May – NRAM (No.1) Limited sold 100% of the shares of NRAM to Cerberus, generating a small accounting profit. At this point, HM Treasury ceased its funding and guarantees to NRAM. No assets and liabilities have been classified as 'held for sale' in the HM Treasury Group's 31 March 2016 Balance Sheet as at that date the balances were not available for immediate sale in their current condition, substantial further conditions being required to be satisfied in order to complete the sale.

UKAR sale to Computershare

On 4 May the UKAR Group announced that it had signed a contract to transfer the UKAR Group's mortgage servicing operations and associated servicing assets of c. £43m, to Computershare. The agreement, which will see Computershare service the UKAR Group's mortgage assets and unsecured loans for a seven year period, will also involve around 1,700 UKAR employees transferring to Computershare. No assets were classified as 'held for sale' at 31 March 2016 as, at that date, the servicing operations remained fully integrated with the wider business of the UKAR Group and were not available for immediate sale. Under the terms of the contract, the UKAR Group provided certain warranties and indemnities to Computershare.

On 6 June 2016 UKAR announced that this transaction was completed and mortgage servicing transferred to Computershare. Further details are available on the B&B sections of the UKAR website.

25 April - the remaining debt securities issued by Whinstone Capital Management Limited were redeemed.

UKGI formation

On 20 May 2015, the Chancellor announced the creation of UK Government Investments as part of the government's plan to deliver the sale of publically owned corporate and financial assets. UK Government Investments Ltd (UKGI) was incorporated on 11 September 2015 and is a private limited company that is wholly owned by HM Treasury.

On 1 April 2016, the functions and operations of the Shareholder Executive, formerly a group within the Department for Business, Innovation and Skills, were transferred to UKGI.

On 1 April 2016 HM Treasury's entire shareholding in UK Financial Investments Limited was transferred to UKGI. UKFI is now a wholly-owned subsidiary of UKGI. Together both companies make up the UKGI group.

EU referendum

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot yet be made.

Change in the market value of investments

HM Treasury's investments in RBS and Lloyds Banking Group are categorised as Level 1 investments, with the value being determined using quoted market prices derived from active markets.

Since 31 March 2016, there have been material fluctuations in the quoted market prices of RBS and Lloyds Banking Group. At close of trading on 27 June 2016 (the date of signing), share prices were 174.30 and 51.15 pence respectively. This represents a fair value decrease on RBS and Lloyds Banking Group shares of £5.2bn since 31 March 2016, when the share prices at close of trading were 222.70 and 68.02 pence respectively.

33.26 Date authorised for issue

The financial statements were authorised for issue by the Acting Permanent Secretary on 27 June 2016.

Trust Statement

Principal Accounting Officer's Foreword to the Trust Statement

Introduction

The Trust Statement reports the revenue, expenditure, assets and liabilities related to the fines collected by the Treasury from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) for the financial year 2015-16. The costs of running the Treasury are reported in the Department and Agencies' balances in the Treasury's Annual Report and Accounts.

Section 109 of the Financial Services Act 2012 requires the FCA to pay its penalty receipts to the Treasury after deducting its enforcement costs and requires the Treasury to pay these receipts to the Consolidated Fund. Further information on penalties applied by the FCA is available on the FCA website.

Similarly, the PRA is required to pay any enforcement fines it levies in excess of enforcement costs to HMT, which is required to pay those receipts to the Consolidated Fund. Further information on penalties applied by the FCA is available on the PRA website.[1]

Basis for the preparation of the Trust Statement

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for this Trust Statement is set out in section 2 of the Exchequer and Audit Departments Act 1921. The Treasury accounts direction requires the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in the Government Financial Reporting Manual (FReM), Managing Public Money and other guidance issued by HM Treasury.

The Treasury conducts an annual reconciliation of budgeted enforcement costs against actual by reference to the published accounts of PRA and FCA to gain assurance that the penalty receipts and enforcement costs are accurate and accounted for correctly.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under the Exchequer and Audit Departments Act 1921. The auditor's remuneration for this is included in the Treasury's Annual Accounts. No non-audit work was carried out by the auditors for the Treasury.

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

Financial Review

The Treasury has received £0.8 billion in fine income from the FCA (2014-15: £1.4 billion) and nil from the PRA (2014-15: £12 million).

[1] http://www.bankofengland.co.uk/pra

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

I have audited the financial statements of HM Treasury for the year ended 31 March 2016 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of HM Treasury 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 Annual 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 report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the HM Treasury Trust Statement gives a true and fair view of the state of affairs of the collection of penalties net of enforcement costs paid to HM Treasury by the Financial Conduct Authority and the Prudential Regulation Authority as at 31 March 2016 and of the net revenue and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Performance Report and Accountability Report and the Foreword to the Trust 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

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

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

Sir Amyas C E Morse **28 June 2016**
Comptroller and Auditor General

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

Statement of Revenue and Expenditure

For the period ended 31 March 2016

In £m	Note	2015-16	2014-15
Net fine income	2	**825**	**1,396**
Net revenue for the Consolidated Fund		**825**	**1,396**

The notes on page 151 form part of this statement.

Statement of Financial Position

As at 31 March 2016

In £m	Note	2015-16	2014-15
Current assets			
Receivable from the FCA/PRA		2	20
Cash and cash equivalents		-	-
Total assets less current liabilities		**2**	**20**
Balance on Consolidated Fund account	3	**2**	**20**

The notes on page 151 form part of this statement.

John Kingman
Acting Permanent Secretary
27 June 2016

Statement of Cash Flows

For the period ended 31 March 2016

In £m	Note	2015-16	2014-15
Net cash flow from operating activities	A	843	1,444
Cash paid to the Consolidated Fund		(843)	(1,444)
Increase/(decrease) in cash in this period		-	-

A: Reconciliation of net cash flow to movement in net funds

In £m	2015-16	2014-15
Net revenue for the Consolidated Fund	825	1,396
(Increase)/decrease in non-cash assets	18	48
Net cash flow from operating activities	**843**	**1,444**

Notes to the Trust Statement

1. Statement of accounting policies

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements.

1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921
- the 2015-16 Government Financial Reporting Manual issued by HM Treasury
- reference to International Financial Reporting Standards as adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes
- The financial information presented is rounded to the nearest £ million

1.2 Accounting convention

The Trust Statement has been prepared on an accruals basis under the historical cost convention.

1.3 Revenue recognition

Fine income is accounted for in accordance with IAS 18 Revenue Recognition, net of enforcement costs. It is recognised when the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HM Treasury.

1.4 Receivables

Receivables are accounted for in accordance with the requirements of IAS 39 Financial Instruments: Recognition and measurement. Accrued revenue receivable represents the amount due from the FCA and PRA, where penalties have been received by the regulators but the cash has not transferred to HM Treasury as at the reporting date.

2. Net fine income

In £m	2015-16	2014-15
Fine income from FCA	825	1,384
Fine income from PRA	-	12
Net fine income	**825**	**1,396**

Detailed information on fines collected can be found in the audited annual reports of the FCA and the PRA.

3. Balance on the Consolidated Fund Account

In £m	2015-16	2014-15
Balance on Consolidated Fund account as at 1 April	20	68
Net revenue for the Consolidated Fund	825	1,396
Less amount paid to the Consolidated Fund	(843)	(1,444)
Balance on Consolidated Fund account as at 31 March	**2**	**20**

4. Events after reporting date

There were no events after reporting date.

Sustainability Report

The Treasury is committed to having a sustainable core to each of the policies it develops, whether they relate to its economic and finance ministry objectives, or are part of the environment in which the department works.

The Treasury has committed to:

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

Sustainable economic growth

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

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

The department also has a key role in supporting the work of other departments on sustainability issues. For example the Treasury's Energy, Environment and Agriculture team look at issues including:

- DEFRA and DECC spending strategy
- energy prices and bills
- achieving the UK's climate change policy aims and objectives consistent with fiscal and economic interests
- climate change adaptation
- Carbon Budgets and the low carbon economy

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

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

Internal Sustainability Plan

The Treasury has developed its Greening HMT Plan which addresses its GGC targets and lists a plan of works to meet these.

The key elements of the Plan are:

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

Treasury Environment Network

The Treasury Environment Network is organised for staff by staff and hosts monthly seminars on a range of energy and environment issues. Speakers come from a range of backgrounds – business, academia and international organisations, and cover a variety of topics.

As well as being of interest to those working on energy and environmental policy, discussions are relevant to those working across the department, including on infrastructure, competition, and living costs. Colleagues are encouraged to attend these seminars and raise questions with guest speakers. For those who are unable to attend, the presentation slides are posted on the network's intranet page.

Highlights from the 2015-16 programme of seminars included:

- Julian Allwood, Professor of Engineering and the Environment at the University of Cambridge, discussed materials efficiency, and how this feeds into cost-effective decarbonisation by mitigating industrial emissions
- Jim Watson, Research Director of the UK Energy Research Centre (UKERC) presented on scenarios for meeting the UK's targets to reduce its greenhouse gas emissions by 80% from 1990 levels by 2050. He also discussed UKERC's recent report on the future role of natural gas in helping the UK to meet its 2050 targets
- Jo Coleman, Director of Strategy at the Energy Technology Institute (ETI), spoke on the role of smart systems, heat, and hydrogen in the UK energy market up until 2030. She discussed ETI's recent reports on the consumer challenges for low carbon heat, and the potential role of hydrogen storage in the future
- officials from the Department of Energy and Climate Change came in to demonstrate how smart meters work, including In Home Displays and various apps

Biodiversity and the Treasury estate

DEFRA published their National Pollinator Strategy in November 2014, highlighting the importance of pollinating insects and their impact on the health of the UK food industry. Without natural pollinators, food would be substantially more difficult and more expensive to grow in the UK. The strategy encourages land owners and local authorities to incorporate the support of pollinators in their estate management strategies.

During 2015-16 the Treasury continued with their planting scheme in the courtyards of the Horse Guards Road building, designed to improve local biodiversity and attract more pollinators to the environment. Provided by contractors as part of the building's PFI contract, the plants are obtained from British growers and so have a low carbon footprint.

Regular checks are carried out to measure wildlife activity within the courtyards, checking for active pollination, and any new or declining species. The ladybird houses installed in 2014-15 have been successful with the numbers of ladybirds increasing since their installation. The increase in biological pest controls have replaced chemical treatments, therefore decreasing the risk to beneficial insects.

Sustainable Procurement

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

- utilising Crown Commercial Service (CCS) frameworks which include sustainability factors as a key criterion for award
- where relevant, including sustainability measures in tender evaluation criteria. Evaluation must include social and economic factors in addition to environmental factors
- highlighting contract opportunities suitable for SMEs on Contracts Finder
- returning annual sustainable procurement data to Defra to meet GGC requirements

Performance against our Greening Government Commitments[1]

In 2015-16 the Treasury, as in previous years, continued its strong performance against GGC waste targets, exceeding these targets for the fifth consecutive year. The department has surpassed its greenhouse gas emissions reduction target, achieving a reduction of 65%. The Treasury's water consumption has also improved significantly and the department is working towards the government benchmark of 6m^3 per FTE.

Summary of performance against GGC targets in 2015-16

Key Target	Baseline	Movement	Actual
1. Reduce greenhouse gas emissions by 25%	4,338 tCO_2e	-65%	1,517 tCO_2e
2. Reduce waste by 25%	485 t	-74%	128 t
3. Reduce water consumption	14,738 m^3	-36%	9,498 m^3

Target 1: Reduce greenhouse gas emissions by 25%[2]

Cut carbon emissions from central government offices

The Treasury has reduced greenhouse gas emissions by 65% from its 2009-10 baseline figure of 4,338 tCO_2e. This has produced substantial savings in Treasury energy costs over the six year period.

Energy and CO_2 emissions

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Electricity (mWh)	4,802	4,265	4,118	2,844	2,750	2,642
Gas (mWh)	476	281	285	87	35	31
Whitehall District Heating System (mWh)	1,813	1,229	1,833	1,082	1,005	710
Total CO_2 emissions (tCO_2e)[3]	**3,088**	**2,615**	**2,682**	**1,679**	**1,751**	**1,517**

[1] Data is included for the Treasury which is defined for sustainability reporting purposes as core Treasury in 1HGR and travel data for Debt Management Office (DMO) and Treasury in Rosebery Court. The Government Internal Audit Agency (GIAA), officially created on 1 April 2015, was exempted from sustainability reporting in 2015/16, and data relating to it will be available in future reporting periods. Space in 1HGR is leased by Cabinet Office, Northern Ireland Office and UK Export Finance, for reporting purposes this space is excluded from the Treasury data. For 2015 to 2016, any shared costs for 1HGR are apportioned between the Treasury and other government departments, with Treasury averaging a 47% share over the year. In 2014 to 2015 the Treasury held a 46% share, in prior years, when only the Cabinet Office leased space in 1HGR, the Treasury's share was 64%.
[2] Our reported greenhouse gas emissions only include emissions from our estate operations (gas, electricity and heating) and domestic travel as required by GGC. Costs shown relate to the Treasury's 1HGR building with the exception of travel costs which include both core Treasury and DMO.
[3] In line with DEFRA guidelines the Treasury has not weather-corrected its building data and has applied the recommended conversion factors which were revised for 2015-16.

Energy costs (£000s)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Electricity	343	362	362	302	268	271
Gas	2	2	2	2	1	1
Whitehall District Heating System	207	155	228	155	148	180
Total	**552**	**519**	**592**	**459**	**417**	**452**

Cut domestic business travel flights by 20%

2015-16 saw a decrease in the total CO_2 emissions from travel. Although emissions as a result of domestic air travel have reduced, it remains above historic levels. Air travel is considered the most appropriate method of travel for official business in Scotland and Northern Ireland.

The department continues to educate staff on the use of video and audio conferencing in place of travelling to meetings where possible as well as to review its travel policies.

Travel and CO_2 emissions

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Fleet[4] (km)	12,144	13,988	13,561	21,119	35,156	34,813
Domestic rail (km)	707,960	508,765	555,577	536,316	731,257	636,084
Domestic flights (km)	159,796	122,547	218,706	204,640	314,809	255,425
Standard taxis[5] (km)	45,859	34,357	12,535	5,147	10,266	19,745
Hybrid taxis (km)	-	-	4,329	9,773	10,275	12,401
No. of domestic flights	264	237	345	314	372	389
Total CO_2 emissions (tCO_2e)	**78**	**59**	**78**	**67**	**92**	**79**

Travel Costs £000

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Fleet (including Government Car Service)	296	168	214	235	274	309
Rail	378	329	358	351	410	339
Domestic flights	39	36	43	52	56	63
Taxis	104	83	53	57	47	74
Total	**817**	**616**	**668**	**695**	**787**	**785**

Target 2: Reduce waste by 25%

By continuing to recycle all waste where facilities exist and otherwise sending waste for energy-recovered incineration, the Treasury has reduced its waste significantly from its 2009-10 baseline figure of 485 tonnes to 128 tonnes in 2015-16. This has been achieved with no waste being sent to landfill.

[4] Fleet emissions relate to private individuals cars used for business purposes. Emissions do not include the government car service.
[5] Standard taxis include private hire, petrol or diesel and include people carriers or saloon cars. This does not include black cabs.

Waste (tonnes)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Waste incinerated with energy recovery	133	87	81	57	78	72
Waste recycled	161	107	101	84	69	51
Waste sent for anaerobic digestion	8	8	6	5	6	5
ICT waste recycled	-	2	19	-	-	-
ICT waste reused	-	-	1	-	-	-
Total	**302**	**204**	**208**	**146**	**153**	**128**

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

Treasury ICT waste is re-used or disposed of responsibly in line with government standards. The Treasury uses an ICT contract take back scheme and a 'call-off' disposal contract with E-Recycle which meets the ISO 14001:2004 environmental management standard.

Cut paper use and move to closed loop paper supply

The department moved to a closed loop paper contract in June 2012. Under this contract, used printer paper is recycled and returned to the department for reuse.

Although paper consumption has increased in 2015-16, it remains significantly below the baseline figure of 27,030 reams of paper (A4 equivalent).

Paper consumption (reams)

Reams	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A4	10,122	11,452	13,435	11,225	14,052	15,358
A3	230	198	281	237	139	218
Total (A4 Equivalent)	**10,352**	**11,848**	**13,997**	**11,699**	**14,330**	**15,794**

Target 3: Reduce water consumption

In 2015-16 the Treasury's water consumption in 1HGR, calculated per FTE equivalent, was $8m^3$/FTE. The department installed further water meters across the estate as part of a review of water consumption and these have allowed the introduction of focused improvement measures. Further reduction of water consumption will move the department closer to the government benchmark of $6m^3$ per FTE.

Water consumption (m^3)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total consumption	11,854	11,193	16,992	11,465	11,327	9,498
Per FTE	8	7	13	11	10	8

Water cost (£000s)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total cost	23	31	32	23	23	36

Abbreviations

AIIB	Asian Infrastructure Investment Bank
AME	Annually Managed Expenditure
AML	Anti-Money Laundering
BAME	Black, Asian and minority ethnic
BEAPFF	Bank of England Asset Purchase Facility Fund
B&B	Bradford and Bingley plc
BFP	Business Finance Partnership
BSI	British Standard Institution
CCL	Climate Change Levy
CCS	Crown Commercial Service
CF	Consolidated Fund
CGNCR	Central Government Net Cash Requirement
CGT	Capital gains tax
CHP	Combined Heat and Power
CMA	Competition and Markets Authority
CML	Council of Mortgage Lenders
CPI	Consumer Prices Index
CPS	Carbon Price Support
CRD	Capital Requirements Directive
CS	Civil Service
CSPS	Civil Service People Survey
CTF	Counter Terrorist Finance
CFTV	Cash Equivalent Transfer Value
DAS	Dividend Access Share
DBS	Dunfermline Building Society
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DEL	Departmental Expenditure Limit
DfE	Department for Education
DfT	Department for Transport
DG	Director General
DMO	UK Debt Management Office
DWP	Department for Work and Pensions
EEA	Exchange Equalisation Account
EIL	Eurostar International Ltd
EIR	Effective Interest Rate
EMB	Executive Management Board
EU	European Union
FAMR	Financial Advice Market Review
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currencies and commodities
FLS	Funding for Lending Scheme
FPC	Financial Policy Committee
FReM	Government Financial Reporting Manual
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme

FSMA 2000	Financial Services and Markets Act
FTE	Full Time Equivalent
G7	A group of 7 major industrial nations (comprising: Canada, France, Germany, Italy, Japan, UK and US)
G20	A group of 20 finance ministers and central bank governors representing 19 countries plus the European Union
GB	Great Britain
GDP	Gross Domestic Product
GGC	Greening Government Commitments
GIAA	Government Internal Audit Agency
GRAA	Government Resource and Accounts Act 2000
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HS2	High Speed 2
HS3	High Speed 3
IA	Impact Assessment
IAC	Investment Approval Committee
IAS	International Accounting Standard
ICB	Independent Commission on Banking
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	Individual Savings Accounts
IUK	Infrastructure UK
LTV	Loan to Value
MAS	Money Advice Service
MPC	Monetary Policy Committee
NAO	National Audit Office
NDPB	Non Departmental Public Body
NLG	National Loans Fund
NGLS	National Loan Guarantee Scheme
NMW	National Minimum Wage
NR	Network Rail
NRAM	NRAM PLC
NS&I	National Savings and Investments
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National
OTS	Office of Tax Simplification
PAC	Public Accounts Committee
PCPF	Parliamentary Contributory Pension Fund
PES	Public Expenditure System
PFI	Private Finance Initiative
PHSO	Parliamentary and Health Service Ombudsman
PRA	Prudential Regulation Authority
PSCE	Public Sector Current Expenditure
PSCSP	Principle Civil Service Pension Scheme
PSF	Public Sector Finance
PSGI	Public Sector Gross Investment
PSNB	Public Sector Net Borrowing
PSND	Public Sector Net Debt

PSR	Payment Systems Regulator
RBS	Royal Bank of Scotland
RDEL	Resource Departmental Expenditure Limit
RH	Royal Household
RMAC	Royal Mint Advisory Committee on the design of Coins Medals Seals and Decorations
RMB	Remnimbi
RPI	Retail Prices Index
RPC	Regulatory Policy Committee
RTC	Red Tape Challenge
SCB	Strategy and Capability Board
SCS	Senior Civil Service
SME	Small and medium sized enterprises
SOCNE	Statement of Comprehensive Net Expenditure
SoPS	Statement of Parliamentary Supply
SSA	Supras, Sub-sovereigns and Agencies Market
TME	Total Managed Expenditure
UCL	University College London
UK	United Kingdom
UKAR	UK Asset Resolution
UKDMO	UK Debt Management Office
UKERC	UK Energy Research Centre
UKFI	UK Financial Investments Ltd
UKGI	UK Government Investments
VAT	Value Added Tax
WGA	Whole of Government Accounts