HM Treasury

Annual Report and Accounts 2016-17

HC 19

July 2017

HM Treasury

Annual Report and Accounts 2016-17

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed on 20 July 2017

HC 19

This is part of a series of departmental publications which, along with the Main Estimates 2017-18 and the document Public Expenditure: Statistical Analyses 2017, present the Government's outturn for 2016-17 and planned expenditure for 2017-18.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at
public.enquiries@hmtreasury.gsi.gov.uk

Print ISBN 9781474148535
Web ISBN 9781474148542

ID 17071707 07/17

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by Williams Lea Group on behalf of the Controller of Her Majesty's Stationary Service.

Preface

About this Annual Report and Accounts

This document integrates 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. It covers the activities of the Treasury from April 2016 to March 2017 (inclusive), and is split into 4 main sections:

- the **Performance Report** includes a summary of progress and key milestones achieved during 2016-17 (the Performance Overview), followed by a deeper dive into the department's achievements over the year against each of the 3 policy objectives and the Treasury's own corporate objective (the Performance Analysis);

- the **Accountability Report** is further split into 3 sub sections and includes: 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. It also includes a statement of the Accounting Officer's responsibilities, and a Governance Statement on how the Treasury manages risk; 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 of staff numbers and costs; 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. A copy of the audit certificate and report made to Parliament by the head of the National Audit Office setting out his opinion on the financial statements is also included in this section;

- the **Financial Statements** show the Treasury Group's income and expenditure for the financial year, the financial position of the department as of 31 March 2017, and additional information designed to enable readers to understand these results; and

- the **Trust Statement** provides a record of fine income collected by Treasury on behalf of government during the financial year.

Contents

Foreword by the Exchequer Secretary to the Treasury

As the Treasury's new departmental minister I am delighted to have the opportunity to write the foreword to this Annual Report and Account.

Under the leadership of the Chancellor of the Exchequer, The Rt. Hon. Philip Hammond MP, my fellow ministers and I recognise this is a crucial time for the economy of the UK, and therefore for the UK's economics and finance ministry.

Our priorities for the year, and years ahead are clear.

We want to secure a Brexit deal that protects British jobs, businesses and prosperity and allows the UK to take advantage of new opportunities worldwide.

We must continue our work getting the public finances back to balance – because although we have got the deficit down by three-quarters since 2010, debt remains too high.

And to keep our public services funded, our economy growing and our living standards rising, we have to get on top of our longstanding productivity problem. We have made a good start with the National Productivity Investment Fund, and the overhaul of our technical training system, but there is much more to do if we are to close the double digit productivity gap with our competitors.

These challenges provide the backdrop as the department begins preparations for its first Autumn Budget. And it is imperative that we continue to tackle them if we are to deliver a strong economy and sustainable public services.

These are significant tasks. But the Treasury has a proud history of providing excellent support to Ministers in the delivery of their duties, and I know it will continue this tradition as we move through 2017-18 and beyond.

Andrew Jones

Andrew Jones
Exchequer Secretary to the Treasury
13 July 2017

Performance Report

Performance Overview

The Treasury is the government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

The department has a very broad remit; and its work touches every UK citizen as it works on public spending policy (including departmental spending, public sector pay and pensions, annually managed expenditure and welfare policy, and capital investment); financial services policy (including banking and financial services regulation, financial stability, and ensuring competitiveness in the City); strategic oversight of the UK tax system (including direct, indirect, business, property, personal tax and corporation tax); and ensuring the economy is growing sustainably.

Led by The Rt Hon Philip Hammond MP, Chancellor of the Exchequer, the Treasury is committed to achieving strong and sustainable growth while reducing the deficit and rebalancing the economy; spending taxpayers' money responsibly while creating a simpler, fairer tax system); and creating stronger and safer banks while improving regulation of the financial sector and making it easier for people to access and use financial services.

The Chancellor of the Exchequer is supported by his ministerial team: Elizabeth Truss MP (Chief Secretary), Mel Stride MP (Financial Secretary), Andrew Jones MP (Exchequer Secretary) and Stephen Barclay MP (Economic Secretary).

In order to achieve these goals, the Chancellor has set the department 3 objectives:

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

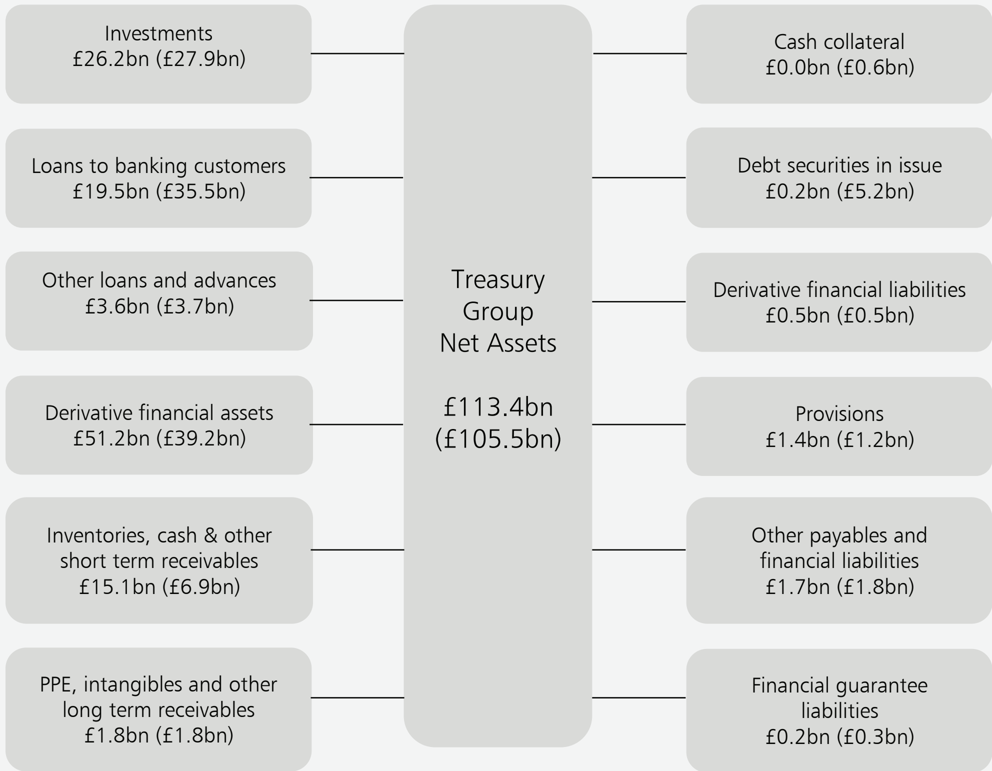
The formal process of exiting the European Union (EU) has been added as a key cross-cutting priority, and new structures and governance have been put in place to ensure effective delivery.

An engaged workforce of around 1200 people enable the Treasury to operate as a high performing organisation. As part of their commitment to continued corporate progress, 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.

Overview of Treasury Group resources

The Treasury's finances

Treasury Group Financial Position as at 31 March 2017 (31 March 2016)[1]



Total assets £117.4bn (£115.0bn)

Total liabilities £4.0bn (£9.4bn)

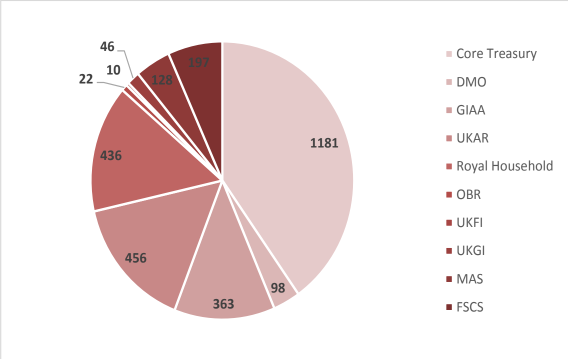
Treasury Group financial performance in 2016-17[2]

In £m	2016-17 Estimate	2016-17 Outturn
Resource DEL	182,918	159,369
Resource AME	49,130,195	(25,457,795)
Capital DEL	4,500	(2,098)
Capital AME	(4,927,200)	(19,731,493)

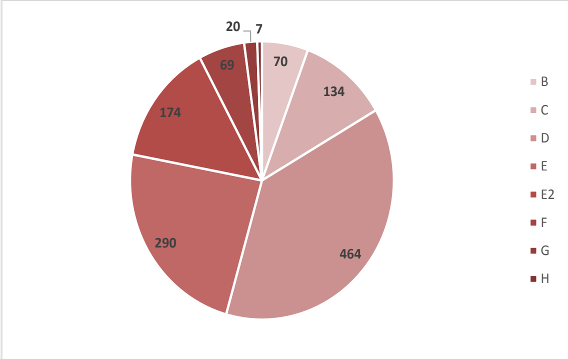
1 Further information on the Treasury Group's Consolidated Statement of Financial Position can be found in the Financial Statements on page 105. Prior year (2015-16) comparatives are shown in brackets.

2 An explanation of the variances between the Estimate and the outturn is provided on pages 83 to 85.

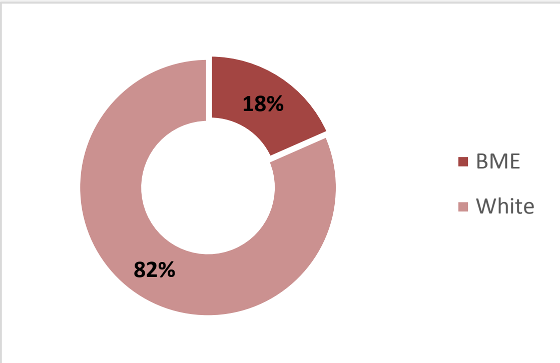
Treasury Group average number of persons employed 2016-17



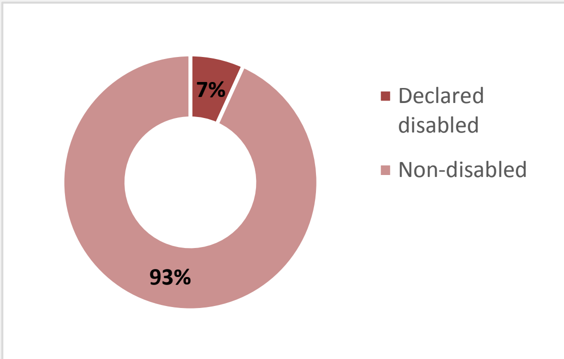
Core Treasury grade split at 31 March 2017



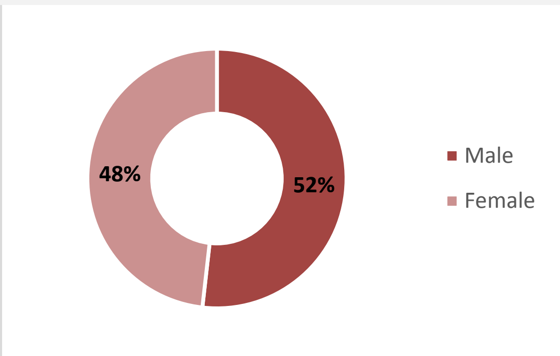
Core Treasury diversity at 31 March 2017



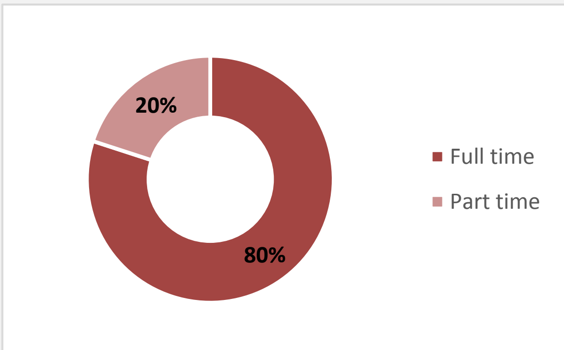
Core Treasury diversity at 31 March 2017



Core Treasury diversity at 31 March 2017



Core Treasury diversity at 31 March 2017



Treasury key performance indicators April 2016 – March 2017

Public sector net debt (PSND) as a percentage of GDP	
This is a stock measure of the public sector's net liability position i.e. its liabilities minus its liquid assets. It is broadly the stock equivalent of public sector net borrowing, but measured on a cash rather than an accrued basis. It is also the fiscal measure used for the Government's supplementary fiscal target. PSND is the key measure of the country's overall debt.	The government's fiscal mandate is supplemented by a target for PSND as a percentage of GDP to be falling in 2020-21, which the latest OBR forecast shows we are on track to meet two years early. Public sector net debt is forecast to peak in 2017-18 at 88.8%, and is forecast to fall to 79.8% by 2020-21. *Source*: Office for Budget Responsibility

Cyclically-adjusted Public Sector Net Borrowing (PSNB) as a percentage of GDP	
Cyclically adjusted PSNB is a measure of the level of borrowing if the economy was operating at full capacity (e.g. adjusting for the current position in the economic cycle).	The government's fiscal mandate is to reduce cyclically adjusted borrowing to below 2% of GDP by 2020-21. In March the OBR forecast that it would be reduced to 0.9% of GDP in 2020-21, and that this target would be met two years early. *Source*: Office for Budget Responsibility

Public sector net borrowing (PSNB) as a percentage of GDP	
The difference between total public sector receipts and expenditure on an accrued basis each year. As the widest measure of borrowing it is a key indicator of the fiscal position. PSNB is the headline measure of 'the deficit'.	The government's fiscal objective is to return the public finances to balance in the middle of the next decade. Since 2010, the government has reduced PSNB by three quarters. It fell from 9.9% of GDP in 2009-10 to 2.4% of GDP in 2016-17, and was forecast by the OBR to fall to 0.7% of GDP in 2021-22. *Source*: Office for National Statistics and Office for Budget Responsibility

Gross Domestic Product (GDP)	
Change in GDP is the main indicator of economic growth.	GDP grew by 1.8% in 2016. At the 2017 Spring Budget the OBR forecast the UK's economy to grow by 2.0% in 2017 and 1.6% in 2018. *Source:* Office for National Statistics and Office for Budget Responsibility

CPI inflation	
The rate of inflation shows the average change in the prices of goods and services bought by households.	CPI inflation has increased since late 2015, reaching 2.9% in May 2017. In March, the OBR forecast the fall in sterling over the course of 2016 to push inflation to 2.4% on average in 2017 and 2.3% in 2018, before falling back to 2.0% in 2019. *Source:* Office for National Statistics and Office for Budget Responsibility

UK employment rate	
This shows the headline measure of progress towards full employment.	The UK employment rate (16-64) is at a record high of 74.9% and we currently have the third highest employment rate (15-64) in the G7 (73.7%) after Germany (75.1%) and Japan (74.7%). *Source:* Office for National Statistics and OECD

Business investment as a share of GDP	
Business investment as a share of GDP affects the UK's productivity and the long-term sustainable growth rate.	Business investment totalled £174.9bn in 2016-17. This was 9.3% of GDP. In the year to Q1 2017, Business Investment increased 0.7 per cent. *Source:* Office for National Statistics

Snapshot of Treasury activity in 2016-17

April

- Tom Scholar appointed as Permanent Secretary to the Treasury. John Kingman becomes Acting Permanent Secretary until Tom takes up his post on 1 July
- New National Living Wage of £7.20 per hour launched

May

- The Bank of England and Financial Services Act 2016 is given Royal Assent.
- Completion of the £13 billion sale of former Northern Rock mortgages
- Whole of Government Accounts 2014-15 published

June

- The Infrastructure and Projects Authority launches new content for the Project Initiation Route map, designed to improve the delivery of major projects
- HM Treasury Annual Report and Accounts 2015-16 published

July

- Charles Roxburgh appointed Second Permanent Secretary to the Treasury
- The Rt Hon Philip Hammond MP is appointed Chancellor of the Exchequer; David Gauke MP is appointed Chief Secretary to the Treasury; Jane Ellison MP is appointed Financial Secretary to the Treasury; and Simon Kirby MP is appointed Economic Secretary to the Treasury

August

- 3 new non-executive directors are appointed to the Board of the Office of Tax Simplification
- Treasury publishes consultation seeking views on Pensions Allowance

September

- Lord O'Neill steps down as Commercial Secretary to the Treasury

October

- Chancellor confirms the government will provide assurance over EU funding for structural and investment fund projects, including agri-environment schemes, signed to the point at which the UK departs the EU

November

- Paul Morton is announced as the new Tax Director of the Office of Tax Simplification
- Autumn Statement 2016

December

- The National Infrastructure and Construction Pipeline is published
- Baroness Neville-Rolfe DBE CMG is appointed as Commercial Secretary to the Treasury

January

- The Savings (Government Contributions) Bill receives Royal Assent. It allows savers to take advantage of 2 new government backed savings schemes, the Lifetime ISA and Help to Save

February

- The Chancellor appoints Ian Ackerley as the new Chief Executive of NS&I
- Government launches first sale from the Student Loan Book.

March

- Spring Budget 2017
- Further sale of Lloyds shares reduces government's holdings to less than 3%
- New 12 sided £1 coin becomes legal tender
- The Chancellor authorises an £11.8 billion sale of Bradford & Bingley loans, acquired by the taxpayer during the financial crisis

Performance Analysis

Objective 1: Place the public finances on a sustainable footing

Lead minister:	**The Rt Hon Philip Hammond MP**, Chancellor of the Exchequer
Lead official:	**Dave Ramsden**, Director General, Chief Economic Adviser
Arm's Length Bodies that support Objective 1:	
UK Government Investments (UKGI) UKGI began operating on 1 April 2016 as a government company, wholly owned by HM Treasury, which will bring together the functions of the Shareholder Executive (ShEx) and UKFI under a single holding company. UKGI's purpose is to be the government's centre of excellence in corporate finance and corporate governance.	UK Financial Investment Ltd (UKFI) Established in 2008 as part of the UK's response to the financial crisis, UKFI is primarily responsible for managing the government's shareholdings in RBS and LBG. UKFI is also responsible for managing the government's 100% shareholding and loans in UK Asset Resolution Ltd and its subsidiaries.
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 Non-Departmental Public Body (NDPB) sponsored by the Treasury.	Government Internal Audit Agency (GIAA) GIAA was officially launched on 1 April 2015, and provides internal audit services to government departments.
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.	UK Asset Resolution (UKAR) UKAR is the holding company established in October 2010 to bring together the businesses of B&B and NRAM plc.

Delivering the government's fiscal mandate

The government is committed to the fiscal rules set out at Autumn Statement 2016. These rules include an overall objective to return the public finances to balance by the middle of the next decade, as well as two interim targets: i) to reduce the cyclically adjusted deficit to below 2% of Gross Domestic Product (GDP) by 2020-21, and ii) to ensure that public sector net debt is falling as a share of GDP in 2020-21.

These fiscal rules, set out in the Charter for Budget Responsibility at Autumn Statement 2016, strike the right balance between reducing the deficit to return the public finances to a sustainable position, preserving flexibility to support the economy if necessary in the near term, and investing in the future of the UK. By targeting a cyclically adjusted deficit this policy allows the automatic stabilisers to operate in the short-term to support the economy if necessary, while providing greater certainty for tax and spending policies.

It is important that the government begins reducing debt to more sustainable levels in order to ensure that the public finances remain robust and build resilience to future shocks. To this end, during 2016-17 the department continued prioritising spending control within the public sector, providing oversight of major public service expenditure, defending settlements made in the 2015 spending review and working with the Devolved Administrations on tax and spending issues.

The Office for Budget Responsibility's (OBR) Budget forecast in March 2017 showed that the government remains on track to meet its two interim targets two years early. Borrowing is forecast to reach a two decade low by the end of the forecast period, and debt as a share of GDP is set to fall below 80% by the end of the forecast period.

In 2016-17 the government made further progress in reducing the deficit as a percentage of GDP. Between 2015-16 and 2016-17 it is forecast to have fallen from 3.8% to 2.4%. This means that, since 2010, the government has reduced the deficit by three quarters, from 9.9% in 2009-10.

Transparency

The Treasury remains committed to improving the UK's already high levels of fiscal transparency. The OBR has now been producing independent economic and fiscal forecasts for seven years, while also producing a number of reports that fulfil its duty to examine and report on the sustainability of the public finances. In the spirit of continuous improvement, the Prime Minister asked the International Monetary Fund (IMF) to conduct a Fiscal Transparency Evaluation of the UK during 2016. The IMF[3] stated that the UK "scores very highly when compared to other countries that have, to date, undergone the assessment" including meeting "an unprecedented 23 principles at the advanced level".

Merger of UK Government Investments (UKGI) and UK Financial Investments (UKFI)

In May 2015, the government announced that it would bring together the functions of the two bodies that manage most of the taxpayer stakes in businesses across the economy – the Shareholder Executive (ShEx) and UK Financial Investments (UKFI) – in a single company, with HM Treasury as its sole shareholder. The new government-owned company was created as UK Government Investments (UKGI). Its remit is to be the Government's centre of excellence in corporate finance and corporate governance, including preparing and executing asset sales, advising on major UK government financial interventions into corporate structures, and acting as shareholder for certain arm's length bodies of the UK government. This helps ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth.

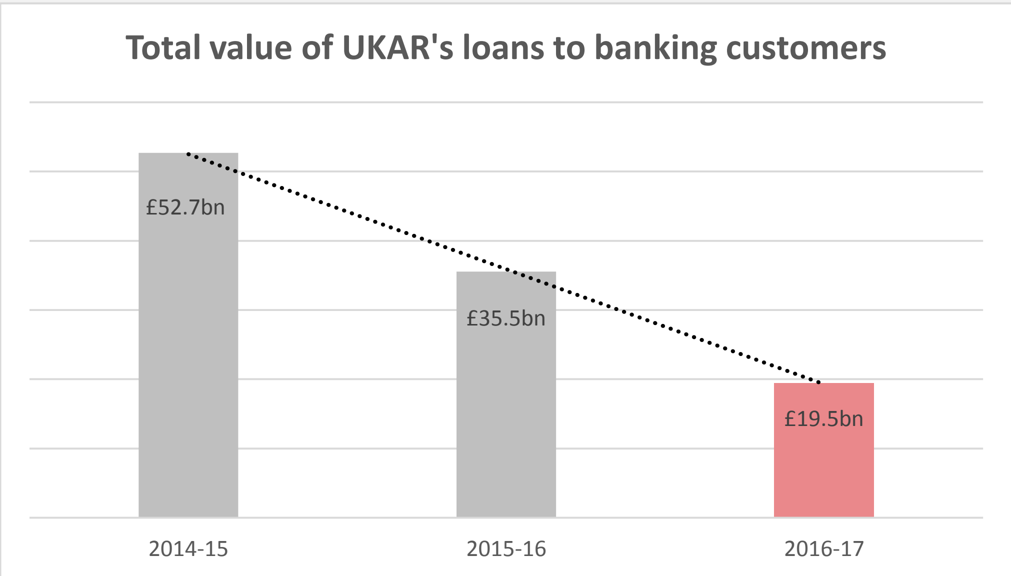
3 http://www.imf.org/external/pubs/ft/scr/2016/cr16351.pdf

UKGI began operating on 1 April 2016, with UKFI as its subsidiary. Over 2016-17, UKFI's corporate structure remained unchanged, with HM Treasury retaining, under its Framework Agreements with both UKGI and UKFI, the power to set UKFI's strategy, objectives and appoint board members.

Ahead of full merger by the end of 2017-18 the two bodies worked closely together over the reporting year, coordinating their respective programmes of asset sales, and sharing knowledge and experience through the integration of both the senior management and project teams.

Returning taxpayers' investments in failed financial institutions – the sale of loans to banking customers.

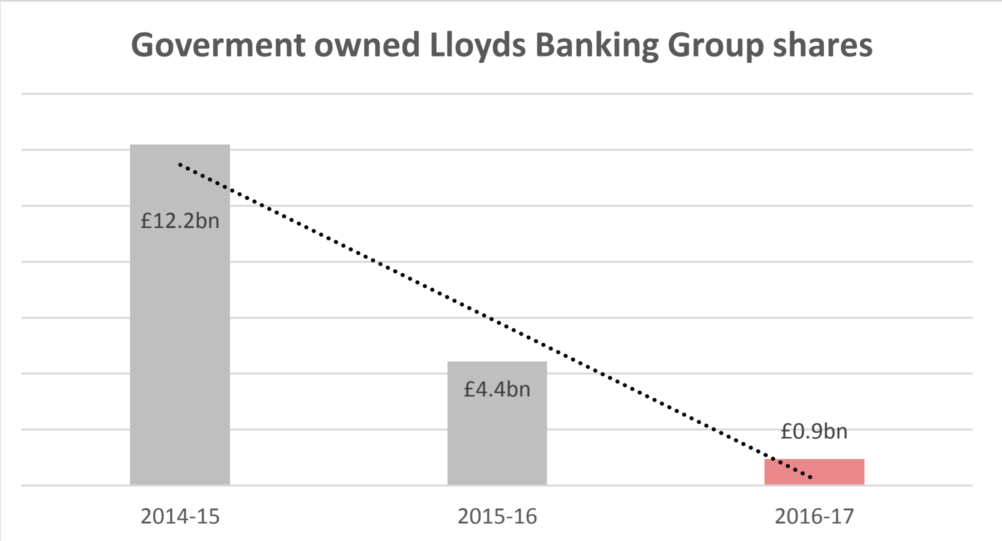
During 2016-17 the government made further progress in returning financial sector assets acquired in 2008-09 to the private sector. At Budget 2016, the government announced that it would explore a programme of sales designed to raise sufficient proceeds for B&B to repay the £15.65 billion debt to the Financial Services Compensation Scheme (FSCS) and, in turn, the corresponding loan from the Treasury. In March 2017, the Chancellor authorised an £11.8 billion sale of B&B loans, with the sale completing in April 2017. The programme of sales is expected to continue in 2017-18. Any further sales will be subject to market conditions and ensuring value for money.



The sale of government shares in Lloyd's Banking Group

In December 2014, the government initiated a trading plan to sell its shares in Lloyds Banking Group by drip-feeding them into the market on a daily basis over an extended period of time. This trading plan ran until June 2016. Following market turbulence that year, the Chancellor cancelled a planned retail offer and announced that further sales of Lloyds shares would also be made through a trading plan. This was launched in October 2016, and in May 2017, the last shares were sold so that government is no longer a shareholder in Lloyds. Receipts via the second trading plan were £3.3 billion in 2016-17. In addition, dividends totalling £185 million were paid in May and September 2016.

This progress can be seen in the table below.



The finance profession

The Financial Management Reform programme was developed in 2013, and aims to put the finance function at the heart of decision making by protecting, driving, and adding value for public money.
HM Treasury has made progress against these objectives and over the course of the reporting year over 100 Fast Track Finance Apprentices and a further 100 recruits from the Finance and Internal Audit Fast Stream have been recruited, providing a much more joined up approach to recruitment across the function.

The Treasury has run cross-government Grade 6 and Deputy Director recruitment campaigns, appointing around 40 people whilst also developing a targeted learning programme for finance Grade 6s and 7s, with a particular focus on driving up analytical capability.

The programme has worked closely with Cabinet Office to embed finance into the wider shared services agenda as well as developing the first set of global design principles across government, and applied these to Purchase to Pay and Expenses.

The programme has conducted costing projects, driving insight in cross-cutting areas of public spending and helping to place finance at the heart of decision making on high profile and important areas of public policy, as well as launching the Tax Centre of Excellence, servicing 22 departments and agencies.

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

Lead minister:	**The Rt Hon Philip Hammond MP,** Chancellor of the Exchequer
Lead officials:	**Katharine Braddick**, Director General Financial Services **Dave Ramsden**, Chief Economic Adviser **Mark Bowman**, Director General International and EU
Arm's Length Bodies that support Objective 2:	
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.	Financial Services Compensation Scheme (FSCS) The FSCS is a single scheme to provide compensation in the event of an authorised financial services firm being unable, or likely to be unable, to meet claims against it. It is operationally independent from the Treasury.

Macroeconomic Stability

In line with the Bank of England Act 1998, the Chancellor published the Monetary Policy Committee (MPC) and the Financial Policy Committee's (FPC) remits at Budget 2017. In addition to this, recommendations were made to the Prudential Regulation Committee (PRC) and the Financial Conduct Authority (FCA) for the first time, while continuing to respect the independence of these key institutions.

The government is legally required to set out its economic policy within each of the published remits. The Chancellor stated at Budget 2017 that the government's economic objective continued to be strong, sustainable and balanced growth, and updated the government's economic strategy to reflect the new fiscal framework announced at Autumn Statement 2016 and reiterated at Budget.

The Chancellor also re-confirmed the inflation target within the MPC remit as 2 per cent as measured by the 12-month increase in the Consumer Price Index (CPI). He also set out the priorities for the FPC, whose primary objective is to monitor and remove systemic risks to protect and enhance financial stability, working with the PRA and FPC where needed. He asked that the FPC have regard to the impact of their policies on the government's economic strategy, and to seek to support the relevant elements where appropriate. The letters to the PRC and FCA set out the government's priorities for financial services (e.g. competitiveness and innovation) and asked that the PRC and FCA consider the impacts on these priorities as part of their assessment of the costs, burdens and benefits of potential rules or policies.

At Autumn Statement 2016, the Chancellor announced plans to move to a single major fiscal event each year, an autumn Budget. As part of this change, the annual remits and recommendations for the Bank's policy committees and the FCA will be reaffirmed alongside autumn Budgets.

Prior to this announcement the UK was the only major advanced economy to make major changes to the tax system twice a year. The autumn Budget will enable proposed changes to be made public well in advance of the start of the new tax year, giving more certainty and stability to businesses and the public.

Preparing for the new £1 coin

At Budget 2014, the government announced its intention to introduce a new and highly secure £1 coin into circulation. The round £1 coin, first issued in 1983, is one of the oldest British coins in circulation. Over time, it has become increasingly vulnerable to counterfeiting. One in every thirty £1 coins is now a counterfeit, generating significant costs to industry, the general public, taxpayers and wider society. In 2014, the government committed itself to developing a new coin that maximised the benefits to the UK as a whole, and to introducing it in a way that was manageable for industry.

Recognising the significant challenge the transition to the new £1 coin would present, HM Treasury, with its delivery partner the Royal Mint, has worked collaboratively with industry for the past three years to help them prepare. Following a technical consultation in which industry were heavily engaged, the design of the new and highly secure 12-sided £1 coin was announced at Budget 2015. This allowed manufacturers to begin preparing the equipment upgrades necessary in good time. Production of the 1.5 billion new £1 coins required started in March 2016, and 200,000 trial pieces were issued to industry, in order to help them prepare.

A communications campaign, to help prepare retailers and other major businesses for the new £1 coin, was launched in October 2016. A further campaign to inform the public of the new coin and its features was launched in January 2017. These campaigns were highly successful. As a result, at the introduction of the coin on 28th March 2017, business readiness was high with the majority of machines upgraded ready to accept the coin from the date of introduction. There was also high public awareness and acceptance of the new coin.

Work to complete upgrades to equipment is ongoing. Round £1 coins are currently being withdrawn from circulation and are being replaced with the new coin. In addition, some of the round £1 coins returned are being melted and used by the Royal Mint in the production of the new coin. Following a six-month co-circulation period the current round £1 coin will lose its legal tender status on 15th October 2017. Further communications campaigns are planned to support both businesses and the public.

Financial Stability and Structural Reform

During the reporting year HM Treasury supported the Governor's implementation of reforms set out in the Bank of England and Financial Services Act 2016, by bringing the PRA within the Bank, ending its status as a subsidiary, and establishing a new

Prudential Regulation Committee (PRC). Placing all three major policy committees (the MPC, FPC and PRC) on the same statutory footing has also helped to strengthen the governance and accountability of the Bank, ensuring that it is well positioned to fulfil its vital role of maintaining monetary and financial stability.

In line with its continued management of the UK's macro-prudential framework, including the FPC's remit and tools, the Treasury consulted on granting the FPC powers of direction over buy-to-let mortgages in 2015. In November 2016, the Chancellor announced that the FPC will be granted new powers to help protect the financial system from future risks in the buy-to-let market. The FPC will be able to direct the PRA and FCA to require regulated lenders to place limits on buy-to-let mortgage lending in relation to: loan-to-value ratios; and interest coverage ratios. The new powers came into effect at the start of 2017.

The Office of Financial Sanctions Implementation (OFSI)

The 2016-17 financial year has seen the first full year of operations for the OFSI, a Treasury Office working with the private sector and law enforcement agencies to raise awareness of financial sanctions, improve compliance and detect and effectively address breaches rapidly and effectively.

The UK currently imposes financial sanctions under 27 sanctions regimes and OFSI publishes a consolidated list of asset freeze targets as well as providing a service of free email alerts for updates to this list. Over the course of 2016, just over 100 suspected breaches were reported to OFSI, 95 of which were actual breaches totalling around £75 million.

In December 2016 the Treasury announced new powers to impose penalties for serious financial sanctions breaches, up to £1 million or 50% of the breach, whichever is higher. At the same time OFSI launched a consultation on the guidance required to support the issue of monetary penalties. The finished guidance was published on the same day the new powers came into effect, 3 April 2017.

Europe

In April 2016, the Treasury published a paper on the long-term economic implications of European Union (EU) membership and the alternatives (European Economic Area membership, negotiated bilateral agreements, and World Trade Organisation membership). In May 2016, it published analysis on the immediate economic impact of leaving the EU.

The Treasury also prepared contingency plans for the potential financial stability impact of the EU Referendum. In the run up to the referendum, HM Treasury worked closely with the Bank and Financial Conduct Authority to put in place robust contingency plans for any immediate impact on financial stability or market functioning.

Since the referendum vote, the Treasury has implemented new governance structures to ensure strategic oversight of its EU Exit work. The department is responsible for significant specific EU Exit priorities, including the EU budget, customs, financial services and stability, and fiscal implications, as well as issues including tax and financial sanctions. During the reporting year the Treasury worked closely with the Department for Exiting the EU and departments across government on the UK's exit from the EU in supporting the government's objective of a deep and special partnership with the EU.

In addition, the Treasury has continued to support ministers and other government stakeholders in the conduct of economic and financial business within the EU, and in bilateral discussions with European countries.

Strengthening the oversight arrangements for the BEAPFF as part of the August 2016 monetary policy package

The Bank of England Asset Purchase Fund Facility (BEAPFF or APF) is the vehicle by which the Bank of England delivers its Quantitative Easing (QE) program. Under the direction of the Monetary Policy Committee (MPC) the BEAPFF purchases assets such as gilts and corporate bonds to boost economic activity and help meet the Government's 2% inflation target. The facility is fully indemnified by HM Treasury which means that HM Treasury receives any financial gains and covers any losses made by the BEAPFF over the lifetime of its operations. Additionally, as at 31 March 2017 £72bn to date had been transferred from the BEAPFF to HM Treasury by way of periodic cash transfers established to manage cash surpluses or shortfalls within the BEAPFF.

In August 2016 the MPC took the decision to avoid undesirable volatility in output and employment by employing monetary policy stimulus through a reduction in the Bank Rate and an extension of the cash management operations of the BEAPFF. This included an additional £60bn gilt purchases, £10bn corporate bond purchases, and a £100bn Term Funding Scheme (TFS) to ensure the cut in Bank Rate is passed through to lending rates faced by households and businesses. The total authorised size of the facility is now £545bn.

In line with the requirements in the MPC remit, the amendments to the BEAPFF with implications for credit risk and allocation, were discussed with Treasury officials. The risk control framework agreed between HM Treasury and the Bank remains in place; however, the oversight arrangements for the BEAPFF have been strengthened as part of the August 2016 package. This includes enhanced information sharing and regular risk oversight meetings between Bank and Treasury officials. Whilst the MPC retains independence for setting monetary policy, the Treasury has the opportunity to provide views to the MPC on the design of the schemes within the BEAPFF as they may affect the Government's broader objectives.

£51.2 billion	£10.3 billion	£499 billion
Value of the BEAPFF derivative at 31 March 2017.	Cash paid to the Treasury during the year. This cash has been generated from gilt interest income and redemptions and has been surrendered to the Exchequer to fund the operations of government.	The value of the indemnity HM Treasury has provided the Bank of England as at 31 March 2017.
See Note 14 of the Accounts for more information.	See Note 14 of the Accounts for more information.	See the Remote Contingent Liability disclosures in the Accountability Report and Note 26.3 of the Accounts for more information.

International

The government continued to work with countries around the world to ensure that the international financial architecture remained robust in order to create opportunities for British companies, promote UK prosperity and ensure the UK's economic security.

During 2016-17 the Treasury furthered UK priorities through its influence in the G20 and G7. This included: the launch of a G20 Compact With Africa, encouraging international organisations, African countries and G20 bilateral partners to take actions that help mobilise private investment in Africa; preparing the G7 Bari Policy Agenda on growth and inequality, building on the PM's commitment to create a global economy that works for everyone; improving cyber security in the finance sector through leadership in the G7 cyber expert group; and championing G20 work on tax and development, including hosting a technical event in London.

The government is committed to enhancing economic relationships with high-growth emerging markets such as China, India and Brazil. The Chancellor met Vice-Premier Ma Kai for the 8th UK-China Economic and Financial Dialogue (EFD) in November 2016, with announcements on the progress of a London-Shanghai Stock Connect, China's decision to grant qualified British banks a licence to act as lead underwriters of panda bonds issued in China, and a new UK-China Strategic Plan for Financial Services. This plan sets out how China and the UK will work more closely together to enhance cooperation and boost market access over the coming years, including agreement on the next steps of the UK-China Infrastructure Alliance and the promotion of high value investment opportunities in the Northern Powerhouse.

The Prime Minister met Indian Prime Minister Modi in November 2016, with a key announcement on the launch of the £500 million joint UK-Indian sub-fund of the Indian National Investment and Infrastructure Fund (NIIF). At the same event, three additional Indian public sector corporates announced intentions to issue masala bonds in London, two of which were earmarked as green bonds focusing on renewable energy and energy efficiency. These developments have reaffirmed London's role as the partner of choice in financing Indian infrastructure and green growth.

The second UK-Singapore Financial Dialogue was held in London in May 2016 where the first ever bilateral agreement on FinTech was announced.

The third UK-Korea Financial Forum was held in London in July 2016 where the Prudential Regulation Authority and the Korean Financial Services Commission signed a supervisory agreement for branch supervision of Korean firms, and the UK's second FinTech Bridge was announced.

From 2011, HM Treasury has co-hosted the annual private-sector led London-Hong Kong RMB Forum with the Hong Kong Monetary Authority. In December 2016, for the first time, the Forum was expanded to include specific discussions on FinTech and infrastructure financing. This coincided with the signing of a FinTech regulatory cooperation agreement between the Financial Conduct Authority and HKMA, and a commitment from both sides to agree a FinTech Bridge in the near future.

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:	**The Rt Hon Philip Hammond MP** Chancellor of the Exchequer,
Lead officials:	**Charles Roxburgh**, Second Permanent Secretary **James Bowler,** Director-General Tax and Welfare
Arm's Length Bodies that support Objective 3	
National Infrastructure Commission (NIC) The NIC provides the government with impartial, expert advice on major long-term infrastructure challenges. It became an Executive Agency of the Treasury on 24 January 2017.	Office for 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.

Encouraging long term investment

The National Productivity Investment Fund (NPIF) was announced at Autumn Statement 2016 recognising that improving productivity requires targeted and sustained investment. The NPIF will provide over £23 billion of high value investment over five years and focus on priority areas that are critical for improving productivity: economic infrastructure, housing and R&D.

As the financial backbone of the Industrial Strategy, the Chancellor announced at Budget 2017 that the NPIF would:

- Support market roll-out of the fast and reliable full-fibre connections that will help businesses to grow through an investment of £740 million by 2020-21;
- Tackle congestion and ensure the UK's transport networks are fit for the future, including £1.1 billion to support local transport networks and £220 million to address pinch points on strategic roads in the national road network;
- Enhance the UK's position at the forefront of technological progress globally through £4.7 billion for R&D, including funding the Industrial Strategy Challenge Fund to kick-start the development of disruptor technologies, funding for an additional 1,000 PhD places aligned with the Industrial Strategy - with around 85% of places earmarked for STEM disciplines, and ring-fenced funding for fellowship programmes to attract global talent;

- Accelerate new housing supply by funding a new Housing Infrastructure Fund, delivering up to 100,000 new homes, relaxing grant funding alongside an additional £1.4 billion investment to deliver 40,000 housing starts by 2020-21 and accelerate construction on public sector land, through an investment of £1.7 billion.

At Autumn Statement 2016 the government also announced the creation of the National Infrastructure Commission (NIC) to provide expert advice on the country's strategic infrastructure needs alongside independent recommendations on how to meet them. Long-term investment decisions will be informed by the NIC to ensure they are targeted at the UK's most critical infrastructure needs.

In order to ensure these are affordable, the government has set the NIC a fiscal remit. This states that infrastructure spending recommendations should amount to between 1% and 1.2% of GDP each year from 2020 to 2050, which will mark a sustained long-term increase in infrastructure investment. The government has already agreed to provide £27 million in development funding for an Oxford-Cambridge expressway, one of the recommendations of an NIC report published in November 2016.

Delivering on our National Infrastructure Plan

High-quality economic infrastructure is a key element in boosting productivity and competitiveness, allowing businesses to grow and enabling them to extend supply chains, deepen labour and product markets, collaborate and innovate and attract inward investment. Investment in infrastructure also helps to unlock economic potential in individual regions and ensure that growth and opportunities are distributed across the country.

Autumn Statement 2016 set out the details of a major new investment package in productivity enhancing infrastructure. The package is comprised of major investments in transport and digital networks through the National Productivity Investment Fund, and measures to support the delivery and financing of infrastructure. These include an extension of the UK Guarantees Scheme until at least 2026, and a review of infrastructure performance by the Infrastructure and Projects Authority.

Supporting a dynamic economy

Dynamic, competitive markets are central to the government's objectives of boosting growth and productivity and ensuring that consumers get a good deal. To this end, HM Treasury funds the independent Competition and Markets Authority (CMA) which is sponsored by the Department for Business Enterprise and Industrial Strategy and leads efforts to promote competition and protect consumers. The CMA's most recent impact assessment found that they delivered an average £686m in direct consumer benefits each year: more than £10 of benefit for every £1 of cost to the taxpayer.

The government's aim to deliver tangible results for consumers, such as, lower prices, better access to products, more choice, new innovations and better services, was the main focus of the recent CMA Retail Banking Market Investigation. In

August 2016, the CMA came forward with a range of remedies to improve competition in current accounts.

The government is now supporting the implementation of these remedies and other measures to boost competition in current accounts, including:

- A requirement for industry to implement Open Banking by early 2018, to allow customers to share their current account transaction data with trusted third parties, to gain useful insights and value-added services;
- A requirement for banks to send alerts to customers going into unarranged overdrafts, inform them of a grace period to avoid charges, and to set (and communicate to their customers) a monthly cap on unarranged charges;
- Encouraging the use of the 7-day Current Account Switching Service by requiring banks to issue suitable periodic and event-based 'prompts' such as an increase in charges, to remind their customers to review whether they are getting the best value and switch banks if they are not.

The government also continues to maintain conduct in financial markets through our world class regulator, the Financial Conduct Authority (FCA). A key focus is to restore trust in the sector, with a crackdown on inappropriate behaviour. In particular, the government has been supporting the FCA and PRA to implement the Senior Managers and Certification Regime (SM&CR) to banks, building societies, credit unions, PRA-designated investment firms, and UK branches of foreign banks. The SM&CR targets behaviour and culture changes within financial sector firms, with enforcement powers acting as a deterrent for misconduct.

As part of the government's aim to ensure that pensioners can access their retirement savings flexibly under pension freedoms, swift action was taken to limit early exit charges found in some pension contracts. The FCA introduced a cap on 31 March 2017 restricting pension exit charges to 1% for existing contracts, and banning them entirely in new contracts.

Pension savings are also an attractive target for fraudsters. Pension scams can cost people their life savings, leaving them facing retirement with limited income, and little or no opportunity to build their pension savings back up. The government launched a consultation in December 2016, looking at three potential interventions aimed at tackling different aspects of pension scams.

The last year also saw the Office for Tax Simplification (OTS) established on a permanent basis, expanding its role and remit from 28 November 2016. To date the government has implemented over 200 of the OTS recommendations to simplify to tax system, reducing the administrative burden on business and improving transparency for the public.

Boosting the economy in the nations and regions

Work continued during the reporting year to strengthen the economy through devolution to the nations and regions of the UK.

At Autumn Statement 2016 the government announced plans to award £1.8 billion to Local Enterprise Partnerships (LEPs) through a third round of Growth Deals. It was also announced that mayoral combined authorities will be given powers to borrow for their new functions enabling them to invest, subject to a borrowing cap agreed by the Treasury.

In November 2016 the Treasury published the Northern Powerhouse Strategy. This recognised the value to the UK as a whole of the Northern Powerhouse area becoming a growing and productive region and followed confirmation at Autumn Statement 2016 of the creation of the Northern Powerhouse Investment Fund and Midlands Engine Investment Fund.

During 2016-17 the government agreed a Memorandum of Understanding on further devolution to London and continued discussions with Greater Manchester on future transport funding. The London agreement included a commitment to explore the benefits, and scope for, locally-delivered criminal justice services; action to tackle congestion; and a taskforce to explore piloting a new approach to funding infrastructure. It further committed to exploring options for devolving greater powers and flexibilities over the administration of business rates.

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

In Scotland, at Autumn Statement 2016, it was announced that the UK government would open negotiations for a Stirling City Deal, as well as making progress towards a deal with Edinburgh. Funds for Aberdeen City Deal began flowing in 2016-17 and funding for the Inverness City Deal was confirmed. The government has further continued its work with the Scottish Government to implement the Scottish Government's fiscal framework and new powers set out in the Scotland Act 2016.

In Wales, the UK government confirmed £115 million of funding for the Swansea City Deal as well as committing to consider options for a growth deal in North Wales.

In Northern Ireland, the Government supported the Northern Ireland Executive with significant additional funding and flexibility as part of the Stormont House Agreement and Fresh Start Implementation Plan which cover areas such as shared education and Northern Ireland legacy issues.

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 minister:	**The Rt Hon Philip Hammond MP**, Chancellor of the Exchequer
Lead official:	**Tom Scholar**, Permanent Secretary

The Treasury's corporate reform programme, *Building a great Treasury*

Building a Great Treasury sets out to create a continuous programme of improvement across the Treasury. Over the year 2016-17, the programme has delivered against its commitments across five work streams.

Highlights include:

- **Policy professionalism:** A graduate development programme that gave 100 new graduate entrants at Treasury Range D level, 23 days of formal learning, a policy leadership programme which provided newly-promoted Range E policy officials with enhanced policy skills and a new induction programme for newly promoted Deputy Directors. These programmes were underpinned by a newly-launched Policy Profession Framework, which sets out the core skills, knowledge and experience required by policy professionals in the Treasury;

- **Strengthening skills and expertise:** Launching a PA professionalism pathway for the Treasury, putting in place standards for PA roles, identifying development needs and putting in place developmental accreditation. Career paths for tax and analyst professionals, with associated development programmes were also launched;

- **Working with stakeholders:** Making our stakeholder engagement more strategic by establishing SCS-level Senior Reporting Officer roles to support our key stakeholder relations;

- **Management excellence:** Structured management training for new managers below the SCS, supporting the management compact that was developed in 2015/16; and

- **Valuing everyone:** Making on-line unconscious bias training available for all staff, and compulsory for all SCS and line managers. Launching a new external website to support our graduate recruitment campaign, designed to reach and appeal to a more diverse cross-section of graduates. We also extended the talent/career support offer already in place for Range Ds to our Range E staff from minority ethnic backgrounds.

Building on this progress, in March 2017 the Executive Management Board set out their vision to focus the 2017/18 Building a great Treasury programme on creating a more open, inclusive and diverse department. This work is being taken forward by 4 director-led work streams:

- **Diversity and inclusion:** building an organisation that is open to and supports and celebrates people from different backgrounds with different views and different ways of working, in order to become better policy makers and increase the engagement of our staff;

- **Openness:** making the Treasury an organisation that listens, to gain a better understanding of public and specific stakeholders' needs, to improve transparency and make better policy as a result;

- **Work-life balance**: making the Treasury an organisation that champions the value of a good work-life balance for all staff, and supports this through agreed ways of working, including full support for flexible working; and

- All supported by continuing to develop our **skills and management excellence.**

Recruitment

Key Treasury recruitment campaigns in 2016-17 included:

- a graduate recruitment campaign which brought in c.110 policy advisers at Treasury Range D, joining in two cohorts in April and September, and a further 7 Range C policy advisers
- a tailored campaign which recruited 13 Range C Personal Assistant posts
- a tailored campaign which recruited c.30 Range E Senior Policy Advisers into various roles across the Treasury. This campaign reflected the additional demand on the Treasury's resources from work arising from the decision to leave the EU.

In addition, the Treasury has supported 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.

2016-17 saw the implementation of anonymous recruitment in the graduate campaign. The SCS Assessment Centre and all external recruitment into the department also now use name and school anonymous recruitment.

Reward and recognition

The Treasury's ambition is to make the department's reward strategy much simpler, fairer and aligned to our workforce priorities. Given the restrictions on public sector pay, the department kept within a 1% increase in the pay bill. In 2016-17, we targeted money at employees paid low in their range and those ranges most behind the rest of Whitehall. In addition, changes were made to modernise our set of pay allowances. These recognise the additional skills and experience of those working in critical roles in professions such as finance, IT, analysis and taxation.

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

- annual performance awards to the top 25 per cent of staff as part of the staff appraisal system; and
- 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, annual performance awards are paid in the year following the one in which the individual's performance was assessed as exceptional.

Diversity

The Treasury seeks to promote a culture which values difference and recognises that diversity enriches the economy and society. HR colleagues have worked with volunteers from our employee staff networks to make progress across a range of activities.

Focus	Progress
Disability	Following the 2015-16 Business Disability Forum (BDF) audit of the department's key HR Policies, work has been ongoing to implement their recommendations. The BDF found that Treasury policies were inclusive and well written but recommended disability awareness training for line managers. This has been developed and rolled out to c90 Treasury staff as an initial tranche. The training has been mandated for line managers of staff with disabilities. The Treasury trialled an internal talent offer, providing additional support for any range D's who would like additional support to progress to Range E, our middle management range.
Leadership	The Treasury continues to embed unconscious bias training, including through the Executive Management Board sessions on *Inclusive Leadership*. This is now in the process of being rolled out across the SCS and the wider Treasury.
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 2016-17 people survey indicated that 8% of employees felt they had experienced bullying and harassment and 9% of employees felt that they had been discriminated against. The Treasury is determined to take effective action to address this. During 2016-17 the Treasury continued to run anti-bullying and harassment awareness raising seminars and training, working closely with groups to draw up targeted action plans.

Mental well-being	An employee run Mental Wellbeing Network has been in place for 4 years. The Network's work has expanded to include running seminars on mindfulness, monitoring staff stress and anxiety levels, and providing training to volunteers to become specialist mental wellbeing supporters.
Ethnicity	The Treasury has continued to embed a BAME Talent offer in collaboration with the Ethnic Minority Network, supporting the progression of BAME staff at middle management level. This work was started in 2014 and in that time has seen representation triple to 16% at Range E, which is the feeder grade for the Senior Civil Service. An offer has been developed to support BAME colleagues at the next Range to support the development of a pipeline.
Outreach	The department has continued to work with the National Mentoring Consortium, a programme that provides support to Black and Asian undergraduates planning managerial and professional careers. This year 14 Treasury mentors have been trained and are taking part.
Development Programmes	In 2016-17 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.

Health, safety and wellbeing

The department actively promotes the health, safety and wellbeing of its staff, which helps to boost morale, staff engagement and performance.

The department has continued to promote health and wellbeing and has recently signed up to deliver the 5 Civil Service Wellbeing Priorities set out by the Civil Service Health and Wellbeing Champion.

To improve Health and Safety in the workplace changes have been made to our emergency building evacuation procedures so we have trained Evacuation Crowd Controllers to monitor and direct people to the appropriate fire exits to help ease the evacuation process.

During 2016 there were 5 Accident, Near Miss or Work Related Ill Health reports, compared to 8 in the previous year. The reports detailed 3 falls, 1 scald and 1 near miss incident. 2016 also saw a review of the Treasury's health, safety and wellbeing carried out by the Government Internal Audit Agency. This resulted in a Yellow (moderate) risk rating. There were 7 recommendations made; 5 have already been addressed while 2 are in progress.

Sickness absence in the Treasury continues to be low compared with the average for government departments. In the 12 month period to December 2016 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. These absences have remained consistent compared to 2015 and almost 50% less than the number reported in 2014.

Staff Survey

The Treasury uses its annual staff survey results as an indicator of progress on staffing matters. In October 2016 the department took part in the annual Civil Service People Survey and with a 93% response rate, the department can have a high level of confidence in the results.

The departmental highlights report[4] 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 74%. 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.

In addition to measuring levels of engagement, the survey takes views on 63 core questions across 9 themes. There have been some changes from the 2015 survey as the most recent scores show an improvement across 3 themes (Learning and development; Pay and Benefits; Leadership and Managing Change). However the scores for 4 themes (My work; My Manager; My team; Inclusion and fair treatment) have suffered a reduction of between 1-3 percentage points this year. Overall the Treasury's scores are well above the Civil Service High Performers.

Key performance indicators for objective 4

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 is the annual staff survey, details of which appear above.

In addition, the department measures performance on correspondence, answering Parliamentary questions and requests made under the Freedom of Information Act.

The staff turnover rate was 24.3% for 2016-17, up from 19.5% in 2015-16, but is in line with historical trends.

Financial risks

In carrying out its activities, the Treasury is exposed to a number of risks, including financial risks that have arisen due to the 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 in the Governance Statement from page 43 and Note 26 to the financial statements.

[4] https://www.gov.uk/government/publications/hm-treasury-staff-survey-2016

Summary of key financial risks

Type of risk	Relates to	Carrying Amount (£bn)	Note to the Accounts
Credit risk	UKAR loans to banking customers	19.5	12
Credit risk	Loans and advances	3.7	11
Credit risk	Financial guarantees	0.2	21
Price risk	Lloyds and RBS shareholding	21.4	10
Market risk	BEAPFF	51.2	14

Other corporate reporting

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 2017 Internal Audit had completed 26 audit reports and 9 pieces of advisory work for the department.

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.

In the 2016-17 parliamentary session Treasury ministers responded on or before the parliamentary deadlines in relation to 99% of the 1,234 ordinary written questions received; 99% of the 859 named day questions received; and 100% of the 349 Lords written questions tabled to the department.

In addition to questions from individual Members of Parliament in 2016-17, ministers and officials appeared at various Committee sessions, including[5]:

House of Commons Treasury Committee hearings	
The Economic and Financial Costs and Benefits of the UK's EU Membership	May 2016
HM Treasury Report and Accounts 2015-16	October 2016
The work of the Chancellor of the Exchequer	October 2016
Autumn Statement 2016	December 2016

[5] Further information on Parliament's scrutiny of the Treasury, including additional committee appearances by ministers and officials can be found on http://www.parliament.uk/business/publications/

Public Accounts Committee	
Cities and local growth	April 2016
The Government balance sheet	July 2016
Oversight of arm’s length bodies	July 2016
Sale of Northern Rock assets	September 2016
Managing Government spending and performance	October 2016
Consumer funded energy prices	November 2016
Excess Votes 2015-16	February 2017
Carbon capture and storage	March 2017

Scrutiny by the public – Correspondence and information requests

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 (@hmtreasury) account has passed 353,000 followers and at the time of publication is the largest in Whitehall after the Number 10 account
- In addition, the department launched an Instagram account this year (http://instragram.com/treasury_cat), using the Treasury’s staff cat, Gladstone[6], as an additional messenger for some of the department’s key events.

However the most popular form of engagement between the department and the public is direct correspondence and the Treasury sets itself high standards on the quality and timeliness of correspondence responses.

In the calendar year 2016, the Treasury replied to 12,994 letters: 7,231 from MPs on behalf of their constituents (ministerial correspondence) and 5,763 direct from members of the public (treat official correspondence). 75% of the replies sent by Treasury Ministers to MPs’ letters were answered within the Treasury’s 15-working day deadline, an improvement of seven percentage points on the 2015 performance.

6 Funding for Gladstone is not taken from the public purse. Instead Treasury staff ensure that all costs relating to his upkeep, health and welfare are funded through donation.

In 2016, the department received 940 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 deadline in 92% of these cases.[7]

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.

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.

The PHSO published their most recent report Complaints about UK government departments and agencies and some UK public bodies 2015-16[8] in December 2016.

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:

- The £13 billion sale of former Northern Rock assets, July 2016;
- Departmental Overview 2015-16: HM Treasury, October 2016;
- Government's management of its performance: progress with single departmental plans, July 2016;
- Spending Review 2015, July 2016; and
- English devolution deals, April 2016.

The 'Better Regulation' agenda

As the UK's economics and finance ministry, the Treasury has strongly supported regulating only where necessary within the financial services and insurance sectors and minimising burdens to businesses where possible.

A full report on the Treasury's actions in relation to the Better Regulation Agenda can be found in the Better Regulation section from page 163.

7 Cross-government FOI stats are published quarterly on GOV.UK and further details on 2016 performance can be found at https://www.gov.uk/government/collections/government-foi-statistics.The department also publishes a disclosure log with links to FOI responses on GOV.UK at https://www.gov.uk/government/publications?departments%5B%5D=hm-treasury&publication_type=foi-releases

8 https://www.ombudsman.org.uk/sites/default/files/Complaints_about_ _departments_2015-16.pdf

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.

A separate sustainability report covering how the department has met its Greening Government commitments and integrated sustainability into both policy making and delivery can be found from page 165.

Tom Scholar
Permanent Secretary

13 July 2017

Accountability Report

Corporate Governance Report

Report from the Lead Non-executive Board Member

The key challenge for the Treasury over the past year has been to prepare for, and develop, changes in strategy following the vote in the referendum last year to leave the European Union. With negotiations still only just beginning, the framework for future trading relationships is still far from clear, but the Treasury has continued to work on possible scenarios and the appropriate policy responses.

In his speech at the Mansion House in June 2017, the Chancellor of the Exchequer meanwhile emphasised the need for policy to be directed towards improvements in productivity and the achievement of long-term, sustainable growth, and the Treasury has been well-focused on these objectives. Non-executive Board Members have brought their expertise to bear on several projects in this area of policy. At the same time they have tried to support the Executive Management Board in their development of fiscal policy, in line with the new targets for reducing the deficit laid out by the Chancellor in last year's Autumn Statement.

The European negotiations and their impact on the UK have placed significant resourcing strain on the Treasury, and the Non-executives remain concerned that resourcing, and the department's reward strategy, should be sufficiently flexible to accommodate the greatly increased pressures on the department. It is essential that the Treasury approaches Brexit with sufficient high-quality, skilled officials to help achieve the best outcomes and policy responses.

At the senior management level, there have been several changes, following Sir Nick Macpherson's departure in March 2016, after nearly 11 years as Permanent Secretary. Sir John Kingman took over as interim head of the department until July 2016 (before resuming his career in the private sector) when Tom Scholar became Permanent Secretary.

Charles Roxburgh has taken over as Second Permanent Secretary to the department and Katharine Braddick has arrived to take on the role of Director General, Financial Services, both key roles with respect to European negotiations affecting the UK's financial sector, which accounts for such a significant proportion of GDP. Beth Russell (Director, Personal Tax, Welfare and Pensions) was appointed to EMB, and she will also lead the work on implementing the department’s four-year Diversity Action Plan, in line with management's priorities for action this year.

Julian Kelly moved on from his position as Director General (Public Spending) and Finance. His replacement as Head of the Government Finance Function, Mike Driver, will join the Treasury Board and Treasury Board Sub-Committee.

Non-executives have continued to provide independent oversight throughout the year to the department. This has been on both the running of the department and with respect to specific projects such as the introduction of the new £1 coin. The Non-executives have continued to take a close interest in the talent management of the department and the Treasury Board Sub-Committee, which I chair, has had specific discussions on the capabilities and skills of the department, focusing particularly on areas of expertise which have not traditionally been part of the Treasury's core competences.

In response to this year's Board Effectiveness Evaluation, the Treasury Board Sub-Committee has formally extended its remit to oversee the department's Arm's Length Bodies. This year it has held meetings with the Chief Executives from the Royal Mint and the Debt Management Office, as well as receiving a briefing from UK Asset Resolution Limited (UKAR), which manages the sales of Bradford and Bingley mortgage assets.

As their contribution to Sir Ian Cheshire's cross-government themes for Non-executive action, the Treasury Non-executives have also contributed to the department's single departmental plan this year. The process for developing our internal single departmental plan has been better aligned with our business planning process, in order to bring together in one place our commitments, approach to delivery and desired outcomes.

This is my final year as Lead Non-executive Board Member of the Treasury, so as I approach the end of the term of my appointment, I would like to thank the many Ministers, Executives and Non-executive Board members I have been privileged to work with, and the Treasury Board Secretariat for all their help. The Board and its Sub-Committee have made great strides in developing ways of working that contribute effectively, both in supporting and developing management and in providing challenge and oversight.

Our Board Effectiveness Evaluation identified a particularly high level of trust between all those involved, leading to open, frank and challenging discussions, but also highlighted the need to follow these up with clear and specific programmes of action. These supporting skills amongst my fellow Non-executives will be sorely needed as the department continues to evolve, and to face new challenges.

As the new Parliament begins, with the return to a single annual Budget and with the European exit negotiations getting underway, the Treasury's skills and capabilities will be needed more than ever. The department's ability to be flexible remains one of its key attributes. Non-executives remain committed to helping the department scan the horizon for a particularly broad set of challenges, and bringing their external expertise and experience to the assistance of the department with the tasks ahead.

Sarah Hogg

Baroness Sarah Hogg
Lead Non-executive Board Member

13 July 2017

Directors' Report

The Treasury's ministers

The Chancellor of the Exchequer, The Rt Hon Philip Hammond 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 supporting ministers[9], which as at 31 March 2017 were:

- The Chief Secretary to the Treasury: David Gauke;
- The Financial Secretary to the Treasury: Jane Ellison;
- The Economic Secretary to the Treasury: Simon Kirby; and
- The Commercial Secretary to the Treasury: Baroness Neville-Rolfe DBE CMG.

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 sector and/or third sectors and have strong financial and commercial expertise.

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

Given the significant changes to the ministerial and executive team during the year, an extension of 1 year was sought and approved for the Lead Non-executive, Baroness Sarah Hogg. Baroness Hogg remaining with the department for a further year has brought welcome continuity.

[9] A list of current ministers and their individual responsibilities can be found on https://www.gov.uk/government/organisations/hm-treasury

Lead Non Executive Board Member, Baroness Sarah Hogg

Appointed: 31 December 2016 (1 year extension to second term)

Experience: Baroness Hogg brings wide financial sector experience having been Chair of the Financial Reporting Council, Senior Independent Director, BG Group and Director, 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 Minister's Policy Unit in the early 1990s and the Chairman of 3i Group from 2002-2010

Other roles: Non-executive Director of the Financial Conduct Authority; Chairman of the Audit Committee for the John Lewis Partnership; National Director Times Newspapers; Trustee for the Historic Lincoln Trust; Non-executive Director BG Group; Member of the Takeover Panel

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

Richard Meddings

Appointed: 1 July 2014 (first term)

Experience: Richard was also appointed as Audit Committee chair on his arrival in 2014. He brings risk and banking experience to the role having been at Standard Chartered plc from 2002 until 2014 as Group Executive Director responsible for Risk and Group Finance Director for 8 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 2017); Non-executive Director and Senior Independent Director of 3i Group plc (2008-2014) and chair of Audit and Risk Committee; Financial Reporting Review Panel in FRC; Board member of International Chambers of Commerce UK (2007 to 2017); and Trustee on Teach First Board

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

Dame Amelia Fawcett

Appointed: 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

Tim Score

Appointed: 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: Treasury Board; Treasury Board Sub-Committee; Nominations Committee; Audit Committee

The Permanent Secretary

The Permanent Secretary to 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 2016-17.

Treasury's internal structure

The Treasury is divided into 13 Director-led groups, as set out below.

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 understood across the department to help actively manage the cross-cutting risks facing the Treasury.

HM Treasury Executive Management Board (at 31 March 2017)

Permanent Secretary	Directors General	Directors
Tom Scholar	James Bowler	Katherine Green
	Mark Bowman	Sophie Dean Kate Ivers (Acting)
Second Permanent Secretary	Katharine Braddick	Clare Lombardelli
Charles Roxburgh	Julian Kelly	Beth Russell
	Dave Ramsden	

Internal group structure and functions

The Economics Group is responsible for providing economic surveillance, delivering the evidence base to underpin macroeconomic and microeconomic policy and promoting professionalism for economics and social research in government.

The Enterprise and Growth Unit (EGU) is responsible for growth-related policy and spending. EGU works to ensure that Government policy encourages private sector investment, enterprise, innovation and the transition to a low-carbon economy.

The Fiscal Group is responsible for ensuring the sustainability of the public finances over the short, medium and long term. It ensures that that Government's operational financing needs are met, every day and in the medium term, and publishes high quality public sector finance statistics.

The Public Spending Group is at the heart of government; controlling and reporting on

The Financial Services Group works to promote a stable and efficient financial services

The Public Services Group provides oversight of major public service expenditure. Its public spending, improving value for money and efficiency, and working across Whitehall to improve government finance and Management Information capability.

sector that supports growth in the UK economy and promotes good outcomes for consumers and businesses. Its strategic aims are EU Exit, growth, competitiveness, stability and consumers.

strategic aims are to implement spending settlements and produce further savings options for the Efficiency Review, to promote growth, and EU withdrawal and devolution.

The aim of the Business and International Tax Group is to provide strategic oversight of business, environmental, transport and property taxes, VAT, excise taxes and customs duties that together raise revenue of over £250 billion a year, to deliver policy change in consultation with key stakeholders, to handle the UK's relationships with other countries, the EU and international institutions on tax issues, and to manage and mitigate risks to the UK's tax base including through tackling avoidance and evasion.

The Financial Stability Group contributes to the Treasury's objectives through managing the transition to a more resilient and balanced UK financial sector, in a way that supports growth and sustainable public finances. The Group's overarching aim is to secure the stability and operational resilience of the UK financial sector for the benefit of the economy. The Group is responsible for ensuring that the UK's exit from the EU takes place in a way that supports a stable, well-functioning financial system.

The work of the Strategy, Planning and Budget (SPB) Group is at the heart of the Treasury and core to its strategy. SPB supports the Executive Management Board in setting the strategic direction for the Treasury. It works with and alongside Groups across the department to bring together the Treasury's departmental objectives into a coherent strategy. SPB works as a single Group at the centre setting this direction - allocating people and resources and setting policy to achieve it.

The Ministerial and Communications Group support Ministers and the Executive Management Board in discharging effectively their respective responsibilities; and provide a professional external communication function for Ministers and the whole department.

The Personal Tax, Welfare and Pensions group is at the centre of the government's relationship with the public through its role in structuring and delivering taxes, benefit and pensions. It works closely with other government departments, in particular DWP and HMRC.

The International and EU's strategic aim is to promote and protect the UK's global interests through economic and financial policy. It achieves this through the quality of analysis and advice to ministers, the effectiveness of official relationships, and the professionalism of delivery.

The Corporate Centre Group (CCG) supports the Treasury both directly in its policy, correspondence and operational support, and by ensuring the Department has the right resources, in the right place, at the right time. CCG is responsible for provision of HR, Finance, Estates, IT, Security, Knowledge, Information and Records Management, Correspondence and Information Rights, Transparency and oversight of Procurement and Commercial activities.

Senior management changes

As reported in last year's Annual Report and Accounts[10], in March 2016 the Prime Minister appointed Tom Scholar as Permanent Secretary. He took up the post on 1 July 2016.

Following a Whitehall wide competition, Charles Roxburgh was appointed as Second Permanent Secretary (the post vacated by John Kingman on becoming Acting Permanent Secretary on 1 April 2016). Charles took up the post on 4 July 2016, having previously been Director General (Financial Services). For a brief period he continued to discharge the responsibilities of both positions.

Katharine Braddick was appointed as Director General (Financial Services) in October 2016, and took up the post with immediate effect.

There has been one change to the senior management team since the end of the financial year. On 8 May 2017 James Bowler took up the position of Director General (Public Spending), following Julian Kelly's move to the Ministry of Defence as Director General (Nuclear). A competition is underway to appoint a new Director General (Tax and Welfare) with James continuing to oversee this area in the interim.

Julian Kelly's replacement as Head of the Government Finance Profession, Mike Driver, will join the Treasury Board and Treasury Board Sub-committee.

[10] https://www.gov.uk/government/publications/hm-treasury-annual-report-and-accounts-2015-to-2016

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 34 and 35. No executive members of the Board have reported any company directorships or other significant non-executive responsibilities that may conflict with their management responsibilities, and no members of EMB have any conflict of interest recorded.

Whistleblowing

As well as ensuring that any conflicts among senior staff are registered, making sure the department's staff feel able to come forward with concerns is important in ensuring effective governance and management across the organisation.

The department's staff survey results in 2016 showed that 64% of staff believed 'it is safe to challenge the way things are done in the Treasury'. This is 21 percentage points higher than the civil service average.

During 2016-17 the department's whistleblowing policy was reviewed to ensure that all staff were empowered to raise issues and feel confident in the process by which they can do so.

Gwyneth Nurse (Director, Financial Services), Richard Meddings (Non-Executive Board Member), and Group Head of Internal Audit (Chris Wobschall) are the nominated officers responsible for investigating staff concerns that are raised confidentially.

There have been no issues raised by staff in 2016-17.

Transparency and scrutiny

The roles and structures described here 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 and the Treasury prides itself on welcoming such oversight.

Detail on the scrutiny of the department by internal audit, the public, parliament can be found from page 27 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 page 29.

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 30 of the financial statements.

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 and skills of its staff, their hard work and dedication. Information on sickness absence, off payroll engagements and staff pension costs is within the Staff Report on pages 70 to 77.

Personal Data

No protected personal data incidents were recorded in the department during 2016-17.

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 2016 numbers 323 and 1243 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at Note 31.3 of the financial statements).

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; and
- 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[11] published by HM Treasury.

Statement regarding the disclosure of information to the auditors

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 as a whole is fair, balanced and understandable, and I take personal responsibility for judgements made to ensure that it is fair, balanced and understandable.

[11] https://www.gov.uk/government/publications/managing-public-money

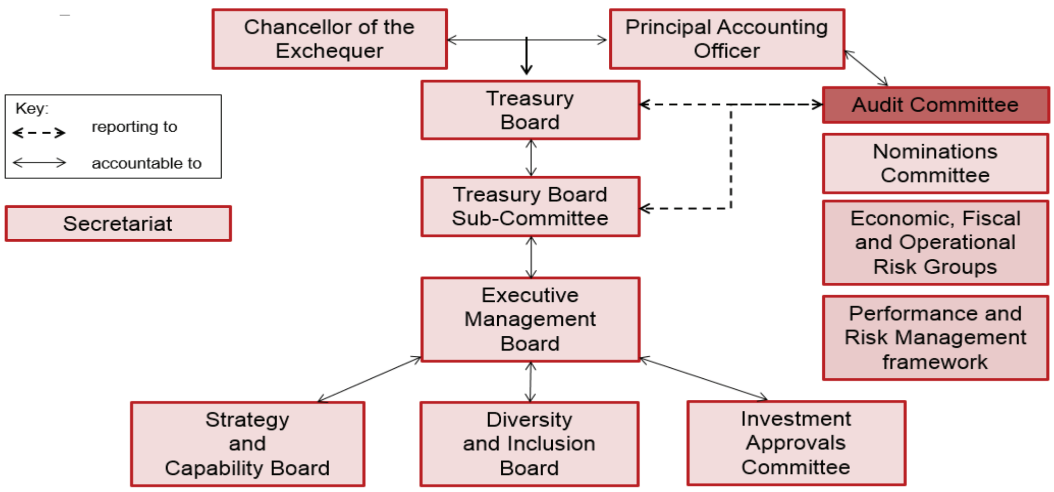
Governance Statement

The governance statement is a personal statement by the Principal Accounting Officer, outlining his roles and responsibilities, recording the stewardship of the department along with his chosen risk management strategy and system of internal control.

It sets out the Permanent Secretary's views on the key challenges faced by the department in order to give a sense of how successfully the department has coped with them. The roles of additional accounting officers within the department and the assurances received in preparing this report are also declared.

This governance statement sets out the risks and challenges the department faced in 2016-17, 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.

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 provides advice, support and challenge to the effective running of the department in relation to 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 2016-17. The session covered the priorities and challenges facing the department along with resourcing, and the skills and expertise offered by the non-executive members.

The meeting also reflected on recent fiscal events, the service ministers receive from the department, and provided updates on key policy areas including Brexit, the international financial landscape, asset sales, and the work of the department's arm's length bodies.

All members attended this meeting, apart from Dame Amelia Fawcett who sent apologies.

Board Effectiveness Evaluation

Undertaking an annual review of a Board's processes and practices is standard good corporate practice.

The process is set out in the Code of Practice on Corporate Governance[12]. This year's Board Effectiveness Evaluation was undertaken by Mervyn Walker, the lead Non-Executive Director of Her Majesty's Revenue and Customs. Mervyn observed a Treasury Board (Sub-Committee (TB(SC)) meeting and provided feedback to Baroness Hogg, the chair of TB(SC).

The evaluation noted TB(SC) was operating effectively, highlighting the open, frank and mutual trust between members. It noted its oversight of performance and risk management in the department, along with the role it plays in scrutinising the department's Arm's Length Bodies.

Recommendations from the exercise will be discussed and implemented during this coming financial year.

Treasury Board Sub-committee TB(SC)

The main sub-committee of the Board is 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. Edward sits on TB(SC) in a non-executive capacity to strengthen the relationship between the two 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 issues.

Over the year the TB(SC) has considered a broad range of both policy and corporate issues facing the department including talent management, Europe, and cyber security as well as providing oversight of some of the department's arm's length bodies (Government Internal Audit Agency, Debt Management Office, Royal Mint and UK Asset Resolution).

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

The Executive Management Board (EMB)

The Permanent Secretaries and Directors General make up the senior management team of the department, known as EMB.

They are joined on EMB by the Directors of Finance, Corporate Services, Strategy, Budget and Planning, and a Director leading on diversity. This executive team takes personal and corporate responsibility for the running 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 strategy on 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 the efficient and effective allocation of resources.

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 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.

The Investment Approvals Committee 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 Treasury's staff diversity networks and sets the diversity and inclusion agenda.

The Treasury has further demonstrated its commitment to diversity this last year by appointing Beth Russell to the Executive Management Board in November 2016, reflecting the central importance of diversity work for the department.

Recognising the ambitious goals set out in relation to the Public Sector Equality objectives[13] and to strengthen the effort on improving the diversity of the

[13] https://www.gov.uk/government/organisations/hm-treasury/about/equality-and-diversity

department, Beth Russell is leading on implementing the Diversity Action Plan across the department, working closely with fellow directors.

Beth has been appointed to support the work of Dave Ramsden, the Diversity Champion. Dave Ramsden leads the DIB along with vice chair Lowri Khan (Director, Financial Stability) who are joined by representatives of staff networks across the department. The board meets monthly.

EMB 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 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.[14]

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.

As at 31 March 2017, the Membership of the Committee was as follows:

- Richard Meddings – see biography on page 34
- Tim Score – see biography on page 35
- Peter Estlin - Alderman & Sheriff of the City of London; Senior Advisor, Barclays plc, (previously Group Financial Controller and acting Group CFO); Governor, Bridewell Royal Hospital; Board Member, Trust for London; Trustee, Morden College; Commissioner, Royal Borough of Greenwich Fairness Commission.
- Zarin Patel – formerly Chief Operating Officer of The Grass Roots Group PLC, a marketing services company. Previously she was Chief Financial Officer at the BBC and a member of its Executive Board. She is also a Non-Executive Director of John Lewis Partnership and is a member of its Audit and Risk Committee.
- Jacinda Humphrey - Finance Director, Department for Communities and Local Government; previously Director of Planning, Portfolio and Performance Management at the Department for Work and Pensions (DWP)

[14] Further information on how the department manages risk can be found on pages 49 and 50.

There were a couple of membership changes to the Audit Committee in 2016-17 with Abhai Rajguru and Mary Hardy both reaching the end of their appointment terms on 31 October and 31 December 2016 respectively. Zarin Patel and Jacinda Humphrey were appointed on 1 March 2017.

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

Audit Committee Chair's Report

I'd like to thank all members of the committee for their commitment, support and interest throughout the year.

In this financial year this committee has continued to provide challenge to the work of the Treasury to help it to operate within a controlled environment. The Committee provides the Principal Accounting Officer with advice on various issues including review of financial performance and control during the year, oversight of the internal audit programme and reports, engagement with the National Audit Office, matters of operational control and risk appetite.

We have, as part of our work, received reports from the Treasury on various key areas including IT Capability and Cyber Security, the Governance and oversight of its Arm's Length Bodies and Balance Sheet Models.

We have had oversight and input into the various annual report and accounts produced by the Treasury including the Whole of Government Accounts and the work done to support its production.

The Committee seeks to challenge the management team and introduce ideas for discussion in a way that enables the Treasury to review its work from a finance and control perspective. The Committee provides an assurance to the Board about the internal controls that operate.

During the year our membership has changed. Mary Hardy and Abhai Rajguru have both left the committee after reaching the end of their final term and I would like to thank each of them for their significant contribution.

I am pleased to welcome our two new members Jacinda Humphrey and Zarin Patel, who joined us on 1 March, and my colleagues and I very much look forward to working with them.

Richard Meddings
Chair, Treasury Group Audit Committee
13 July 2017

Nominations Committee

The Nominations Committee is made up of the Permanent Secretary with the Non-Executive Directors. It 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. It met once this financial year.

Attendances at Board meetings

Attendee	Treasury Board	TB(SC)	Audit Committee	Nominations Committee
Ministers				
Chancellor	1/1	-	-	-
Chief Secretary	1/1	-	-	-
Financial Secretary	1/1	-	-	-
Economic Secretary	1/1	-	-	-
Commercial Secretary	1/1	-	-	-
Non Executives				
Baroness Sarah Hogg	1/1	5/5	-	1/1
Dame Amelia Fawcett	0/1	3/5	-	1/1
Richard Meddings	1/1	5/5	6/6	1/1
Tim Score	1/1	4/5	5/5	1/1
Edward Troup	-	4/5	-	-
Mary Hardy	-	-	4/5	-
Peter Estlin	-	-	5/6	-
Abhai Rajguru	-	-	3/4	-
Zarin Patel	-	-	1/1	-
Jacinda Humphrey	-	-	1/1	-
Executives				
Tom Scholar	1/1	3/4	-	1/1
John Kingman	0/0	1/1	-	-
Dave Ramsden	1/1	4/5	-	-
Charles Roxburgh	1/1	4/5	-	-
Mark Bowman	-	3/5	-	-
James Bowler	-	4/5	-	-
Julian Kelly	-	4/5	-	-
Katharine Braddick	-	2/2	-	-
Clare Lombardelli	-	5/5	-	-
Katherine Green	-	4/5	-	-
Sophie Dean	-	4/4	-	-
Kate Ivers	1/1	2/2	-	-
Beth Russell	-	1/1	-	-

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) has been reviewed, scrutinised, improved and updated over the course of the year.

The quarterly management information received by the Executive Management Board (EMB) and the Treasury Board Sub-Committee TB(SC) was extended to cover the assets and liabilities of the department, along with information relating to the Arm's Length Bodies of the department.

Following fiscal events a lessons learned exercise is conducted so the information provided to EMB allows the board to have high quality discussions with relevant, up to date, information.

EMB and TB(SC) have welcomed changes this year which have supported discussions and decision making.

Risk Management

The Treasury faces macro and micro level risks in its dual role as the UK's finance and economics ministry and as a central government department and employer. The risks faced are diverse in nature and severity, and will sometimes be determined by external forces over which the department may have influence, but no control.

As the economics ministry, the department must react to events in the global and UK economy; 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 the strategic, operational, reputational and financial risks to the department. In addition these groups consider legal risk, the risk of loss arising from failure to comply with statutory or regulatory obligations.

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 Board Sub-committee on a quarterly basis, which reflects on risk and performance across the department. This enables EMB, TB(SC) 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

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 department's Quarterly Performance and Risk Report is the formal system by which the Treasury addresses, challenges and responds 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 in the Treasury Group section.

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 and Accounting Officer	Notes
Consolidated Fund (CF) John Kingman (from 1 April 2016 to 30 June 2016) Tom Scholar (from 1 July 2016)	The CF was set up in 1787 and is in effect the government's current account. It receives the proceeds of taxation and other government receipts.
National Loans Fund John Kingman (from 1 April 2016 to 30 June 2016) Tom Scholar (from 1 July 2016)	The NLF was established in 1968 and is in effect 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[15]	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, Government Internal Audit Agency, provided his Annual Report and Opinion on the adequacy and effectiveness of the Treasury's framework of governance, risk management and control to the Principal Accounting Officer and the Audit Committee. His annual opinion was Moderate.

Group Chief Internal Auditor's Report

The opinion is a key element of the assurance framework, which the Accounting Officer needs to inform his annual Governance Statement. It does not detract from the Principal Accounting Officer's personal responsibility for the framework of governance, risk management and control, on the effectiveness of which he takes assurance from his senior management and formal controls, as well as from internal audit.

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

The planned internal audit programme, including revisions to the programme during the course of the year, was reviewed and endorsed by the departments Audit Committee and the Principal Accounting Officer.

GIAA has delivered a wide programme of challenging internal audit engagements throughout 2016-17, from policy delivery to core systems and, on some of which, it has been supported by our contractor partners. Audits included coverage of the full suite of Treasury work covering risk and performance, corporate functions, delivery of fiscal events, management of asset sales and stewardship of arm's length bodies.

GIAA also attended Project Board meetings of significant projects in order to observe and advise on risk and project management.

15 Julian Kelly left the Treasury after 31 March 2017. The Contingencies Fund account 2016-17 was signed by James Bowler.

The internal auditors found evidence of good practice throughout the year, particularly on project management, demonstrating Treasury's responsiveness to a non-core skills area.

Chris Wobschall
Group Chief Internal Audit, GIAA

July 13 2017

Issues facing the Department in 2016-17

In preparing this Governance Statement I have considered issues which might pose challenges to the delivery of the Treasury's objectives or undermine the integrity or reputation of the department.

People

The department has experienced high turnover in staff this financial year. Recognising that its staff and their experience, skills and professionalism are key, the department undertook several initiatives to mitigate risks and to ensure objectives and business plan targets were met.

Ensuring the right resources were in the right place at the right time was imperative with the changing priorities following the EU referendum. A business planning exercise and a second reprioritisation round was undertaken to achieve this.

There have been several recruitment campaigns including a graduate programme and an external Senior Policy Advisers recruitment programme to bring external expertise into the department. The recruitments were followed by bespoke training for each group of new recruits, focusing on the knowledge and skills required to become effective policy officials.

In addition to these recruitment and training programmes the department offered continuous professional development to all of its staff including targeted courses for Personal Assistants, a Prospects programme for business support staff and a senior civil service assessment centre.

Recognising that an engaged and happy workforce are more productive and more likely to prevent fraud or other misuses of resources, EMB pays close attention to the annual staff survey results.

The Treasury's staff engagement score in the staff survey results for 2016 was 74%, a +1 percentage point increase on the previous year.

One of the EMB's areas of focus for 2016-17 was on improving diversity across the department. Several steps were taken including the creation of a Diversity Delivery Committee and the appointment of Beth Russell to EMB to lead the work on implementing the department's 4 year Diversity Action Plan.

Security

Understanding the threats to national security, and the risks to the department's business in relation to information security (including cyber security and data integrity), personnel security and physical security is of paramount importance in ensuring the Treasury can achieve its objectives and not undermine its reputation. This year EMB responded to concerns of the Departmental Security Officer and GIAA and took the decision to improve security at the main entrance to its building. This will involve the introduction of fast-acting head-high automated security barriers.

EMB received a tailored briefing from the Centre for Protection of National Infrastructure which provided advice on the cyber security threats to the department and the finance sector that might prejudice the achievement of the business plan and the department's objectives.

Recognising the threats to the IT systems, increased fraud and reputational risks to the department, a campaign to raise awareness of online security was undertaken by the department this year. A 'Think Before you Click' phishing awareness campaign was carried out: this included online training to raise awareness of cyber-crime. As part of the campaign phishing emails were issued to staff to gauge their awareness.

In addition, EMB receive regular updates covering all aspects of security from the Departmental Security Officer (DSO). Following the announcement of the retirement of the previous long-serving DSO, and recognising the importance of this high profile role, the new appointment was made including a 2 month handover period to ensure all key work streams continued without interruption. The handover period allowed for comprehensive understanding of the role and requirements.

Recognising the need to be aware and involved in Continuity of Crisis Management the department has been working with the Cabinet Office to improve the Government's response should the normal running of Government be interrupted.

The department's response to major incidents was tested during and following the terrorist attack on Westminster Bridge in March 2017. The department's response was efficient and effective, including our Departmental Security Officer briefing other tenants across the Government Offices Great George Street complex and ensuring staff were aware of any action to take. It also included close liaison with the Metropolitan Police, following their instructions and cascading their advice to colleagues, including closing one of the entrances to the building and later encouraging colleagues to leave.

Following the attack there was a rapid lessons learned exercise undertaken. Recommendations from that exercise are being implemented, including having a single building response centre to ensure that all of the tenants in the building receive the same message.

We continue to improve our business continuity arrangements, particularly in respect to the department's critical activities. Our most business critical teams exercise their business continuity arrangements regularly. In the financial stability areas, we continue to play a full part in the business continuity arrangements of the finance sector, led by the department in conjunction with the Bank of England and the Financial Conduct Authority.

Policy

The department covers a wide spectrum of policy areas and ensures appropriate governance, risk management and internal control systems are in place, avoiding undermining the integrity or reputation of the department.

The Treasury places a high value on sufficient time for Parliamentary scrutiny. In order to ensure that happens, along with ensuring that any tax changes are announced well in advance of the start of the tax year, the Chancellor announced, in the Autumn Statement 2016, that we would move to a single Autumn Budget (starting in Autumn 2017). In 2018 there will be a Spring Statement responding to the forecast from the OBR, but it will not be a fiscal event.

Recognising that financial sanctions are an important foreign policy and national security tool, and that ensuring their effective implementation and enforcement is vital to their success, the Office of Financial Sanctions Implementation[16] (OFSI) was set up in March 2016 following the announcement in Summer Budget 2015[17].

---

16 https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation

17 https://www.gov.uk/government/publications/summer-budget-2015

Office of Financial Sanctions Interventions (OFSI)

OFSI enables financial sanctions to make the fullest possible contribution to the UK's foreign policy and national security goals. It also helps to maintain the integrity of, and confidence, in the UK financial services sector.

OFSI focused this year on ensuring financial sanctions are properly implemented, and understood, and on providing a better service to the private sector. It has done this by:

- increasing and up-skilling staff including improvement to front line delivery
- undertaking more in-depth and diverse stakeholder engagement to raise awareness and compliance of financial sanctions
- making improvements to internal processes and supporting infrastructure to support and improve the effectiveness and efficiency of the team
- significantly enhancing the compliance function of the team by introducing a new compliance strategy and using existing powers to take a more proactive approach to suspected breaches
- developing guidance and processes to ensure that the new monetary penalties are used fairly and proportionately. A consultation exercise was undertaken to seek views on the guidance from sectors beyond the financial services sector, including the insurance sector, exporters, the travel industry, charities and estates agents. Engagement was positive and constructive.

The Chancellor published at the Autumn Statement in 2016, a new draft charter for Budget Responsibility, with 3 fiscal rules:

- That public finances should be returned to balance as early as possible in the following Parliament, and, in the interim, cyclically-adjusted borrowing should be below 2% by the end of the Parliament.
- That public sector net debt as a share of GDP must be falling by the end of the Parliament.
- That welfare spending must be within a cap, set by the government and monitored by the OBR.

Delivery

Similarly, without appropriate governance, challenging delivery responsibilities could undermine the reputation of the department. The Treasury is responsible for a number of major delivery projects.

The department has continued to support fiscal policy through share sales. At 31 March 2017 the UK Taxpayer held less than 3% of shares in Lloyds following sales in which the government recovered over £19 billion of the £20.3 billion injected into the company during the financial crisis[19]. In addition to Lloyds share sales, sales of Bradford and Bingley mortgage assets were launched in October 2016.

The government continues to explore options for the sale of other corporate and financial assets, where there is no longer a policy reason to retain them and when value for money can be secured for taxpayers. This is an integral part of the government's plan to repair the public finances.

Recognising the costs and risks associated with the replacement of the £1 coin the department worked closely with the Royal Mint to manage these and to ensure the successful delivery of the new £1 coin.

This covers the introduction of the new coin, both in manufacturing and issuance, and the withdrawal of the old £1 coins. A publicity campaign helped to raise business and public awareness. There was close senior oversight to ensure the project was a success.

Exiting the European Union

A successful exit from the EU is a major priority for the Treasury.

The department's aim is to support the government in its decisions and action, and secure the best possible economic outcome for the nation, while preparing the economy to be resilient as we exit the EU. Building the resources and capability to achieve that along with existing responsibilities has meant some changes within the department.

A reprioritisation exercise was undertaken to ensure the right resources were in the right place to meet the department's objectives and to respond to the EU exit work. A new Director position (Director EU Exit Planning) was created to oversee the preparations for the domestic consequences of exit and co-ordinate the Treasury's work on it.

During the course of the year the department considered its team and group structures and several changes were made to ensure its domestic and EU priorities were met. The EU analysis team moved from the Economics Group to the International and EU group and a new Trade policy team was created in International and EU Group. An additional team covering Customs policy was created in the Business and International Tax Group. Finally, a new Financial Stability EU team was created in the Financial Stability Group.

Supporting a joined up approach across government has been a priority and the department has worked closely with HMRC to ensure the tax, customs and EU tariffs work has been joined up. The department has also worked closely with the

[19] Following the end of the financial year the government completed the sale of all its shares in Lloyds. Further details of the sales can be found in the Performance Report.

Department for Exiting the European Union and the Department for International Trade, as well as with all other departments involved in this work.

Governance of the Treasury Group

The Treasury Group organisations work to support the government's economic and fiscal strategy. The Permanent Secretary to the Treasury is the Principal Accounting Officer for the Group[21].

Recognising that all arm's length bodies need to be effective and fit for purpose to avoid undermining the department's reputation, or integrity, the department is undertaking a systemic review of its bodies as part of the Cabinet Office's Tailored Review programme published in November 2016[22].

The major development last year was the creation of the National Infrastructure Commission (NIC), established on an interim basis in October 2015 and permanently established on 24 January 2017.

The NIC provides the government with impartial, expert advice on major long-term infrastructure challenges. It promotes sustainable growth, competitiveness and quality of life by making independent recommendations in a National Infrastructure Assessment and specific studies on particular issues.

The impartiality of the NIC is ensured by provisions set out in the NIC framework document and Charter. To ensure it remains impartial, the NIC will be overseen by a Commission – comprised of non-executive commissioners. The Commission will have responsibility for ensuring the NIC provides impartial and expert advice, and that the evidence and analysis behind recommendations is robust.

An Oversight Board will be chaired by the Chair of the Commission (or a non-executive member nominated by the Chair), and will ensure the NIC has the staff and support needed to support the Commission in giving high quality advice to the government.

The Corporate Governance Code

As part of the preparation of this report, the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code for Central Government Departments and has provided assurance that it complies with the principles of the Code, though the Treasury has separate Audit and Risk Committees. Information about the Audit Committee is found in the Governance Statement from page 43.

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

21 Further information on the Treasury Group section can be found from page 173.

22 https://www.gov.uk/government/publications/tailored-reviews-of-public-bodies-guidance

full coverage of risks. These risk groups adhere to the Risk Management Framework and report into TB(SC) and EMB.

Oversight

A number of Parliamentary Committees, including the Public Accounts Committee and the Treasury Committee, have called witnesses from across the Treasury Group on key issues. The Treasury welcomes the oversight, challenge and scrutiny this process provides, responds constructively to the recommendations it receives, and implements them where appropriate.

For example, the January 2015 PAC report *Whole of Government Accounts 2012-13* was formally responded to in March 2015, with 2 of 6 recommendations already implemented. An update to this response, *Progress report on the implementation of Government accepted recommendations* in July 2016 indicated that a further 3 had been implemented, with the remaining 1 due for implementation in March 2017.

Assurances

During the year there were a number of independent assurances through the work of the Non-Executive Board Members, internal and external audit, the Head of Treasury Legal Advisors (Government Legal Department) who has advised on legal and regulatory issues, and other bodies such as the Office of the Civil Service Commissioners.

The Group Chief Internal Auditor has provided assurance to me (as outlined in his report on page 52), and to the Audit Committee throughout the period. In turn the Audit Committee has challenged and endorsed the GIAA's work programme throughout the year, which included following up on key internal audit actions with management to ensure they were complied with.

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 96. The cost of the external audit is disclosed in Note 30 of the financial statements and is referenced in the Governance Report on page 40.

Other internal Treasury Group assurances have been provided by:

- UK Asset Resolution Ltd, the Financial Services Compensation Scheme, the Debt Management Office, the National Infrastructure Commission, the Government Internal Audit Agency, UK Government Investments Ltd, UK Financial Investments Ltd, the Money Advice Service, the Royal Household;
- the Treasury's Executive Management Board;
- the Group Finance Director; and
- the Chief Economic Adviser, who has confirmed that an appropriate quality assurance framework is in place and is used for all business critical models

Alongside these assurances, I am grateful to the Group Chief Internal Auditor for his view that, based on the work of his team throughout 2016-17, he is able to provide moderate assurance over the risk management, control and governance framework relevant to the annual report and accounts. 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.

Conclusion

I have considered the evidence that supports this Governance Statement and I can confirm that the Treasury has a strong system of controls to support the department's work. I therefore have no disclosures of control weaknesses to make for the year 2016-17.

Tom Scholar
Permanent Secretary

13 July 2017

Remuneration and Staff Report

Remuneration Report[23]

Treasury Ministers – single total figure of remuneration[24] (audited)

£[25]	2016-17 Salary and FYE	2016-17 Benefits in kind	2016-17 Pension benefits	2016-17 Total	2015-16 Salary and FYE	2015-16 Benefits in kind	2015-16 Pension benefits	2015-16 Total
Philip Hammond Chancellor of the Exchequer (from 14/07/16)[26]	45,003 (67,505)	4,500	13,000	**63,000**	-	-	-	-
George Osborne Chancellor of the Exchequer and First Secretary of State (to 13/07/16)	19,235 (67,505)	1,900	6,000	**27,000**	67,505	6,800	32,000	**106,000**
David Gauke Chief Secretary to the Treasury (from 15/07/16): Financial Secretary to the Treasury (to 14/07/16)	31,680	-	9,000	**41,000**	31,680	-	15,000	**47,000**
Greg Hands Chief Secretary to the Treasury (from 12/05/15 to 14/07/16)	10,560 (31,680)	-	2,000	**13,000**	26,400 (31,680)	-	11,000	**38,000**
Danny Alexander Chief Secretary to the Treasury (to 08/05/15)	-	-	-	-	7,077 (67,505)	-	N/A	**7,000**
Jane Ellison Financial Secretary to the Treasury (from 15/07/16)	21,545 (31,680)	-	8,000	**30,000**	-	-	-	-
Simon Kirby Economic Secretary to the Treasury (from 16/07/16)	15,108 (22,375)	-	4,000	**19,000**	-	-	-	-
Harriet Baldwin Economic Secretary to the Treasury (from 12/05/15 to 15/07/16)	7,458 (22,375)	-	2,000	**9,000**	18,885 (22,375)	-	5,000	**24,000**
Andrea Leadsom Economic Secretary to the Treasury (to 11/05/15)	-	-	-	-	3,729 (22,375)	-	11,000	**15,000**
Damian Hinds Exchequer Secretary to the Treasury (from 12/05/15 to 14/07/16)[27]	7,458 (22,375)	-	1,000	**8,000**	18,885 (22,375)	-	6,000	**25,000**
Priti Patel Exchequer Secretary to the Treasury (to 11/05/15)[27]	-	-	-	-	3,729 (22,375)	-	12,000	**16,000**
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury (from 09/01/17)[28]	N/A	-	N/A	-	-	-	-	-
Lord O'Neill Commercial Secretary to the Treasury (to 23/09/16)[28]	N/A	-	N/A	-	N/A	-	N/A	-
Lord Deighton Commercial Secretary to the Treasury (to 11/05/15)[28]	N/A	-	N/A	-	N/A	-	N/A	-

23 Certain disclosures within the remuneration report have been audited as per the FReM 5.3.4.

24 Following the change in leadership in July 2016, there were changes to the Chancellor of the Exchequer and Ministers to the Treasury. 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.

25 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.

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

27 The Exchequer Secretary role ceased to exist in August 2016 for the remainder of 2016-17.

28 The Commercial Secretary to the Treasury is an unpaid role.

Treasury Ministers – pension benefits (audited)

£000	Accrued pension at pension age as at 31/3/17	Real increase in pension at pension age	CETV at 31/3/17	CETV at 31/3/16	Real increase in CETV
Philip Hammond Chancellor of the Exchequer	10-15	0-2.5	208	186	10
George Osborne Chancellor of the Exchequer and First Secretary of State[29]	10-15	0-2.5	119	111	2
David Gauke Chief Secretary to the Treasury	0-5	0-2.5	57	49	3
Greg Hands Chief Secretary to the Treasury[29]	0-5	0-2.5	42	40	1
Danny Alexander Chief Secretary to the Treasury[30]	N/A	N/A	N/A	N/A	N/A
Jane Ellison Financial Secretary to the Treasury	0-5	0-2.5	23	17	4
Simon Kirby Economic Secretary to the Treasury	0-5	0-2.5	8	5	2
Harriet Baldwin Economic Secretary to the Treasury[29]	0-5	0-2.5	7	5	1
Andrea Leadsom Economic Secretary to the Treasury[29]	-	-	-	13	-
Damian Hinds Exchequer Secretary to the Treasury[29]	0-5	0-2.5	10	9	-
Priti Patel Exchequer Secretary to the Treasury[29]	-	-	-	11	-
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury[31]	N/A	N/A	N/A	N/A	N/A
Lord O'Neill Commercial Secretary to the Treasury[31]	N/A	N/A	N/A	N/A	N/A
Lord Deighton Commercial Secretary to the Treasury[31]	N/A	N/A	N/A	N/A	N/A

29 These ministers have left the Treasury.

30 Danny Alexander opted out of the scheme

31 Pension benefits do not accrue on the Commercial Secretary role.

Additional ministerial salaries borne by HM Treasury (audited)

£000	2016-17	2015-16
Theresa May Prime Minister (from 14/07/16)	50-55	-
David Cameron Prime Minister (to 13/07/16)	20-25	75-80
Gavin Williamson Chief Whip, Commons (from 15/07/16)	20-25	-
Mark Harper Chief Whip, Commons (to 14/07/16)	5-10	25-30
Michael Gove Chief Whip, Commons (to 14/05/15)	-	0-5
Anne Milton Deputy Chief Whip, Commons (from 12/05/15)	30-35	25-30
Greg Hands Deputy Chief Whip, Commons (to 11/05/15)	-	5-10
Don Foster Deputy Chief Whip, Commons (to 08/05/15)	-	0-5
Lord Taylor of Holbeach Chief Whip, Lords (from 06/08/14)	120-125	115-120
The Earl of Courtown Deputy Chief whip, Lords (from 16/07/16)	105-110	-
Lord Gardiner of Kimble Deputy Chief Whip, Lords (to 15/07/16)	35-40	100-105
Lord Newby Deputy Chief Whip, Lords (to 08/05/15)	-	5-10
Baronesses and Lords in Waiting (9 posts, 3 unpaid)[32]	415-420	460-465
Government and Assistant Government Whips (17 posts, 2 unpaid)[33]	255-260	250-255

32 Baronesses and Lords in Waiting comprise: Viscount Younger of Leckie, Lord Ashton of Hyde, Baroness Goldie, Lord Young of Cookham, Lord O'Shaughnessy, Baroness Vere of Norbiton, Baroness Buscombe, Baroness Mubarik and Lord Henley.

33 Government and Assistant Government Whips as at 31 March 2017 comprise: David Evennett MP, Mel Stride MP, George Hollingbery MP, Julian Smith MP, Guy Opperman MP, Stephen Barclay MP, Jackie-Doyle Price MP, Guto Bebb MP, Robert Syms MP, Mark Spencer MP, Heather Wheeler MP, Michael Ellis MP, Chris Heaton-Harris MP, Christopher Pincher MP, Graham Stuart MP, Steve Brine MP and Andrew Griffiths MP.

Senior management – single total figure of remuneration (audited)

£000[34]	2016-17 Salary and FYE	Bonuses	BIK [35]	Pension benefits [36]	Total	2015-16 Salary and FYE	Bonuses	BIK [35]	Pension benefits [36]	Total
Tom Scholar Permanent Secretary (from 01/07/16)	135-140 (185-190)	15-20	-	47	200-205	-	-	-	-	-
Nick Macpherson Permanent Secretary (to 31/03/16)[37]	-	-	-	N/A	-	200-205	15-20	-	N/A	215-220
Charles Roxburgh Second Permanent Secretary (from 04/07/16): Director General, Financial Services (to 03/07/16) [37]	150-155	-	-	N/A	150-155	140-145	15-20	-	N/A	155-160
John Kingman Acting Permanent Secretary (01/04/16 to 30/06/16): Second Permanent Secretary (to 31/03/16)[37]	55-60 (180-185)	-	-	N/A	55-60	155-160	0-5	-	82	240-245
Mark Bowman Director General, International and EU	125-130	10-15	-	56	190-195	120-125	0-5	-	57	180-185
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service	130-135	10-15	-	34	175-180	125-130	5-10	-	40	170-175
Julian Kelly Director General, Public Spending & Finance	120-125	10-15	-	57	190-195	120-125	0-5	-	100	220-225
James Bowler Director General, Tax and Welfare	120-125	10-15	-	56	190-195	120-125	10-15	-	147	280-285
Beth Russell Director, Personal Tax Welfare and Pensions	100-105	10-15	-	72	180-185	-	-	-	-	-
Clare Lombardelli Director, Strategy, Planning and Budget	95-100	5-10	-	46	145-150	50-55 (90-95)	10-15	-	23	85-90
Katherine Green Director, Corporate Services[38]	65-70	-	-	33	100-105	50-55	0-5	-	62	115-120
Sophie Dean Director, Finance and Commercial (to 11/12/16) [38]	40-45 (60-65)	-	-	63	105-110	0-5 (60-65)	5-10	-	5	15-20
Kate Ivers Acting Director, Finance and Commercial (from 12/12/16) [38]	25-30 (90-95)	-	-	42	70-75	-	-	-	-	-
Kirsten Baker Director, Finance and Commercial (to 25/02/16)[38]	-	-	-	-	-	50-55 (50-55)	0-5	-	37	90-95

34 Salary, full year equivalent (FYE), bonuses and totals are presented in £5,000 bands. FYE is shown in brackets. Benefits in kind are presented to the nearest £100 and pension benefits to the nearest £1,000.

35 Benefits in kind.

36 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.

37 Charles Roxburgh, Nick Macpherson and John Kingman did not participate in the Civil Service pension scheme. Adjustments have been made to John Kingman's salary in 2016-17 and Nick Macpherson's salary in 2015-16 to reflect additional payments received after they left HM Treasury, with respect to annual leave. This is impacted the prior year pay multiples below.

Katharine Braddick joined the HMT Board on 20/10/16 on funded secondment from the Bank of England. HMT secondment costs in 2016-17 were £80-85k (FYE £175-180k).

Pay multiples (audited)

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 2016-17 was £200-205,000 (2015-16, £215-220,000). This was 4.4 times (2015-16: 4.7 times) the median remuneration of the workforce, which was £45,918 (2015-16: £43,088). The decrease in the remuneration ratio is primarily driven by an increase in average number of persons employed.

Remuneration of Treasury employees ranged from £17,000 to £203,000 (2015-16, £17,000-£203,000). In 2016-17, as in the prior year, no employees received pay in excess of the highest paid director.

[38] Katherine Green worked 0.7 FTE until 27/11/16, then 0.8 FTE from that date. Sophie Dean works 0.7 FTE and is currently on maternity leave and Kirsten Baker worked 0.6 FTE. Kate Ivers is Acting Finance and Commercial Director until Sophie Dean returns from maternity leave. Kate Ivers' salary disclosed relates to the Acting Director, Finance and Commercial role from 12/12/16.

Senior management – pension benefits[39] (audited)

£000	Accrued pension at pension age as at 31/3/17 and related lump sum	Real increase in pension at pension age	CETV at 31/3/17	CETV at 31/3/16[40]	Real increase in CETV
Tom Scholar Permanent Secretary	50-55 plus lump sum 135-140	2.5-5 plus lump sum 0	875	816	19
Nick Macpherson Permanent Secretary[41]	N/A	N/A	N/A	N/A	N/A
Charles Roxburgh Director General, Financial Services[41]	N/A	N/A	N/A	N/A	N/A
John Kingman Acting Permanent Secretary[41]	N/A	N/A	N/A	650	N/A
Mark Bowman Director General, International and EU	35-40 plus lump sum 90-95	2.5-5 plus lump sum 0-2.5	559	506	25
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service	45-50 plus lump sum 145-150	0-2.5 plus lump sum 5-7.5	975	903	28
Julian Kelly Director General, Public Spending and Finance	40-45 plus lump sum 30-35	2.5-5 plus lump sum 0-2.5	607	552	25
James Bowler Director General, Tax and Welfare	35-40 plus lump sum 95-100	2.5-5 plus lump sum 0-2.5	536	486	23
Beth Russell Director, Personal Tax Welfare and Pensions	25-30 plus lump sum 70-75	2.5-5 plus lump sum 2.5-5	386	331	35
Clare Lombardelli Director, Strategy, Planning and Budget	15-20	2.5-5	202	174	15
Katherine Green Director, Corporate Services	15-20 plus lump sum 40-45	0-2.5 plus lump sum 0-2.5	224	200	13
Sophie Dean Director, Finance and Commercial	15-20	2.5-5	203	158	35
Kate Ivers Acting Director, Finance and Commercial	40-45 plus lump sum 50-55	0-2.5 plus lump sum 0-2.5	687	634	23

39 This table relates to pension benefits in the Civil Service pension scheme. There were no partnership pension contributions in 2015-16 or 2016-17.

40 Figures have been restated where the Civil Service Pension Scheme have made retrospective updates to the data.

41 Charles Roxburgh, Nick Macpherson and John Kingman did not participate in the Civil Service pension scheme.

Fees paid to Non-Executive Board members (audited)

£000[42]	2016-17 Fees	2016-17 Benefits in kind	2015-16 Fees	2015-16 Benefits in kind
Baroness Hogg Lead Non-Executive for HM Treasury	10-15	-	10-15	-
Richard Meddings Non-Executive Board member and Chair of the Audit Committee	10-15	-	10-15	-
Dame Amelia Fawcett Non-Executive Board member	5-10	-	5-10	-
Tim Score Non-Executive Board member and member of the Audit Committee	10-15	-	5-10	-
Peter Estlin Member of the Audit Committee	5-10	-	5-10	-
Zarin Patel Member of the Audit Committee (from 01/03/17)	-	-	-	-
Jacinda Humphrey Member of the Audit Committee (from 01/03/17)	-	-	-	-
Mary Hardy Member of the Audit Committee (to 31/12/16)	0-5	-	5-10	-
Abhai Rajguru Member of the Audit Committee (to 01/11/16)	-	-	5-10	-
Mike Ashley Member of the Audit Committee (to 31/07/15)[43]	-	-	0-5	-

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; and

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

43 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.

    - 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 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.

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 Directors General 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 (£74,000 from 8 May 2015, £74,962 from 1 April 2016) 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 2015-16 and comparative bonuses on those achieved in 2014-15. Annual bonuses are paid following 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. The 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.

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[44].

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 MPs' pension scheme was introduced from May 2015, although members who were MPs and aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MPs' final salary pension scheme.

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; and
- 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.

[44] http://qna.files.parliament.uk

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:

- employee contributions are salary-related, and range from 3.00 - 8.05% of pensionable earnings for members of classic (and for those who joined alpha from classic), and 4.60 - 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%; and
    - 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.

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).

CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

Compensation for Loss of Office (audited)

George Osborne left under severance terms on 13 July 2016 and received a compensation payment of £15-20k. Mark Harper left under severance terms on 14 July 2016 and received a compensation payment of £5-10k.

Staffing Report[45]

Workforce dynamics

Core Treasury workforce breakdown

		31 March 2017	31 March 2016
Staff Numbers	Full Time Equivalents (FTE)	1,228	1,297
Workforce Dynamics	Recruitment Exemptions (number)	136	206
	Annual Turnover rate %	24.3	19.5
Workforce Diversity (%)	Black and Minority Ethnic	18.4	18.7
	Women	48.2	47.0
	Disabled	6.8	5.3
Diversity of Senior Civil Servants only (%)	Black and Minority Ethnic	6.0	4.0
	Women	43.0	42.4
	Women (Top Management Posts)	35.7	46.2
	Disabled	3.0	2.9
	Part time	20.0	19.2
Attendance (AWDL)[46]	Actual (days)	2.6	2.5

Core Treasury – Number of Senior Civil Servants by pay band

Range[47]	31 March 2017	31 March 2016
F	69	70
G	20	17
H	7	7
Total	**96**	**94**

Core Treasury – Staff composition at 31 March 2017

	Female	Male	Total
All employees	582	646	**1228**
Of which:			
Directors (SCS2)	8	11	**19**
Senior Civil Service	40	56	**96**

45 This part of the Remuneration and Staffing Report provides details of staff numbers and costs, including pension costs and exit packages for the Treasury Group in 2016-17.With the exception of the table on page 73 which details average staff numbers, all numbers are presented on an actual basis as at the reporting date.

46 AWDL: Average working days lost

47 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 H are members of the Senior Civil Service.

Recruitment

Core Treasury recruitment 2016-17 (2015-16)[48]

Range[46]	Permanent Appointments	Fixed term appointments	Loans from other Government Departments	Secondments	Total
B	16 (15)	41 (56)	0 (0)	0 (0)	57 (71)
C	27 (29)	4 (11)	0 (1)	0 (0)	31 (41)
D	235(182)	4 (4)	21 (14)	10 (10)	270 (210)
E	73 (41)	7 (8)	10 (20)	7 (6)	97 (75)
E2	10(8)	2 (1)	7 (2)	6 (2)	25 (13)
Commercial Specialists	1 (7))	0 (1)	0(0)	0(7)	1 (15)
SCS	15(1)	1 (0)	1 (5)	1 (1)	18 (7)
Total	**377 (283)**	**59 (81)**	**39 (42)**	**24 (26)**	**499(432)**

Diversity

Core Treasury grade diversity as at 31 March 2017 (31 March 2016)

Range[46]	Women	People from minority ethnic backgrounds	People with disabilities
B	44.4 (50.6)	29.2 (37.1)	9.7 (6.7)
C	65.5 (64.1)	31.7 (33.3)	8.6 (6.5)
D	47.2 (44.0)	20.5 (21.8)	8.1 (6.7)
E	42.2 (43.9)	16.9 (12.5)	6.3 (5.2)
E2	51.7 (50.6)	7.8 (7.2)	3.3 (2.4)
F,G,H	43.0 (42.9)	6.0 (4.1)	3.0 (2.9)

Core Treasury gender diversity as at 31 March 2017 (31 March 2016)

	Male	Female
Executive Management Board members and Group Directors	64.3 (53.9)	35.7 (46.1)
Senior Managers (SCS, not including EMB)	56.7 (56.2)	43.3 (43.8)
All staff	51.8 (53.0)	48.2 (47.0)

48 These figures include the National Infrastructure Commission before they became their own entity.

Health, safety and wellbeing

Sickness Absence[49]

	Jan – Dec 2016 (AWDL)[40]	Jan – Dec 2015 (AWDL)[40]
Government departments	7.1	7.4
Treasury and its agencies	3.8	3.1
Core Treasury	2.6	2.5

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

	Jan – Dec 2016	Jan – Dec 2015
Total days lost	586.5	587
Long term absences days lost	452	408
Short term absences days lost	134.5	179

Staff with no sickness absence

	Jan – Dec 2016	Jan – Dec 2015
Treasury and its agencies	66%	68%
Core Treasury	69%	70%

Performance awards payments

Core Treasury (£)

	2016-17	2015-16
Performance awards	661,247	602,653
Special non-consolidated awards	212,130	226,130

49 Sickness absence is measured on a calendar year not financial year basis.

Analysis of staff costs (audited)

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

Staff costs

In £m	2016-17 Ministers	Special Advisers	Permanent staff	Others[50]	Total	2015-16 Total
Salaries and wages	1	1	142	18	**162**	**187**
Social Security costs	-	-	16	-	**16**	**16**
Staff pension costs	-	-	8	1	**9**	**17**
Total staff costs	**1**	**1**	**166**	**19**	**187**	**220**
Less recoveries for outward secondments	-	-	(2)	-	**(2)**	**(3)**
Net staff costs	**1**	**1**	**164**	**19**	**185**	**217**
Core Treasury and Agencies	1	1	102	12	**116**	**98**
ALBs and other bodies	-	-	64	7	**71**	**122**
Total staff costs	**1**	**1**	**166**	**19**	**187**	**220**

Average number of persons employed [51]

	Ministers	Special Advisers	Permanent staff	Others	2016-17 number Total	2015-16 number Total
Core Treasury and agencies	5	5	1,642	54	**1,706**	**1,571**
ALBs and other bodies	-	-	1,323	254	**1,577**	**2,944**
Total persons employed	**5**	**5**	**2,965**	**308**	**3,283**	**4,515**

50 '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.

51 Total staff in ALBs and other bodies includes 629 UKAR, 447 Royal Household staff and 501 in other bodies. The decrease in ALBs and Other Bodies is primarily a result the outsourcing of UKAR's mortgage services operations to Computershare Loan Servicing (CLS). Over 1,700 UKAR employees transferred to CLS on 6 June 2016 at the commencement of the outsourcing arrangement.

Staff pension costs

Staff pension costs for permanent staff of £8 million (2015-16: £17 million) are primarily employer contributions, including £17 million (2015-16: £14 million) payable to the Civil Service Pension Schemes, £7 million (2015-16: £7 million) payable to defined contribution schemes and £16 million credit (2015-16: £3 million credit) 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.

The Civil Servants and Others Pension Scheme (alpha) was launched as a new pension scheme for civil servants from 1 April 2015. Details on the transition arrangements between alpha and Principal Civil Service Pension Scheme (PCSPS) are outlined from page 68. The PCSPS scheme actuary valued the scheme as at 31 March 2012. Details can be found in the 2015-16 Resource Accounts of the Cabinet Office: Civil Superannuation.[52]

For 2016-17, employer's contributions of £17 million (2015-16: £14 million) were payable to the PCSPS 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 2016-17 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 £0.2 million (2015-16: £0.1 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and have ranged from 8.0% to 14.75% of pensionable pay since 1 October 2015. In addition, employer contributions of 0.8% of pensionable pay of £6,875 (2015-16: £6,502) 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 £6 million (2015-16: net liability of £7 million).

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

The amount recognised in the Statement of Financial Position relating to Bradford & Bingley's (B&B) defined benefit scheme is a net asset of £257 million and a net liability for post-retirement medical benefits of £5 million (2015-16: net asset of £253 million and a net liability for post-retirement medical benefits of £2 million) and the amount recognised

52 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587315/58353_HC366_Accessible.pdf

relating to Northern Rock Asset Management's (NRAM) defined benefit scheme is a net asset of £222 million (2015-16: net asset of £229 million).

In 2016-17 UKAR contributed[53] £58 million to address the deficit in B&B's defined benefit scheme (2015-16: £39 million) and £30 million to NRAM's defined benefit scheme (2015-16: £15 million). Although in surplus on an accounting basis, these benefit schemes are in deficit on a trustee's funding basis. The schemes remain in deficit on a funding basis as a more prudent approach is taken for 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 report and accounts.

Exit packages (audited)

Core Treasury and Agencies

	2016-17			2015-16		
Exit package cost band	**Compulsory redundancies**	**Other departures**	**Total**	**Compulsory redundancies**	**Other departures**	**Total**
<£10,000	-	-	-	-	-	-
£10,000 – £25,000	-	-	-	-	2	2
£25,001 – £50,000	-	3	3	-	4	4
£50,001 – £100,000	-	5	5	-	3	3
£100,001 – £150,000	-	-	-	-	1	1
£150,001 – £200,000	-	-	-	-	-	-
>£200,001	-	-	-	-	-	-
Total exit packages	-	8	8	-	10	10
Total Resource Cost (£'000)	-	544	544	-	518	518

53 Under an agreed plan running to 2019.

Group[54]

Exit package cost band	2016-17 Compulsory redundancies	2016-17 Other departures	2016-17 Total	2015-16 Compulsory redundancies	2015-16 Other departures	2015-16 Total
<£10,000	2	-	2	8	9	17
£10,000 – £25,000	7	9	16	2	44	46
£25,001 – £50,000	7	12	19	3	30	33
£50,001 – £100,000	4	8	12	1	14	15
£100,001 – £150,000	2	1	3	1	2	3
£150,001 – £200,000	1	1	2	-	-	-
>£200,001	-	-	-	-	-	-
Total exit packages	23	31	54	15	99	114
Total Resource Cost (£'000)	1,121	1,476	2,597	360	3,013	3,373

Non – payroll staff

There were 43 Non payroll staff across the department and Agencies (a decrease from 70 in 2016) as at 31 March 2017. 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 overleaf show off-payroll engagements for bodies for which the Treasury holds management information data which it reports on a regular basis.

In addition there have been no board members and/or senior officials with significant financial responsibility between 1 April 2016 and 1 April 2017 who have been engaged off-payroll.

54 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.

Off-Payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than 6 months[55]

	Core Treasury	DMO	GIAA
The total number of engagements as of 31 March 2017	1	6	6
Of which:			
Total number of engagements existing for less than one year at the time of reporting	1	1	4
Number of engagements that have existed for between 1 and 2 years at the timer of reporting.	-	4	2
Number of engagements that have existed for between 2 and 3 years at the time of reporting.	-	-	-
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.	1	6	6

New off-payroll appointments or those that reach six months in duration between 1 April 2016 and 31 March 2017 for more than £220 per day and that last for longer than six months[55]

	Core Treasury	DMO	GIAA
The number of existing engagements, or those that reached six months in duration between 1 April 2016 and 31 March 2017.	2	6	9
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.	2	6	9
Number for whom assurance has been requested.	2	6	9
Of which:			
Number for whom assurance has been received	2	6	8
Number for whom assurance has not been received	-	-	1[56]
Number that have been terminated as a result of assurance not being received.	-	-	-

Tom Scholar
Permanent Secretary

13 July 2017

55 The National Infrastructure Commission, Office for Budget Responsibility, UK Financial Investments and UK Government Investments had no eligible engagements and so have not been included in this table.

56 One appointee left the department prior to providing assurance.

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply and related notes (audited)

For the period ended 31 March 2017

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.

		2016-17							2015-16
		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	175,618	7,300	**182,918**	152,237	7,132	**159,369**	23,381	137,398
Capital	SoPS 1.2	4,500	-	**4,500**	(2,098)		**(2,098)**	6,598	(660,102)
Annually Managed Expenditure									
Resource	SoPS 1.1	49,126,436	3,759	**49,130,195**	(25,462,027)	4,232	**(25,457,795)**	74,588,463	(13,814,955)
Capital	SoPS 1.2	(4,927,200)	-	**(4,927,200)**	(19,731,493)		**(19,731,493)**	14,804,293	(29,065,617)
Total Budget		**44,379,354**	**11,059**	**44,390,413**	**(45,043,381)**	**11,364**	**(45,032,017)**	**89,422,735**	**(43,403,276)**
Total Resource		49,302,054	11,059	**49,313,113**	(25,309,790)	11,364	**(25,298,426)**	74,611,844	(13,677,557)
Total Capital		(4,922,700)	-	**(4,922,700)**	(19,733,591)		**(19,733,591)**	14,810,891	(29,725,719)
Total		**44,379,354**	11,059	44,390,413	(45,043,381)	11,364	**(45,032,017)**	89,422,735	**(43,403,276)**
Net Cash Requirement	SoPS3			**(3,730,431)**			**(7,255,708)**	**3,525,277**	**(19,349,191)**
Administration costs				**173,926**			**159,837**	**14,089**	**141,299**

SoPS1.1 Analysis of net resource outturn by section

		2016-17										2015-16
		Administration			Programme			Outturn	Estimate	Outturn	Outturn	Outturn
In £000		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	146,248	(21,210)	125,038	7,853	(14,431)	(6,578)	118,460	131,575	13,115	13,088	122,012
B	Debt Management Office	17,130	(2,082)	15,048	4,067	(964)	3,103	18,151	18,330	179	179	17,535
C	Government Internal Audit Agency	32,595	(30,632)	1,963	-	-	-	1,963	2,840	877	877	841
D	Office of Tax Simplification	763	-	763	-	-	-	763	751	(12)	-	483
E	UK Financial Investments (net)	2,086	-	2,086	-	-	-	2,086	3,312	1,226	1,226	3,777
F	Office for Budget Responsibility (net)	2,749	-	2,749	-	-	-	2,749	2,734	(15)	-	2,101
G	Infrastructure Finance Unit Limited (net)	-	-	-	(4,121)	-	(4,121)	(4,121)	(1,500)	2,621	2,621	(4,354)
J	HM Treasury UK Sovereign Sukuk	-	-	-	(4)	-	(4)	(4)	1	5	5	(5)
K	Royal Mint Advisory Committee (net)	-	-	-	-	-	-	-	1	1	1	-
L	National Infrastructure Commission[1]	1,078	-	1,078	-	-	-	1,078	5,000	3,922	3,922	-
M	UK Government Investments Limited (net)	11,112	-	11,112	-	-	-	11,112	12,574	1,462	1,462	437
-	Eurostar	-	-	-	-	-	-	-	-	-	-	(16,250)
Total Voted spending in DEL		**213,761**	**(53,924)**	**159,837**	**7,795**	**(15,395)**	**(7,600)**	**152,237**	**175,618**	**23,381**	**23,381**	**126,577**
Non-voted												
N	Banking and gilts registration services				7,132	-	7,132	7,132	7,300	168	168	10,821
Total spending in DEL		**213,761**	**(53,924)**	**159,837**	**14,927**	**(15,395)**	**(468)**	**159,369**	**182,918**	**23,549**	**23,549**	**137,398**

[1] The National Infrastructure Commission was permanently established as an executive agency of HM Treasury on 24 January.

Spending in Annually Managed Expenditure (AME)											
Voted											
O	Provisions				244,294	-	244,294	244,294	(340)	(244,634)	-	298,092
P	UK coinage manufacturing costs				30,566	-	30,566	30,566	35,100	4,534	4,534	35,148
Q	UK coinage metal costs				24,917	(3,757)	21,160	21,160	21,740	580	580	14,736
R	Royal Mint Dividend				-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	(4,000)
S	Investment in Bank of England				-	(102,543)	(102,543)	(102,543)	(50,000)	52,543	52,543	(105,000)
T	Administration of the Equitable Life payment scheme				3,141	-	3,141	3,141	5,100	1,959	1,959	3,787
U	Sale of Shares				-	(1,399,296)	(1,399,296)	(1,399,296)	(500,000)	899,296	899,296	(5,805,388)
V	National Loan Guarantee Scheme				19	(61,593)	(61,574)	(61,574)	(63,000)	(1,426)	-	(63,038)
W	Loans to Ireland				-	(83,768)	(83,768)	(83,768)	(83,967)	(199)	-	(83,997)
X	Assistance to Financial Institutions				(23,104,896)	(244,296)	(23,349,192)	(23,349,192)	49,909,000	73,258,192	73,010,615	(6,610,460)
Y	Sovereign Grant funding of the Royal Household (net)				41,938	-	41,938	41,938	42,800	862	862	39,786
Z	Money Advice Service (net)				(5,692)	-	(5,692)	(5,692)	1	5,693	5,693	(2,708)
AA	Financial Services Compensation Scheme (net)				(301,232)	-	(301,232)	(301,232)	(81,000)	220,232	220,232	(332,906)
AB	UK Asset Resolution Ltd (net)				(496,676)	-	(496,676)	(496,676)	(105,000)	391,676	391,676	(1,264,258)
AC	Help to Buy (HMT) Limited (net)				21	-	21	21	1	(20)	-	157
AD	Help to Buy ISA				-	-	-	-	-	-	-	61,216
AE	UK Financial Investments (net)				826	-	826	826	1	(825)	-	-
Total Voted spending in AME					**(23,562,774)**	**(1,899,253)**	**(25,462,027)**	**(25,462,027)**	**49,126,436**	**74,588,463**	**74,587,990**	**(13,818,833)**
Non-voted											
AF	Royal Household Pensions				4,588	(715)	3,873	3,873	3,400	(473)	-	3,519
AG	Civil List				359	-	359	359	359	-	-	359
Total spending in AME					**(23,557,827)**	**(1,899,968)**	**(25,457,795)**	**(25,457,795)**	**49,130,195**	**74,587,990**	**74,587,990**	**(13,814,955)**
Total resource outturn		**213,761**	**(53,924)**	**159,837**	**(23,542,900)**	**(1,915,363)**	**(25,458,263)**	**(25,298,426)**	**49,313,113**	**74,611,539**	**74,611,539**	**(13,677,557)**

SoPS1.2 Analysis of net capital outturn by section

In £000		2016-17 Gross	2016-17 Income	2016-17 Outturn Net total	2016-17 Estimate net total	2016-17 Outturn net total compared to Estimate	2016-17 Outturn net total compared to Estimate, adj. for virements	2015-16 Total
Spending in Department Expenditure Limit (DEL)								
Voted								
A	Core Treasury	499	-	499	3,878	3,379	3,379	155
B	Debt Management Office	106	-	106	120	14	14	175
C	Government Internal Audit Agency	-	-	-	-	-	-	-
E	UK Financial Investments (net)	(23)	-	(23)	-	23	23	8
G	Infrastructure Finance Unit Limited (net)	(5,124)	-	(5,124)	(2,000)	3,124	3,124	(4,690)
H	IUK Investments Limited (net)	2,444	-	2,444	2,501	57	57	288
I	IUK Investments Holdings Limited (net)	-	-	-	1	1	1	-
L	National Infrastructure Commission	-	-	-	-	-	-	-
-	Asian Infrastructure Investment Bank	-	-	-	-	-	-	84,812
-	Eurostar	-	-	-	-	-	-	(740,850)
Capital spending in DEL		**(2,098)**	**-**	**(2,098)**	**4,500**	**6,598**	**6,598**	**(660,102)**
Annually Managed Expenditure (AME)								
Voted								
U	Sale of Shares	-	(3,467,859)	(3,467,859)	(1,300,000)	2,167,859	2,167,859	(10,414,369)
X	Assistance to financial institutions	-	(46,795)	(46,795)	(8,800)	37,995	37,995	(900,441)
Y	Sovereign Grant funding of the Royal Household (net)	2,252	-	2,252	6,400	4,148	4,148	1,984
Z	Money Advice Service (net)	263	-	263	100	(163)	-	356
AA	Financial Services Compensation Scheme (net)	(2,017)	-	(2,017)	100	2,117	1,954	(294,230)
AB	UK Asset Resolution (net)	(16,270,277)	-	(16,270,277)	(3,700,000)	12,570,277	12,570,277	(17,458,917)
AD	Help to Buy ISA	52,940	-	52,940	75,000	22,060	22,060	-
Capital spending in AME		**(16,216,839)**	**(3,514,654)**	**(19,731,493)**	**(4,927,200)**	**14,804,293**	**14,804,293**	**(29,065,617)**
Total Capital Outturn		**(16,218,937)**	**(3,514,654)**	**(19,733,591)**	**(4,922,700)**	**14,810,891**	**14,810,891**	**(29,725,719)**

SoPS2 Reconciliation of outturn to net operating income

In £000	Note	2016-17	2015-16
Total resource outturn in SoPS	SoPS1.1	(25,298,426)	(13,677,557)
Add: Capital grants		52,940	-
Add: Eurostar adjustment			(415,851)
Less: Income payable to the Consolidated Fund		(277,571)	(204,406)
Net operating income in the SoCNE		**(25,523,057)**	**(14,297,814)**

The Capital grants relate to Help to Buy ISA bonus payments which are charged against Capital AME within the SoPS capital outturn.

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

		2016-17		
In £000	**Note**	**Estimate**	**Outturn**	**Outturn Net total compared with Estimate: saving/(excess)**
Resource Outturn	SoPS1.1	**49,313,113**	**(25,298,426)**	**74,611,539**
Capital Outturn	SoPS1.2	**(4,922,700)**	**(19,733,591)**	**14,810,891**
Accruals to cash adjustments:		**(48,109,785)**	**37,787,673**	**(85,897,458)**
Of which:				
Adjustments to remove non-cash items:				
Depreciation		(8,006)	(8,088)	82
BEAPFF fair value movements		(50,000,000)	23,096,462	(73,096,462)
New provisions and adjustments to previous provisions		(160)	(302,411)	302,251
Other non-cash items		(200)	1,432,117	(1,432,317)
Adjustments for ALBs and other bodies:				
Remove voted resource and capital		3,818,973	12,999,832	(9,180,859)
Add cash grant-in-aid		58,108	59,516	(1,408)
Adjustments to reflect movements in working balances:				
Increase in inventory		-	43,481	(43,481)
Decrease in receivables		(2,015,000)	(52,305)	(1,962,695)
Decrease in payables		-	468,889	(468,889)
Use of provisions		36,500	50,180	(13,680)
Subtotal		**(3,719,372)**	**(7,244,344)**	**3,524,972**
Removal of non-voted budget items:				
Banking and gilts registration service		(7,300)	(7,132)	(168)
Royal Household Pension Scheme		(3,400)	(3,873)	473
Civil List		(359)	(359)	-
Net cash requirement		**(3,730,431)**	**(7,255,708)**	**3,525,277**

Explanation of key variances between Estimate and net resource outturn as at 31 March 2017

SoPS 1.1 Analysis of net resource outturn by section

Spending in Department Expenditure Limit (DEL)

A Core Treasury:

Core Treasury spending was £13m less than estimated mainly due to the following items:

- Underspend of £2.8m on telephony, largely attributable to the termination of the fixed line telephony contract part way through the year, delays to the Windows 10 upgrade and the information management project, which has delayed costs into the following financial year.
- The underspend of £2.7m within staff payroll was due to the headcount being 82 below target. For more information on Staff costs refer to Note 2 of the Accounts.
- Delayed trial dates resulted in a reduction of expected legal costs by £2.7m, moving these costs into the following year.
- Lower than expected public spending consultancy costs and costs of administration of Help to Buy ISA scheme contributed £1.2m and £1m respectively to the total underspend.

E UK Financial Investments (net):

UK Financial Investments spending was £1.2m less than estimated mainly due to the £0.5m VAT impact of moving to grant in aid funding and £0.24m lower than budgeted staffing costs.

G Infrastructure Finance Unit Limited (net):

Infrastructure Finance Unit Limited net Estimate was £2.6m less than actual due to a conservative estimate of interest income.

L National Infrastructure Commission:

National Infrastructure Commission spend was £3.9m less than estimated due to a slower than expected uptake as the entity transitioned from operating in shadow form to becoming an Executive Agency, in January 2017.

Spending in Annually Managed Expenditure (AME)

O Provisions:

Provisions outturn was £245m higher than estimated, mainly due to the Help to Buy ISA provision, as no amount was included in the estimate for this item (for more information see Note 17 of the Accounts)

P UK Coinage manufacturing costs:

Coinage manufacturing spending was £4.5m less than estimated due to reduced demand from retail and cash centre distributors.

S Investment in the Bank of England:

The investment in the Bank of England variance of £53m arose as the amount of the final dividend was not known at the time the Estimate was finalised.

U Sale of Shares:

The variance of £899m was due to uncertainties regarding the timing and value of Lloyds Banking Group share sales which impacted on the estimated income (for more information see Note 10 of the Accounts).

X Assistance to Financial Institutions:

The variance mainly relates to the £73bn variance for fair value movements in the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative which achieved a gain of £23bn during the year (for more information see Note 14 of the Accounts).

Due to the volatile and unpredictable nature of the derivative estimate, a decision was made on the grounds of prudence to cover a potential £50bn loss (calculated by reference to historic movements since inception), thereby generating the variance disclosed. By electing to budget for the potential downside this ensured that a breach in controls totals was less likely to occur.

AA Financial Services Compensation Scheme (net):

The variance of £220m attributable to FSCS operations is largely due to higher than estimated levy income (£142m) and lower than estimated compensation costs expenditure (£18m) (for more information see Note 1 and Note 4 of the Accounts).

AB UK Asset Resolution (net):

The variance of £392m from UKAR operations is mainly in relation to the sale of a portfolio of mortgage assets held by Bradford & Bingley (B&B), partly offset by an increased provision for customer remediation.

SoPS 1.2 Analysis of net capital outturn by section

Spending in Department Expenditure Limit (DEL)

A Core Treasury:

Core Treasury spending was £3.4m less than estimated mainly due to an IT project and building refurbishment, which were delayed until the following year and savings from the termination of the previous fixed line telephony contract.

Spending in Annually Managed Expenditure (AME)

U Sale of Shares:

The variance was generated by higher than expected income from the sale of Lloyds shares by £2.2 billion.

X Assistance to Financial Institutions:

The positive variance of £38m within Assistance to Financial Institutions relates to higher than estimated recoveries from the administration process associated with KSF, Dunfermline and LSB.

AB UK Asset Resolution:

The variance of £12.6 billion from UKAR operations is mainly attributable to the sale of a portfolio of B&B mortgage assets.

AD Help to Buy ISA:

The variance of £22m was generated by lower than estimated bonus pay-outs associated with the Help to Buy ISA scheme occurring in year.

SoPS4.1 Income payable to the Consolidated Fund

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

	2016-17		2015-16	
In £000	**Outturn Income**	**Outturn Cash receipts**	**Outturn Income**	**Outturn Cash receipts**
Operating income outside the scope of the Estimate	277,571	34,001	204,406	32,943
Capital receipts outside the scope of the Estimate	-	10,315,462	-	8,527,974
Excess cash surrendered to the Consolidated Fund	7,253,118	7,253,118	19,349,172	19,349,172
Excess cash surrenderable to the Consolidated Fund	1,514	1,514	867	867
Total amounts paid and payable to the Consolidated Fund	**7,532,203**	**17,604,095**	**19,554,445**	**27,910,956**

SoPS4.2 Consolidated Fund income

Consolidated Fund income shown in the table 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)

During the current year, the Group had no losses or special payments totalling over £300,000 (2015-16: £953k).

FSCS overpayments:

Quality Assurance and other checks of compensation payments in relation for Arch Cur funds made subsequent to 31 March 2017 identified errors in calculation made over a four year period to 31 March 2017.

Whilst there were no losses or special payments exceeding £300,000 individually or in total in any one year, total overpayments over that period are estimated at £335,000.

Payment of suppliers

In May 2010, the government introduced a 5 day target for all suppliers to receive payment. This accelerated payment from the previous 10 day target set in November 2008. During 2016-17, the Treasury Group made 68.69% of all supplier payments within 5 days, against a target of 90% (2015-16: 71.40%).

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.

Remote contingent liabilities (audited)

In addition to contingent liabilities reported under IAS 37 in Note 25 of the Accounts, HM Treasury is required to disclose liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of a contingent liability. These items are referred to as remote contingent liabilities.

These disclosures are required by Managing Public Money and are related to Parliamentary accountability. Remote contingent liabilities must be reported to Parliament by a departmental minute so that Parliament has the opportunity to debate the merits of the item and to bind the government to honour the obligation. To meet the relevant disclosure requirements HM Treasury is required to provide a brief description of the nature of each remote contingent liability and where practical, an estimate of its financial effect.

Entering into arrangements that create a remote contingent liability has a distinct policy advantage; as they allow the government to stimulate the economy and intervene where it deems necessary, whilst not requiring an injection of government funding. While the risk of settlement is remote, if they did crystallise there is a possibility that the government may have to distribute funds. The remote contingent liabilities disclosed by HM Treasury are linked to the role of being the UK's finance and economics ministry, or because there is no other practical place to disclose these within the public sector.

A remote contingent liability represents the maximum potential exposure assuming trigger events occur and the maximum exposure crystallises. If any of the remote contingent liabilities detailed below were to crystallise and HM Treasury was required to settle an obligation this would be achieved through the normal Supply Estimates[1] process.

HM Treasury's remote contingent liabilities include indemnities, financial guarantees and letters of support. These are explained in more detail below.

Article 50

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised.

---

1 The Supply Estimates Guide can be found at
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220744/estimates_manual_july2011.pdf

During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

Bank of England Asset Purchase Facility (BEAPFF)

On 19 January 2009, to effect what is known as quantitative easing, HM Treasury authorised the Bank of England to purchase high quality private sector assets and UK Government debt purchased on the secondary market. The Government has indemnified the Bank of England and the Bank of England Asset Purchase Facility Fund (BEAPFF) Limited, the fund specially created to implement the facility, from any losses arising out of or in connection with the facility.

The BEAPFF is financed by a loan from the Bank of England, which totalled £499bn at 31 March 2017 and currently may be increased to £545bn to enable the maximum authorised purchases and lending across its portfolio. The indemnity represents a remote contingent liability for HM Treasury, which would crystallise if the BEAPFF incurred losses when ultimately wound up and HM Treasury were required to fund a shortfall of cash needed to repay the Bank of England loan. Payments of interest may also need supporting by HM Treasury if there were a significant increase in the Bank of England's Base Rate (Bank Rate).

The portfolio of gilts and corporate bonds held by the BEAPPF is valued at market rates and is sensitive to fluctuations in gilt yields and credit spreads. Moves in market rates, over and above those caused by the operations of the BEAPFF itself, are driven by multiple factors including actual or expected monetary and fiscal policy changes, changes in the market's risk premia assessments, and movements in related international markets.

HM Treasury's current exposure under the indemnity is represented on the Statement of Financial Position (SoFP) as a derivative. The derivative is valued on the basis of the difference between the fair value of BEAPFF Ltd's assets and liabilities.

It is difficult to predict the movement in the BEAPFF derivative as the fair value of its financial assets is re-priced in response to market changes. At 31 March 2017 the BEAPFF's assets exceeded its liabilities by £51.2bn (2015-16: £38.4bn), driven by market-value gains within its portfolio and interest income received. When there is an excess of assets over liabilities, the derivative value is represented by a liability on BEAPFF's SoFP and by a corresponding asset on HM Treasury's SoFP (see Note 14 of the Accounts). However the full value of the derivative is not payable until such time as the scheme is unwound.

In the event that the fair value of the BEAPFF's assets fell below that of its liabilities, the indemnity would conversely entail BEAPFF Ltd recognising a derivative asset and HM Treasury a derivative liability. That liability would not be payable until such time as the scheme is unwound. In such market conditions, however, it may be unlikely that there would be a surplus of cash available if the interest payable at Bank Rate on the Bank of England Loan increased significantly above coupon income receivable. If there were a shortfall of cash HM Treasury would fund this by way of quarterly cash transfers, as set out in the deed of indemnity and in line with the current quarterly arrangement with BEAPFF.

Therefore, although HM Treasury benefitted from the operations of the BEAPFF as at 31 March 2017 to the extent that gains in fair value were reflected in a derivative asset, the indemnity may generate a liability and require payments of cash to the BEAPFF in future periods. These would be accounted for via HM Treasury's Supply Estimate.

Accordingly, a remote contingent liability is disclosed to reflect the remote possibility that, despite risk management undertaken by the Bank of England on the BEAPFF and HM Treasury's behalf (see Note 26 of the Accounts), there is a net loss to the public sector over the life of the BEAPFF. Although the indemnity supports authorised total asset acquisitions and lending of £545bn, the crystallisation of a potential loss on realising these assets is currently unquantifiable.

Decommissioning Relief Deeds – Oil and gas industry

The Government has entered into Deeds with oil and gas companies to guarantee the basis on which tax relief for decommissioning is available.

As part of the terms of becoming a participator in a licence in the UK or UK Continental Shelf, companies have a statutory obligation to decommission their operations properly once oil and gas production has ceased.

The Deeds have been signed by the Government and eligible companies. Any company that has carried on a ring fenced trade, and the associates of those companies, are eligible to be party to a Deed.

The Deed provides companies with greater certainty in respect of decommissioning tax relief and allows them to adopt post-tax securitisation arrangements for the future costs of decommissioning.

The Deeds support the Government's objective of maximising economic production of oil and gas reserves in the UK Continental Shelf. The Deeds are designed to free up capital that otherwise would have been held in reserve against possible changes in tax rules. In July 2016 Oil and Gas UK estimated that £5.9bn of capital had been unlocked for reinvestment as a result of the Deeds.

As at 31 March 2017, 83 Deeds had been signed and were in force (2015-16: 72). These Deeds indemnify the companies for changes in tax legislation or the default of joint-venture partners in respect of their decommissioning activities, allowing them to claim relief potentially otherwise available to them from HMRC.

The crystallisation of any liability is dependent on the financial health of the companies (and their joint-venture partners) that are party to the Deeds.

Since inception, one claim has been made. The amount of the claim has been reflected as a provision for £327m; see Note 17 of the Accounts.

HM Treasury has not disclosed the financial effect of the Decommissioning relief Deeds because it is not practicable to do so.

Director indemnities

HM Treasury employees can be called upon to act as a Directors of the various incorporated companies included within the HM Treasury group. HM Treasury has granted Directors an indemnity against any losses or liabilities incurred in the course of their duties whilst the incorporated companies remain in public ownership.

The Directors' indemnities do not extend to BEAPFF Ltd because the activities of BEAPFF Ltd are covered by a separate indemnity agreement.

The crystallisation of any liability is dependent on the actions of the Directors.

HM Treasury has not disclosed the financial effect of Director indemnities because it is not practicable to do so.

UK Guarantees

The UK Guarantee scheme was announced on 18 July 2012. The scheme aims to support infrastructure projects that may have stalled because of adverse credit conditions. The Scheme enables the Treasury to issue a guarantee to the lenders to infrastructure projects ensuring that principal and interest payments will be paid in full and on time. Up to £40bn of guarantees could be offered under the scheme.

As at 31 March 2017 eight projects were guaranteed and no new guarantees were issued during the year. Note 26 (page 138 and 139) to the Accounts gives more detail on each infrastructure project.

If the borrower is in a default position and not able to meet the principal and interest obligations, the guarantee will be called and HM Treasury will assume responsibility for these payments.

However default would not necessarily mean a full pay out of the borrower's obligations. The Treasury would seek to recover as much as possible from the borrower and would seek to refinance within 12 months.

The crystallisation of any liability is dependent on individual borrowers being unable to make their repayments. To date, no call has been made under the scheme and as a result no amounts have been required to be paid.

The scheme allows for maximum contingent liability exposure of £40bn. As at 31 March 2017 the maximum potential liabilities under this scheme were estimated to be £1.1bn. A breakdown of the exposure by each infrastructure project can be seen on Note 26 of the Accounts.

Hinkley Point C (HPC) is a new nuclear plant in Somerset that was approved for construction in September 2016. As part of the negotiations, EDF sought a government guarantee to assist in bringing forward investment. During 2016-17 the government approved a provisional guarantee under the Infrastructure (Financial Assistance) Act 2012.

If NNBG, a subsidiary of EDF, decide to issue bonds to finance the construction of HPC, HM Treasury has agreed an initial guarantee of up to £2 billion. NNBG must meet a number of conditions by December 2018 to be able to benefit from the guarantee and the initial bonds must be repaid by the end of 2020.

Following this and subject to meeting an additional number of conditions as well as further ministerial approval, a guarantee of up to £13.1 billion may be considered thereafter. HM Treasury may cancel the subsequent guarantee if it considers that the additional conditions are unlikely to be met. Furthermore EDF has stated that it does not currently expect NNBG to draw on the initial guarantee.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme (NLGS) was launched by the Treasury on the 20 March 2012 to help small UK businesses access cheaper finance.

On 1 August 2012, the Bank of England and HM Treasury announced the opening of the Funding for Lending Scheme (FLS). Market conditions mean that the FLS is a more favourable option for banks, and banks who have previously offered NLGS loans are now choosing to deliver credit easing to the whole economy through the FLS.

The NLGS closed in May 2017 and is not open to new guarantees, releasing the remote contingent liability.

The NLGS was for businesses operating in the UK with annual group turnover of no more than £50m. The scheme provided £20bn worth of backing for banks to lend on the wholesale markets, lowering the cost of their loans to businesses by up to 1%.

The crystallisation of any liability is dependent on individual borrowers being unable to make their repayments. During the life of the scheme no call was made on the NLGS and therefore no claims were required to be paid by HM Treasury.

£2.9bn worth of bonds are in issue under the scheme and this is deemed to be the amount of the maximum potential liability under the scheme as at 31 March 2017. At the date of signing the accounts, the maximum potential liability has decreased to £nil.

For information on the related financial guarantees see Note 21 of the Accounts.

The Help to Buy: Mortgage guarantee scheme

The Help to Buy: mortgage guarantee scheme was launched on the 8 October 2013 to address the shortage of high loan-to-value mortgages by offering lenders the option to purchase a guarantee on mortgages where the borrower has a deposit of between 5% and 20%.

The scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2016 will continue to be accepted into the scheme until 30 June 2017.

Note 21 of the Accounts provides additional disclosure related to this item.

A portion of the liability would crystallise if the following events occurred 1) a borrower defaults on their mortgage and 2) the sale proceeds from property is less than the outstanding principal and interest repayments owing 3) the lender makes a claim to the Treasury for the difference. During the life of the scheme there have been 2 pay outs totalling £17.5k.

Since inception the bank rate has been at an all-time historic low, employment rates have been steady and on average property values have increased. This has contributed to the fact that the number of claims has been so low.

Under the scheme rules the maximum contingent liability limit was set at £12bn. As at 31 March 2017 the maximum potential liabilities under this scheme were estimated to be £1.4bn.

For information on the related financial guarantee see Note 21 of the Accounts.

Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) was set up in December 2015 with the UK as a shareholder, along with a large number of other countries, to support financing for infrastructure projects across Asia. The UK's investment, like that of all other shareholders in the bank, is in the form of 20% paid-in capital and 80% callable capital. The paid-in capital is made in five annual instalments of US$122m (approximately £98.7m as at 31 March 2017).

A remote contingent liability arises in relation to the callable capital, which increases each time a new payment is due by US$489m (approximately £390m), to an eventual total of US$2.4bn (approximately £1.9bn) callable capital. This is not paid over, but the AIIB would be able to call on it from shareholders in the event that the bank were not able to meet its obligations.

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, no such instance has occurred in any major multilateral development bank in the past. If the liability were to be called, provision for any payment would be sought through the normal Supply Estimates procedure.

The first instalment of paid-in capital was made by HM Treasury in January 2016 and the second by the Department for International Development (DFID) in February 2017. The next payment is due by 25th December 2017.

Accordingly, HM Treasury has a remote contingent liability of US$0.5bn (£0.4bn) as at 31 March 2017 in respect of callable capital related to the first instalment paid to the AIIB, and DFID the same amount related to the second instalment. HM Treasury's investment representing the first instalment will be transferred to DFID during the 2017-18 financial year, and the three remaining future payments will be made by DFID. Therefore DFID will increase its contingent liability proportionately in future years to account for the UK's total investment in the AIIB.

For information on the related commitments see Note 23 of the Accounts.

Deposit guarantees for Northern Rock Asset Management Ltd

In 2010, at the time of the nationalisation of Northern Rock Asset Management Ltd (NRAM), HM Treasury provided a guarantee with regard to certain borrowings and derivative transactions of, and certain wholesale deposits held in accounts with NRAM plc. For more information see Note 21 of the Accounts.

If NRAM are unable to meet their obligations, HM Treasury will assume responsibility for payments.

The crystallisation of any liability is dependent on the solvency of NRAM. Each year, the UKAR board assesses the long term viability of the UKAR Group and refresh the Ten Year Plan. In the most recent review, UKAR Management assessed that the Group will remain viable throughout the entire period of its wind down. No payments have been made by HM Treasury under this guarantee.

The maximum potential liabilities under this intervention are estimated to be £0.2bn as at 31 March 2017 (2015-16: £0.3bn), of which a financial guarantee liability of £21.3m is carried at fair value on the Statement of Financial Position at the reporting date (2015-16: £46.3m). There is no contingent liability at the group level.

Deposit guarantees for Bradford & Bingley plc

In 2008 at the time of nationalisation of Bradford & Bingley plc (B&B), HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits held in accounts with B&B. For more information see Note 21 of the Accounts.

B&B pay a monthly guarantee fee to the Treasury for this guarantee which is dependent on balances outstanding. If B&B are unable to meet their obligations, HM Treasury will assume responsibility for payments.

The crystallisation of any liability is dependent on the solvency of B&B.

Each year, the UKAR board assesses the long term viability of the UKAR Group and refresh the Ten Year Plan. In the most recent review, UKAR Management has assessed that the Group will remain viable throughout the entire period of its wind down.

No payments have been made by HM Treasury under this guarantee.

The maximum potential liabilities under this intervention are estimated to be £13.3m as at 31 March 2017 (2015-16: £1.5bn), of which a financial guarantee liability of £2.2m is carried at fair value on the Statement of Financial Position at the reporting date (2015-16: £0.3bn). There is no contingent liability at the group level.

UKAR: Bradford & Bingley plc mortgage assets

On the 31 March 2017, the Chancellor announced the sale of a portfolio of UKAR's B&B loan book assets to Prudential plc and funds managed by Blackstone. The proceeds from the sale were £11.4bn (for more information on the sale see Note 8 of the Accounts).

The remote contingent liability covers certain fundamental market standard warranties.

The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the fundamental market standard warranties.

The maximum potential liability is capped at the value of the sale proceeds; £11.4bn.

For information on the related contingent liability see Note 25 of the Accounts.

Treasury core tables

Total resource and capital spending for the Treasury Group

Resource

£ million			Outturn			Budget
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Resource DEL						
Core Treasury	(232)	(282)	106	122	118	118
Debt Management Office	16	18	18	18	18	20
Government Internal Audit Agency	-	-	-	1	2	-
Office of Tax Simplification	-	-	-	-	1	1
UK Financial Investments	2	2	3	3	2	3
Office for Budget Responsibility	2	2	2	2	3	3
Infrastructure Finance Unit Ltd	5	(4)	(4)	(4)	(4)	(1)
Eurostar	-	-	-	(16)	-	-
UK Government Investments Ltd	-	-	-	-	11	12
National Infrastructure Commission	-	-	-	-	1	6
Business Finance Partnership	-	-	(11)	-	-	-
Asset Protection Agency	1	-	-	-	-	-
Non-voted: Banking & gilts registration	11	11	11	11	7	7
Total Resource DEL	**(195)**	**(253)**	**125**	**137**	**159**	**169**
Resource AME						
Provisions	38	107	448	298	244	(1)
Coinage manufacturing	20	33	41	35	31	57
Coinage metal costs	17	5	9	15	21	23
Investment in the Royal Mint	(4)	(4)	(4)	(4)	(4)	(4)
Investment in the Bank of England	(55)	(80)	(93)	(105)	(103)	(50)
Equitable Life administration	20	16	6	4	3	-
Financial stability	(17,699)	8,439	(48,570)	(12,500)	(24,832)	(184)
Credit easing	49	(68)	(64)	(63)	(62)	(63)
Sovereign Grant	33	36	36	40	42	76
MAS	(4)	-	1	(3)	(6)	2
FSCS	(405)	(736)	(393)	(333)	(301)	(90)
UKAR	(1,319)	(1,485)	(1,231)	(1,264)	(497)	(400)
Help to Buy	-	2	1	-	-	-
Help to Buy ISA	-	-	-	61	-	-
UK Financial Investments	-	-	-	-	1	-
Core Treasury building impairment	7	-	-	-	-	-
Non-voted: Royal Household pension	3	3	3	4	4	3
Non-voted: Civil List	-	-	-	-	-	-
Total resource AME	**(19,299)**	**6,268**	**(49,810)**	**(13,815)**	**(25,458)**	**(631)**
Total resource DEL and AME (net)	**(19,494)**	**6,015**	**(49,685)**	**(13,678)**	**(25,299)**	**(462)**
of which:						
DEL Depreciation	8	6	6	8	8	6

Note: data for future years beyond 2017-18 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

Resource DEL has increased primarily due to the transfer of the Shareholder Executive into UK Government Investments, which was formerly a part of the Department for Business, Energy and Industrial Strategy, as well as the profit from the sale of Eurostar in 2015-16, which was a one off element.

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 bonus payments under the Help to Buy ISA scheme, and the Equitable Life Payment Scheme and a tax provision (in 2014-15) relating to a court ruling against the Government Actuaries Department.

Capital

£ million	Outturn					Budget
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Capital DEL						
Core Treasury	-	(3)	9	-	-	104
Debt Management Office	1	-	1	-	-	5
Infrastructure Finance Unit Ltd	17	(3)	(5)	(4)	(5)	(2)
IUK Investments Limited	-	-	-	-	2	-
Eurostar	-	-	-	(741)	-	-
Business Finance Partnership	5	284	31	-	-	-
Asian Infrastructure Investment Bank	-	-	-	85	-	80
Total Capital DEL	**23**	**278**	**36**	**(660)**	**(3)**	**187**
Capital AME						
Assistance to Financial Institutions	(461)	(4,937)	(3,030)	(11,314)	(3,515)	30
Sovereign Grant	-	-	2	2	2	5
MAS	2	1	-	-	-	-
FSCS	1	-	(587)	(294)	(2)	-
UKAR	(6,471)	(7,073)	(9,100)	(17,459)	(16,270)	(13,500)
Help to Buy ISA	-	-	-	-	53	224
Total Capital AME	**(6,929)**	**(12,009)**	**(12,715)**	**(29,065)**	**(19,732)**	**(13,241)**
Total Capital DEL AND AME (net)	**(6,906)**	**(11,731)**	**(12,679)**	**(29,725)**	**(19,735)**	**(13,054)**
Total Departmental Spending	**(26,400)**	**(5,716)**	**(62,364)**	**(43,403)**	**(45,034)**	**(13,516)**

Capital DEL

Capital income has reduced as the income from sale of Eurostar in 2015-16 was a one-off event. The 2016-17 capital subscription to the Asian Infrastructure Investment Bank was made by the Department for International Development (DFID), so does not appear in HM Treasury's expenditure in this year. It is anticipated that the capital subscription due in 2017-18 will be similarly made by DFID and therefore the corresponding amount provided for in HM Treasury's 2017-18 budget will be transferred to DFID accordingly.

Capital AME

Assistance to financial institutions can fluctuate considerably due to the nature of the activity.

Analysis of administration costs

An analysis of administration income and expenditure is provided below.

£ million	Outturn					Budget
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Core Treasury	117	109	123	136	125	111
Debt Management Office	13	14	14	14	15	16
Government Internal Audit Agency	-	-	-	1	2	-
Office Of Tax Simplification	-	-	-	-	1	1
UK Financial Investments	2	2	3	4	2	3
Office For Budget Responsibility	2	2	2	2	3	3
UK Government Investments	-	-	-	-	11	**12**
National Infrastructure Commission	-	-	-	-	1	**6**
Eurostar	-	-	-	(16)	-	-
Asset Protection Agency	1	-	-	-	-	-
Total net administration costs	**135**	**127**	**142**	**141**	**160**	**152**
of which:						
Staff costs	81	79	80	102	129	
Other expenditure	90	95	91	101	85	
Income	(36)	(47)	(29)	(62)	(54)	

Staff costs

Staff costs increased due to the expansion of the Government Internal Audit Agency during 2016-17 to absorb the audit functions of additional government departments and the transfer of the Shareholder Executive into UK Government Investments on 1 April 2016.

Other expenditure

Expenditure has reduced following the transfer of Pensionwise to the Department for Work and Pensions. This has been partially offset by an increase in expenditure by the Government Internal Audit Agency due to their continuing expansion.

Income

Income has reduced as the profit from sale of Eurostar recognised within DEL in 2015-16 was a one off event and the income from the Pension Guidance Levy is now received by the Department for Work and Pensions, following the transfer of Pensionwise. This has been partially offset by an increase in income from audit fees charged to other government departments by the Government Internal Audit Agency.

Tom Scholar
Permanent Secretary

13 July 2017

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 2017 and of the Department's and Departmental Group's net income for the year then ended;
- have been properly prepared in accordance with 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 2017 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 2017 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 2017. 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 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

Overview of my audit approach

Key audit matters

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.

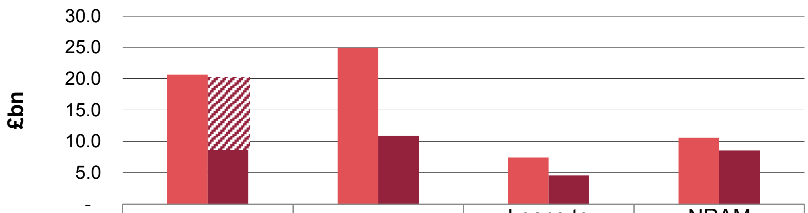
I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole and any comments I make on the results of my procedures should be read in this context.

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, an area where my work has not identified any matters to report.

Risk	My response and findings
1. Recovery and valuation of HM Treasury loans to UK Asset Resolution Ltd and the associated 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 £19.5 billion at 31 March 2017, is 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.	I assessed the design and implementation of key controls in respect of the oversight of UKAR. This oversight is carried out by UK Financial Investments Ltd (UKFI) on behalf of HM Treasury. I reviewed UK Asset Resolution Ltd's business plan 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's business plans.
HM Treasury's Statement of Financial Position includes loans to UK Asset Resolution Ltd with a value of £24.6 billion at 31 March 2017, including £15.7 billion lent through the Financial Services Compensation Scheme (FSCS).	I confirmed that the business plan supports the forecast cash flows used to measure the value of the relevant loans and provides evidence that the HM Treasury loans to NRAM and Bradford & Bingley are fully recoverable based on current forecasts.

The repayment of loans by UK Asset Resolution Ltd to HM Treasury will be made using the cash flows from interest payments and redemptions of the mortgages held by Bradford & Bingley and Northern Rock Asset Management (NRAM) as well as 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 considered 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.	I considered the impact of future sales on the recoverability of the HM Treasury loans. No further sale programmes were announced in the Budget in March 2017. The Government intends to continue with the current programme of sales for Bradford & Bingley mortgages to repay the £15.7 billion loan to FSCS. Under this programme, the first sale of £11.8 billion was agreed on 30 March 2017. The next sale is likely to be announced in 2017-18. I am content that potential future sales do not impact on the valuation of the loans at 31 March 2017. I relied on the work carried out within my audit of UK Asset Resolution Ltd to conclude that the valuation of mortgages and commercial loans in the Departmental Group financial statements, including any impairment, is materially correct and that judgements and assumptions made by UK Asset Resolution Ltd's 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.
Figure 1 shows the loans in the HM Treasury core accounts for the last two years broken down by those related to B&B and those related to NRAM (these loans do not appear in the group accounts as they are eliminated on consolidation). Other columns in the figure show the related mortgage assets which will be used to repay these loans. As at 31 March 2017, the loans from HM Treasury are fully recoverable, we expect the mortgage assets to exceed the loans. The B&B sale was recognised in March 2017 and reduced the B&B mortgage assets by £11.8 billion. The proceeds from the sale were recognised as a receivable as at 31 March 2017 and were subsequently used to repay £11.4 billion of HM Treasury loans in April 2017 (illustrated as the shaded part of the column). Taking this timing difference into account, the position for 2016-17 illustrated below shows that the mortgage assets exceed the remaining loans.	

Figure 1



	Loans to B&B (HM Treasury)	B&B mortgage assets (UKAR)	Loans to NRAM (HM Treasury)	NRAM mortgage assets (UKAR)
2015-16	20.7	25.0	7.5	10.6
2016-17	20.0	10.9	4.6	8.6

Source: HM Treasury and UK Asset Resolution Ltd annual report and accounts 2015-16 and 2016-17

2. Recognition of the sale of Bradford and Bingley mortgages On 30 March 2017 Bradford & Bingley plc (a subsidiary of UK Asset Resolution Ltd) agreed an £11.8 billion sale of mortgage assets with completion and transfer of the beneficial interest on 25 April 2017. Included within the contracts were a number of conditions precedent related to the issue of the securitised notes by the buyers to fund the purchase, which needed to be satisfied in order for the sale to complete. Management assessed that, as at the balance sheet date, the possibility of the contractual conditions not being ultimately met was remote and the specific asset de-recognition criteria contained within IAS 39 were satisfied. On this basis management de-recognised the assets within the financial period. The significant risk is that the sale is recognised in the incorrect accounting period and that would lead to the financial statements being materially misstated. I monitored the risk in respect of this transaction throughout the year and when the timing of the sale was more certain, I decided to recognise a significant risk around recognition point of the sale.	In response to this risk, I relied on the work carried out within my audit of UK Asset Resolution Ltd in respect of the judgement reached by management on the recognition point of the sale. This work involved: • assessment of the contract against the financial asset de-recognition criteria in IAS 39; • review of the presentation and disclosure in the accounts; and • assessment of the conditions precedent against the likelihood of occurrence in the time frame between contract signing and completion. In my opinion the judgment around the recognition of the sale on 30 March 2017 is appropriate and I am satisfied that sufficient disclosure has been made by management.
3. Impact of the extension of the Asset Purchase Facility (APF) scheme on the BEAPFF derivative	In order to gain assurance over the movements in the derivative financial asset, I sought to obtain assurance from my audit of the BEAPFF Ltd.

In August 2016, HM Treasury agreed an extension of the Asset Purchase Facility (APF) scheme. This included a £60bn increase to the threshold for government bonds, a £10bn Corporate Bonds scheme and the issuance of up to £100bn of loans under the new Term Funding Scheme. These investments had an impact on the 2016-17 Bank of England Asset Purchase Facility Fund Ltd's (BEAPFF Ltd) accounts and consequently resulted in a material movement in HM Treasury financial statements. HM Treasury recognises a derivative asset in respect of the indemnity provided to the Bank of England. I concluded that this matter does not represent a significant risk as the valuation of the indemnity does not require significant judgement from management. However, it was an area of particular audit focus as the asset is of high value and subject to market risk outside of HM Treasury's control.	However, the BEAPFF Ltd's reporting date is 28 February and due to the extension of the scheme there were material movements in March 2017. I obtained sufficient and appropriate evidence of these material movements underlying the indemnity figure. This involved testing of new investments in government bonds, corporate bonds and loans issued under the Term Funding Scheme, as well as confirmation of the BEAPFF cash and loan balances at 31 March 2017. I am satisfied that the BEAPFF derivative asset recognised in the financial statements is free from material misstatement or irregularity.

Application of materiality

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 £575 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. Since the financial crisis and the resulting Government interventions, HM Treasury's accounts and a large portion of its work, have been dominated by the assets and liabilities held in the Group Statement of Financial Position.

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. I chose this threshold to reflect the level of rounding in the HM Treasury's accounts.

Total unadjusted audit differences reported to the Audit Committee would decrease net assets by £11 million for the Department and increase net assets by £7 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 Department'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.

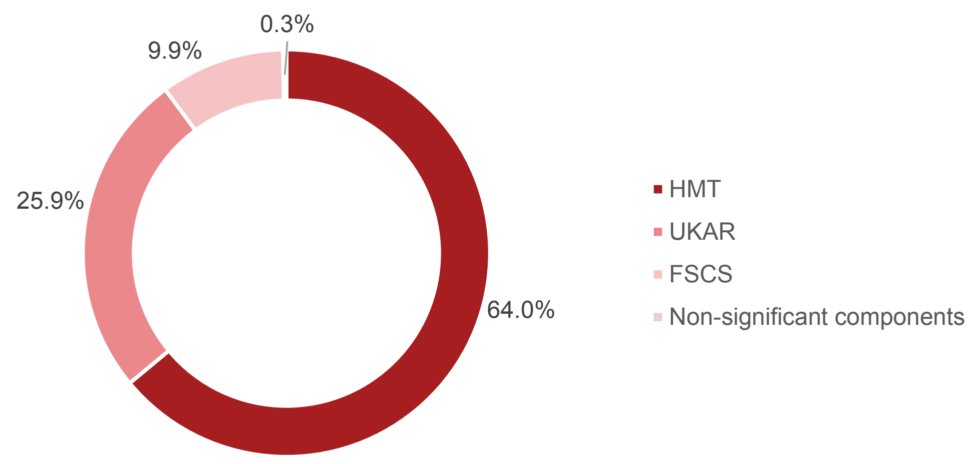
In addition I read all the information and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired 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 in 2015-16. I have reassessed this classification during the course of the audit and concluded that it remains appropriate.

Figure 2. Gross assets of individual components of the HM Treasury group (based on data as at 31 March 2016)



Source: 2015-16 Annual Report and Accounts of individual components of the HM Treasury Group

I audited the consolidation and the full financial information of HM Treasury, UK Asset Resolution Limited and the Financial Services Compensation Scheme. 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.

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 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.

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.

Report issued under the Government Resources and Accounts Act 2000

I have no further 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

17 July 2017

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure
for the period ended 31 March 2017

		Core Treasury and Agencies		Group	
In £m	**Note**	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Income from sale of goods and services		(35)	(9)	(35)	(9)
Other operating income	1	(749)	(367)	(1,032)	(904)
Total operating income		**(784)**	**(376)**	**(1,067)**	**(913)**
Staff costs	2	116	98	187	220
Purchase of goods and services	3	123	146	411	365
Other operating expenditure	4	392	458	797	625
Total operating expenditure		631	702	1,395	1,210
Net operating expenditure before financing		**(153)**	**326**	**328**	**297**
Finance income	5	(1,031)	(1,175)	(1,693)	(2,374)
Finance expense	6	262	4,198	(49)	4,209
Revaluation of financial assets and liabilities	7	(23,097)	(10,484)	(23,085)	(10,453)
Net gain on disposal of assets	8	(1,399)	(6,237)	(1,085)	(6,235)
Net income before tax		**(25,418)**	**(13,372)**	**(25,584)**	**(14,556)**
Taxation		-	-	61	258
Net income after tax		**(25,418)**	**(13,372)**	**(25,523)**	**(14,298)**
Other comprehensive net (income)/ expenditure					
Items that may be reclassified to net operating expenditure when specific conditions are met					
Net (gain)/loss on assets recognised in reserves		(1,992)	4,271	(1,800)	5,106
Net transfer from reserves and recognised as income in year	8	1,581	5,958	1,581	5,958
Net loss in hedging reserve		-	-	4	237
Total		**(411)**	**10,229**	**(215)**	**11,301**
Items that will not be reclassified to net operating expenditure					
Actuarial (gain)/loss on pension scheme liabilities		-	-	3	(156)
Total		-	-	3	**(156)**
Net comprehensive income for the year		**(25,829)**	**(3,143)**	**(25,735)**	**(3,153)**

The Notes on pages 109 to 155 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2017

In £m	Note	Core Treasury and Agencies 2016-17	Core Treasury and Agencies 2015-16	Group 2016-17	Group 2015-16
Non-current assets					
Property, plant and equipment		143	148	157	179
Intangible assets		5	7	10	45
Trade and other receivables	9	543	482	1,145	1,101
Available-for-sale financial assets	10	34,311	35,784	26,241	27,945
Loans and advances	11	15,376	31,483	3,647	3,719
Loans to banking customers	12	-	-	18,909	34,575
Loan hedging asset	13	-	-	442	425
Derivative financial assets	14	-	-	-	451
Total non-current assets		**50,378**	**67,904**	**50,551**	**68,440**
Current assets					
Cash and cash equivalents	15	2	1	2,655	6,069
Trade and other receivables	9	855	724	12,418	774
Inventory		59	15	59	15
Loans and advances	11	12,592	-	-	-
Loans to banking customers	12	-	-	555	958
Loan hedging asset	13	-	-	13	12
Derivative financial assets	14	51,175	38,394	51,177	38,724
Total current assets		**64,683**	**39,134**	**66,877**	**46,552**
Total assets		**115,061**	**107,038**	**117,428**	**114,992**
Current liabilities					
Trade and other payables	16	(245)	(128)	(978)	(1,045)
Provisions	17	(422)	(118)	(548)	(225)
Cash Collateral	18	-	-	-	(554)
Debt securities in issue	19	-	-	(4)	(1,835)
Derivative financial liabilities	20	-	-	(3)	(12)
Financial guarantees	21	(43)	(125)	(31)	(86)
Total current liabilities		**(710)**	**(371)**	**(1,564)**	**(3,757)**
Non-current liabilities					
Trade and other payables	16	(436)	(360)	(743)	(727)
Provisions	17	(766)	(817)	(840)	(927)
Debt securities in issue	19	-	-	(200)	(3,324)
Derivative financial liabilities	20	-	-	(524)	(516)
Financial guarantees	21	(182)	(516)	(170)	(184)
Other financial liabilities		-	-	-	(8)
Total non-current liabilities		**(1,384)**	**(1,693)**	**(2,477)**	**(5,686)**
Total assets less liabilities		**112,967**	**104,974**	**113,387**	**105,549**
Equity					
General fund	SoCTE	99,295	91,713	103,848	98,895
Available-for-sale reserve	SoCTE	13,625	13,214	5,546	5,327
Revaluation reserve	SoCTE	47	47	47	47
Hedging reserve	SoCTE	-	-	(1)	3
Pension reserve	SoCTE	-	-	151	154
Merger reserve	SoCTE	-	-	3,796	1,123
Total equity		**112,967**	**104,974**	**113,387**	**105,549**

The Notes on pages 109 to 155 form part of these accounts.

Tom Scholar
Permanent Secretary

13 July 2017

Statement of Changes in Taxpayers' Equity

for the period ended 31 March 2017

Group

In £m	General fund	Available -for-sale reserve	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Total reserves
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**
Net income after tax	25,523	-	-	-	-	-	25,523
Change in CFERs payable to the Consolidated Fund	(244)	-	-	-	-	-	(244)
CFERs paid to the Consolidated Fund	(10,349)	-	-	-	-	-	(10,349)
Excess cash payable to the Consolidated Fund	(2)	-	-	-	-	-	(2)
Excess cash paid to the Consolidated Fund	(7,253)	-	-	-	-	-	(7,253)
Consolidated Fund standing services	4	-	-	-	-	-	4
Other movements	(53)	-	-	-	-	-	(53)
Revaluation gains and losses	-	219	-	(4)	(3)	-	212
Transfers	(2,673)	-	-	-	-	2,673	-
Balance at 31 March 2017	**103,848**	**5,546**	**47**	**(1)**	**151**	**3,796**	**113,387**

The Notes on pages 109 to 155 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the period ended 31 March 2017

Core Treasury and Agencies

In £m	General fund	Available -for-sale reserve	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Total reserves
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**
Net income after tax	25,418	-	-	-	-	-	25,418
Change in CFERs payable to the Consolidated Fund	(244)	-	-	-	-	-	(244)
CFERs paid to the Consolidated Fund	(10,349)	-	-	-	-	-	(10,349)
Excess cash payable to the Consolidated Fund	(2)	-	-	-	-	-	(2)
Excess cash paid to the Consolidated Fund	(7,253)	-	-	-	-	-	(7,253)
Consolidated Fund standing services	4	-	-	-	-	-	4
Other movements	8	-	-	-	-	-	8
Revaluation gains and losses	-	411	-	-	-	-	411
Balance at 31 March 2017	**99,295**	**13,625**	**47**	**-**	**-**	**-**	**112,967**

The Notes on pages 109 to 155 form part of these accounts.

Consolidated Statement of Cash Flows
for the period ended 31 March 2017

In £m	Note	Core Treasury and Agencies 2016-17	Core Treasury and Agencies 2015-16	Group 2016-17	Group 2015-16
Cash flows from operating activities					
Net operating income/(expenditure) before financing	SoCNE	153	(326)	(328)	(297)
Other non-cash transactions	22	319	375	533	1,514
Changes in working capital		(704)	(229)	(546)	(230)
Loans to banking customers		-	-	3,926	5,659
Proceeds: sale of loans to banking customers		-	-	411	11,571
Net movement: derivatives and other financial instruments attributable to loans to banking customers		-	-	(675)	(1,464)
Corporation tax paid		-	-	(130)	(205)
Use of provisions		(50)	(386)	(151)	(489)
Net cash flows from operating activities		**(282)**	**(566)**	**3,040**	**16,059**
Cash flows from investing activities					
Proceeds: derivative financial instruments		10,315	8,528	10,315	8,528
Proceeds: sale of shares UK listed entities		3,286	9,554	3,286	9,554
Proceeds: sale of investment securities and other assets		-	1,950	1,002	4,237
Net cash outflows from debt securities in issue		-	-	(5,196)	(16,546)
Proceeds: interest, dividend and other finance income		927	1,230	1,726	2,530
Purchases: financial assets		(2,977)	(851)	(2)	(98)
Proceeds: repayment of financial assets		6,342	8,072	110	1,230
Other investing activities		(9)	(9)	(94)	(1,003)
Net cash flow from investing activities		**17,884**	**28,474**	**11,147**	**8,432**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		4	4	4	4
Advances from the Contingencies Fund		2,982	103	2,982	103
Repayments to the Contingencies Fund		(2,982)	(103)	(2,982)	(103)
Capital element of the PFI contract		(3)	(2)	(3)	(2)
Net cash flows from financing activities		**1**	**2**	**1**	**2**
Net increase in cash and cash equivalents before adjustments		**17,603**	**27,910**	**14,188**	**24,493**
Payments of amounts due to the Consolidated Fund	SoCTE	(10,349)	(8,561)	(10,349)	(8,561)
Excess cash paid to the Consolidated Fund	SoCTE	(7,252)	(19,348)	(7,252)	(19,348)
Payment of prior year balance to the Consolidated Fund		(1)	(1)	(1)	(1)
Net increase/(decrease) in cash and cash equivalents after adjustments	15	**1**	**-**	**(3,414)**	**(3,417)**
Cash and cash equivalents at the beginning of the period	SoFP	1	1	6,069	9,486
Cash and cash equivalents at the end of the period	15	**2**	**1**	**2,655**	**6,069**

The Notes on pages 109 to 155 form part of these accounts.

Notes to the Resource Accounts

1. Other operating income

In £m	Core Treasury and Agencies 2016-17	Core Treasury and Agencies 2015-16	Group 2016-17	Group 2015-16
Fees, levies and charges	(446)	(90)	(521)	(461)
Insurance premiums	(277)	(204)	(277)	(204)
Recoveries and recharges	(7)	(39)	(148)	(113)
Other operating income	(19)	(34)	(86)	(126)
Total	**(749)**	**(367)**	**(1,032)**	**(904)**

Fees, levies and charges for the Group[1] increased by £60m[2] primarily due to £42m additional levy amounts collected by the FSCS for compensation cost payments and increased guarantee fees, including £18m for the Help to Buy Mortgage Guarantee Scheme and £10m in relation to infrastructure guarantees.

Insurance premiums increased by £73m due to an increase in premiums and profit share from the Pool Re scheme.

Recoveries and recharges increased by £35m due to FSCS recoveries from the administration of failed institutions.

2. Staff costs and numbers

Total Staff costs for the Group for 2016-17 were £187m (2015-16: £220m), comprising £162m salaries and wages, £16m social security and £9m staff pension costs. This is a decrease of £33m compared to the previous year and is mainly attributable to reducing headcount in UKAR following the sale and transfer of its registry business to Computershare and streamlining UKAR's operations as the balance sheet naturally winds down.

This decrease was offset by increased cost attributable to Government Internal Audit Agency (GIAA) which continued to expand, onboarding audit staff from departments including the Department of Health (DoH), Department for Work and Pensions (DWP) and the Ministry of Justice (MoJ) in 2016-17.

For more information refer to the Remuneration and Staff Report (pages 60 to 77).

3. Purchase of goods and services

In £m	Core Treasury and Agencies 2016-17	Core Treasury and Agencies 2015-16	Group 2016-17	Group 2015-16
UK coinage: metal and manufacturing costs	55	58	55	58
Professional & office services	38	59	225	180
Other purchase of goods and services	30	29	131	127
Total	**123**	**146**	**411**	**365**

[1] All accompanying narrative discusses the results at a group level.

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

Professional and office services increased by £45m due primarily to the outsourcing of mortgage services operations in UKAR.

The reduction in costs in Core Treasury and Agencies is predominantly due to decreases in advertising spend on the HTB ISA launch and the transfer of Pensionwise to DWP during the year.

4. Other operating expenditure

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
FSCS compensation costs	-	-	357	269
Movement in provisions	302	358	388	256
Other operating expenditure	90	100	52	100
Total	**392**	**458**	**797**	**625**

FSCS compensation costs increased by £88m due to the liquidation of Enterprise Insurance Company Plc and Gable Insurance AG, an increase in the number of Self-invested Personal Pension (SIPP) claims received and an increase in claims against mortgage brokers.

Movement in provisions for the year is detailed in Note 17.

Other operating expenditure decreased by £48m due to the transfer of responsibility for the Pensionwise service to the DWP and a reduction in depreciation, accommodation and general operating expenses in UKAR as a result of outsourcing services.

5. Finance income

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Interest and fee income from loans	(649)	(774)	(1,401)	(2,061)
Dividend income	(292)	(297)	(292)	(297)
Amortisation of loans	(90)	(104)	-	(16)
Total	**(1,031)**	**(1,175)**	**(1,693)**	**(2,374)**

Interest and fee income from loans decreased by £0.7bn due to the repayment of the Icesave loan and the sale of UKAR's mortgage assets during 2015-16.

6. Finance expense

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Impairments/(impairment reversals) of financial assets	253	4,189	(83)	4,070
Interest expense	-	-	25	130
Interest element of the PFI contract	9	9	9	9
Total	**262**	**4,198**	**(49)**	**4,209**

Impairment of financial assets decreased by £4.2bn primarily due to the £4.1bn impairment of RBS shares in 2015-16 which was a one off and did not reoccur in 2016-17.

7. Revaluation of financial assets and liabilities in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Fair value gain on derivatives	(23,096)	(10,484)	(23,096)	(10,484)
Fair value (gain)/loss on financial assets	(1)	-	3	2
Hedge ineffectiveness	-	-	8	29
Total	**(23,097)**	**(10,484)**	**(23,085)**	**(10,453)**

For an explanation of the year-on-year increase of the fair value gain on derivatives refer to Note 14 – Derivative financial assets.

For more information refer to Note 26 - Financial Risk.

8. Gain on disposal of assets in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Net transfer from reserves and recognised as income in year	(1,581)	(5,958)	(1,581)	(5,958)
Net (gains) and losses recognised in year	182	(279)	496	(277)
Total (gains)/loss on disposal of assets	**(1,399)**	**(6,237)**	**(1,085)**	**(6,235)**

Net transfer from reserves and recognised as income in year of £1.6bn is mostly comprised of a £1.4bn gain which crystallised following the sale of Lloyds shares (Note 10 – Available-for-sale assets).

Net (gains) and losses recognised in year is mainly made up of a £0.4bn loss relating to the disposal of UKAR's B&B mortgage assets (detailed below).

On the 31 March 2017, the Chancellor announced the sale of a portfolio of UKAR's B&B mortgage assets (Note 12 – Loans to banking customers) to Prudential plc and funds managed by Blackstone. The sale was recognised in March 2017 when the beneficial interest of these assets was deemed to have transferred. The proceeds were recognised in Trade and other receivables (Note 9).

The difference between UKAR's B&B mortgage assets with a carrying value of £11.8bn and the sale proceeds of £11.4bn resulted in a loss of £0.4bn. The fair value of the assets was less than carrying value, reflecting the low interest rates payable on the loans.

For more information refer to Note 32 – Events after the reporting period.

9. Trade and other receivables

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Current receivables				
Trade receivables	10	10	17	54
Accrued interest and dividend income	505	506	132	161
Accrued insurance income	199	33	199	33
Levies receivable	-	-	295	338
Guarantee fees receivable	37	71	25	57
Sale of loans	-	-	11,417	-
Other	104	104	333	131
Total current	**855**	**724**	**12,418**	**774**
Non-current receivables				
Accrued insurance income	320	242	320	242
Guarantee fees receivable	103	160	92	113
Pension asset	-	-	479	483
Deposit with the National Loans Fund	-	-	200	200
Other	120	80	54	63
Total non-current	**543**	**482**	**1,145**	**1,101**
Total receivables	**1,398**	**1,206**	**13,563**	**1,875**

Sale of loans relates to UKAR's £11.4bn receivable for the sale of UKAR's B&B mortgage assets. This amount was receipted by UKAR in April 2017 (see Note 32 – Events after the reporting period).

For more information on the UKAR receivable refer to Note 8 Gain on disposal of assets in the SoCNE and Note 12 – Loans to banking customers.

Accrued insurance income (current) increased by £0.2bn due to a renegotiated contract between HM Treasury and Pool Re resulting in HM Treasury receiving a greater profit share as well as an increase in annual premiums. These premiums are collected by Pool Re and Pool Re (Nuclear), and are payable to HM Treasury in arrears.

Accrued insurance income (non-current) increased by £78m due to an improvement in Pool Re's performance which resulted in a greater profit share. Details of the contingent liability held by HM Treasury relating to Pool Re and Pool Re (Nuclear) are detailed in Note 25 – Contingent liabilities.

Other (current) increased by £0.2bn due to a £0.1bn receivable from the sale of Lloyds shares in March 2017 and £0.1bn FSCS receivable for recoveries.

The pension asset relates to a number of retirement benefit plans operated by UKAR for its current and former employees. For more information refer to the Staff Report on pages 74 to 75.

10. Available-for-sale assets

10.1 Current year

In £m	At 1 April 2016	Additions, disposals & transfers	Fair value adjustment	Impairments	At 31 March 2017
Listed entities					
RBS ordinary shares	18,783	-	1,637	-	20,420
Lloyds Banking Group ordinary shares	4,427	(3,468)	(24)	-	935
Unlisted investments					
Bank of England share capital	4,590	-	166	-	4,756
Asian Infrastructure Investment Bank[3]	85	-	13	-	98
Other shareholdings	9	-	-	-	9
Group entities					
UKAR	7,890	-	203	-	8,093
Total Core Treasury and Agencies	**35,784**	**(3,468)**	**1,995**	-	**34,311**
Intra-group eliminations	(7,890)	-	(203)	-	(8,093)
UKAR investment securities	51	(43)	10	5	23
Total Group	**27,945**	**(3,511)**	**1,802**	**5**	**26,241**

RBS ordinary shares increased by £1.6bn due to market gains.

Lloyds Banking Group ordinary shares decreased by £3.5bn primarily due to share sales (disposals) with a carrying value of £3.5bn, for which £3.3bn of proceeds were received. These sales generated a realised gain of £1.4bn comprising gains previously classified in other comprehensive income of £1.6bn offset by an in-year loss of £0.2bn.

For more information refer to Note 8 – Gain on disposal of assets in the SoCNE.

A full reconciliation of the in-year movements for the Lloyds portfolio is set out in the table below.

Lloyds Banking Group ordinary	£m
Shareholding value as at 1 April 2016	4,427
Shares sold during reporting period	(3,468)
Made up of:	
Cost of original purchase	(1,887)
Prior-year gains recycled from Available-for-sale reserve	(1,581)
Decrease due to other movements	
Fair value adjustment for remaining holding	(24)
Shareholding value as at 31 March 2017	**935**

[3] A second capital payment to AIIB was made by the Department for International Development (DFID) during 2016-17 and the shareholding related to this payment is reported in DFID's 2016-17 Annual Report and Accounts. Further detail is provided in Note 23.

On 17 May HM Treasury sold its remaining Lloyds Banking Group ordinary shares, fully returning Lloyds Bank to the private sector. For more information refer to Note 32 – Events after the reporting period.

10.2 Prior 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 shares	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					
UK Asset Resolution share capital (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 Group	**47,717**	**(10,446)**	**(5,102)**	**(4,224)**	**27,945**

Group shareholdings

In accordance with the Government Financial Reporting Manual (FReM) additional details of significant shareholdings are shown below:

In £m	2016-17 Stake %	2016-17 Total net assets	2016-17 Entity's reported profit/(loss) for the year	2015-16 Stake %	2015-16 Total net assets	2015-16 Entity's reported profit/(loss) for the year
Bank of England	100	4,756	206	100	4,590	209
RBS ordinary shares	71	49,404	(5,248)	72	54,147	(1,185)
Lloyds Banking Group ordinary shares	2	48,815	2,514	9	46,980	956

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.

11. Loans and advances

11.1 Group

In £m	At 1 April 2016	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2017
Loans	3,380	2	(6)	-	3,376
Statutory debt	36	-	(49)	24	11
Investment securities held as loans	303	-	(50)	7	260
Total	**3,719**	**2**	**(105)**	**31**	**3,647**

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 held as loans	365	12	(95)	21	303
Total	**4,892**	**12**	**(1,294)**	**109**	**3,719**

11.2 Core Treasury and Agencies

In £m	At 1 April 2016	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2017
Working capital facility	2,460	2,975	(3,424)	-	2,011
Loans	26,437	2	(2,873)	-	23,566
Statutory debt	2,586	-	(47)	(148)	2,391
Total	**31,483**	**2,977**	**(6,344)**	**(148)**	**27,968**
Current	-				12,592
Non-current	31,483				15,376

Current – Non-current classification

Following the sale of a portfolio of UKAR's B&B mortgage assets in March 2017, £11.4bn of Core Treasury loans were reclassified to current. This is because at the time the sale was finalised it was known that the sales proceeds would be used to repay a part of the outstanding loan. The remaining balance reflects known planned repayments on other loan facilities.

For more information refer to Note 9 – Trade and other receivables, Note 12 – Loans to banking customers and Note 26 – Financial risk.

Working capital facility decreased by £0.4bn, following a funding advance of £3.0bn to facilitate the repurchase of the remaining Aire Valley securitisation liabilities in September 2017 (Note 19 – Debt securities in issue) and £3.4bn of repayments during the year.

Loans decreased by £2.9bn due to scheduled loan repayments from NRAM plc.

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**

12. Loans to banking customers

12.1 Group

In £m	At 1 April 2016	Advances	Redemptions & repayments	Impairments & reversals	At 31 March 2017
Residential mortgages	34,701	12	(15,881)	56	18,888
Commercial loans	441	-	(202)	19	258
Unsecured loans	391	-	(65)	(8)	318
Total	**35,533**	**12**	**(16,148)**	**67**	**19,464**
Current	958				555
Non-current	34,575				18,909

Residential mortgages decreased by £15.8bn due to the sale of UKAR's B&B mortgage assets which had a carrying value of £11.8bn and mortgage redemptions and repayments £4.0bn.

For more information refer to Note 8 – Gain on disposal of assets in the SoCNE.

Mortgage redemptions and repayments comprise full or partial redemptions of loans, repayment of capital and disposals.

For more information refer to Note 26 - Financial risk.

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

12.2 Allowance for impairment

£m	At 1 April 2016	Sale of assets	Impairments & reversals	Write-offs	At 31 March 2017
Residential mortgages	663	(9)	(29)	(64)	561
Commercial loans	86	-	2	(76)	12
Unsecured loans	96	(1)	(14)	(6)	75
Total	**845**	**(10)**	**(41)**	**(146)**	**648**

£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**

13. Loan hedging asset

	Group	
In £m	2016-17	2015-16
Current	13	12
Non-current	442	425
Total	**455**	**437**

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

14. Derivative financial assets

	Core Treasury and Agencies		Group	
£m	2016-17	2015-16	2016-17	2015-16
Balance at 1 April	38,394	36,438	39,175	39,400
Cash movements	(10,315)	(8,528)	(11,250)	(10,466)
Fair value adjustment	23,096	10,484	23,252	10,241
Balance at 31 March	**51,175**	**38,394**	**51,177**	**39,175**
Current	51,175	38,394	51,177	38,724
Non-current	-	-	-	451

Derivative financial assets increased by £12.0bn due mainly to HM Treasury's BEAPFF derivative asset, and represents the net of fair value gains of £23.1bn offset by £10.3bn of cash transfers. The cash transfers of £10.3bn were surrendered to the Consolidated Fund.

For more information refer to Note 7 – Revaluation of financial assets and liabilities in the SoCNE and Note 26 - Financial Risk.

15. Cash and cash equivalents

	Core Treasury and Agencies		Group	
£m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Balance at 1 April	1	1	6,069	9,486
Net change in cash balances	1	-	(3,414)	(3,417)
Total	**2**	**1**	**2,655**	**6,069**
The following balances were held at 31 March				
Government Banking Service	2	1	1,340	2,601
Bank of England	-	-	714	1,643
Commercial banks and cash in hand	-	-	601	1,825
Total	**2**	**1**	**2,655**	**6,069**

Detail on the cash movements can be found in the Statement of Cash Flows on page 108.

16. Trade and other payables

	Core Treasury and Agencies		Group	
£m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Current payables				
Trade payables	2	4	8	10
Accrued expenditure	34	27	163	176
Pool Re payable to Consolidated Fund	199	33	199	33
Amounts due to levy payers	-	-	477	366
Corporation tax payable	-	-	63	153
PFI contract	3	2	3	2
Other	7	62	65	305
Total current	**245**	**128**	**978**	**1,045**
Non-current payables				
Pool Re payable to Consolidated Fund	320	242	320	242
Amounts due to levy payers	-	-	10	58
Sukuk certificates	-	-	200	200
PFI contract	116	118	116	118
Deferred tax	-	-	84	97
Other	-	-	13	12
Total non-current	**436**	**360**	**743**	**727**
Total payables	**681**	**488**	**1,721**	**1,772**

Pool Re payable to the Consolidated Fund reflects payments yet to be received from the reinsurance companies (see accrued insurance income in Note 9 – Trade and other receivables).

17. Provisions

17.1 Group

£m	Equitable Life	Oil & gas	Customer redress	HTB ISA	Other	Total
Balance at 1 April	522	327	166	60	77	**1,152**
Provided during the year	-	-	64	339	23	**426**
Provisions not required	(26)	-	-	-	(28)	**(54)**
Unwinding of discount and changes in the discount rate	10	5	-	-	-	**15**
Provisions utilised in year	8	(5)	(70)	(53)	(31)	**(151)**
Balance at 31 March	**514**	**327**	**160**	**346**	**41**	**1,388**
Within one year	36	40	86	346	40	**548**
Between one and five	160	281	74	-	1	**516**
Later than five years	318	6	-	-	-	**324**

Movement in provisions of £0.4bn in Note 4 – Other operating expenditure, is made up of Provided during the year, Provisions not required, and Unwinding of discount and changes in the discount rate above. Further detail on provisions can be found below:

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 entrants from 31 December 2015. The £8m increase in provision utilised in year includes a £11m reversal of previously utilised provision, offsetting £3m of provision utilised during the year. The reversal of the previously utilised provision was due to funds returned from warrants issued, which had expired.
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. During the year, HM Treasury received 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 outstanding costs to settle. For more information refer to remote contingent liabilities from page 86.
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. Further details are available in UKAR's Annual Report and Accounts.
Help to Buy (HTB) ISA	The Help to Buy ISA scheme commenced on 1 December 2015 and offers first time buyers government bonuses to be claimed on completion of 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. The scheme will close to new entrants in November 2019, and all bonuses must be claimed by December 2030. The amount provided in year was £339m. At 31 March 2017 there were 462,744 scheme participants compared with 153,489 in the prior year. At 31 March 2016 the scheme had only been in existence for 4 months. This increase in the amount provided is linked to the increase in number of scheme participants.

17.2 Core Treasury and Agencies

£m	Equitable Life	Oil & gas	Customer redress	HTB ISA	Other	Total
Balance at 1 April	522	327	-	60	26	**935**
Provided during the year	-	-	-	339	-	**339**
Provisions not required	(26)	-	-	-	(25)	**(51)**
Unwinding of discount and changes in the discount rate	10	5	-	-	-	**15**
Provisions utilised in year	8	(5)	-	(53)	-	**(50)**
Balance at 31 March	**514**	**327**	**-**	**346**	**1**	**1,188**
Within one year	36	40	-	346	-	**422**
Between one and five	160	281	-	-	1	**442**
Later than five years	318	6	-	-	-	**324**

18. Cash collateral

UKAR held cash collateral of £nil for its derivatives at year end (2015-16: £554m) and has provided collateral pledges of £522m (2015-16: £521m). Cash collateral held had previously been used to service UKAR securitised notes, which were fully repaid during the year.

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 Statement of Financial Position (SoFP).

19. Debt securities in issue

£m	At 1 April 2016	Repayments	Repurchases	Other movements	At 31 March 2017
Securitised notes	3,145	(3,332)	-	187	-
Covered bonds	1,780	(1,709)	-	(71)	-
Other	234	(26)	-	(4)	204
Total	**5,159**	**(5,067)**	**-**	**112**	**204**
Current	1,835				4
Non-current	3,324				200

Total debt securities in issue decreased by £5.0bn mainly due to the repayment of Aire Valley securitisation notes of £2.5bn, financed by a Working Capital Facility advance of £3.0bn (Note 11 – Loans and advances) and the repayment of other securitised notes of £0.7bn. This helped UKAR achieve the twin objectives of simplifying its balance sheet and unencumbering loans to banking customers.

During the year the remainder of the Covered bonds in issue matured and were redeemed.

£m	At 1 April 2015	Repayments	Repurchases	Other movements	At 31 March 2016
Securitised notes	12,730	(9,721)	-	137	3,146
Covered bonds	7,947	(1,166)	(4,645)	(357)	1,779
Other	270	(33)	-	(3)	234
Total	**20,947**	**(10,920)**	**(4,645)**	**(223)**	**5,159**
Current	1,392				1,835
Non-current	19,555				3,324

20. Derivative financial liabilities

	Group	
£m	**2016-17**	**2015-16**
Balance at 1 April	528	570
Movements in year	(1)	(42)
Total	**527**	**528**
Current	3	12
Non-current	524	516

21. Financial guarantees

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
UK guarantees	110	122	109	122
National Loan Guarantee Scheme	3	64	3	64
Help to Buy guarantees	89	84	89	84
Deposit guarantees	23	371	-	-
Total	**225**	**641**	**201**	**270**
Current	43	125	31	86
Non-current	182	516	170	184

The financial risks and management policies associated with financial guarantees are detailed in Note 26 – Financial Risk and 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 2017, eight projects were guaranteed with no new projects entering the scheme during the reporting period. The Hinkley Point C Nuclear Power Plant was approved for construction in October 2016. A UK guarantee may be issued in 2018.
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 closed in May 2017 and is not open for new guarantees.
Help to Buy: mortgage	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

guarantee scheme	offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. The Scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2016 will continue to enter the scheme until 30 June 2017.
Deposit guarantees	HM Treasury put in place arrangements to guarantee certain wholesale borrowings and deposits with B&B with effect from 2008 and certain borrowings, derivative transactions, and wholesale deposits for NRAM plc with effect from 2010. The decrease in deposit guarantees of £348m is due to repayment of guaranteed balances during the year.

For more information see the remote contingent liabilities section from page 86.

22. Non-cash transactions

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Adjustment for non-cash transactions				
Net provisions provided in year	302	359	388	257
Depreciation and amortisation	8	8	17	33
Non-voted – banking and gilts registration services	7	11	7	11
Other non-cash adjustments relating to UKAR	-	-	119	1,209
Other non-cash adjustments	2	(3)	2	4
Total	**319**	**375**	**533**	**1,514**

23. Commitments

	Core Treasury and Agencies		Group	
In £m	**2016-17**	**2015-16**	**2016-17**	**2015-16**
Capital commitments				
Multilateral development banks	-	340	-	340
Other capital commitments	-	-	1	1
Total	**-**	**340**	**1**	**341**
Financial commitments				
Loan commitments	761	760	1,190	1,379
Other financial commitments	-	-	21	1
Total	**761**	**760**	**1,211**	**1,380**

Multilateral development banks commitment of £0.3bn relates to future capital commitments to the Asian Infrastructure Investment Bank (AIIB). The Government is committed to honouring the investment in the AIIB announced by the Chancellor in March 2015. Future payments will be made by the Department for International Development (DFID).

The AIIB was set up in December 2015 with the UK as a shareholder, along with a large number of other countries, to support financing for infrastructure projects across Asia. The UK's investment, like that of all other shareholders in the bank, is in the form of 20% paid-in capital and 80% callable capital. The paid-in capital is made in five annual instalments of US$122m. HM Treasury, on behalf of the UK government, made the initial instalment of US$122m in January 2016 (approximately £98m as at 31 March 2017).

In January 2017 DFID made the second investment of US$122m, which is recognised in its 2016-17 Annual Report and Accounts. During 2017-18 HM Treasury intends to transfer the initial investment and associated callable capital to DFID. The further three annual instalments of US$122m are a future capital commitment of DFID (a total of US$366m or £294m) and are also disclosed in its 2016-17 Annual Report and Accounts.

For more information refer to remote contingent liabilities from page 86.

HM Treasury has provided a £0.8bn (2015-16: £0.8bn) standby refinancing facility to Transport for London – Greater London Authority for the Northern Line extension as part of the UK Guarantees scheme. Additionally at Group level, loan commitments represent contractual amounts of £0.4bn (2015-16: £0.6bn) 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 facility commitment to NRAM. As at 31 March 2017, the total facility available for B&B was £11.5bn (2015-16: £11.5bn) and for NRAM £2.1bn (2015-16: £2.1bn). The currently drawn amounts are £2.0bn (2015-16: £2.5bn) and £nil (2015-16: £nil) respectively. These facilities are intra-group balances and as such are not shown in the table above.

24. 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.

Finance lease obligations

	Core Treasury and Agencies	
In £m	**2016-17**	**2015-16**
Within one year	11	11
Between one and five years	45	45
Later than five years	173	185
Gross present value of future obligations	229	241
Finance charges allocated to future periods	(111)	(120)
Total	**118**	**121**

Minimum service charges

	Core Treasury and Agencies	
In £m	**2016-17**	**2015-16**
Within one year	14	13
Between one and five years	64	62
Later than five years	389	413
Total	**467**	**488**

HM Treasury is committed to pay minimum service charges in future years as shown above. The total amount charged in the Statement of Comprehensive Net Expenditure (SoCNE) for the service element (including contingent rent) was £13m (2015-16: £13m).

25. Contingent liabilities

HM Treasury has entered into the following guarantees and indemnities. All meet the definition of contingent liabilities under IAS 37 and are disclosed below accordingly. Remote contingent liabilities do not require disclosure under IAS 37, however they are required to be disclosed in accordance with Managing Public Money and the FReM. They have been separately disclosed from page 86.

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. The total reserves of Pool Re and of Pool Re (Nuclear) as at the date of their latest management accounts are £5.7bn as at April 2017 (2015-16: £6.0bn) and £29m (2015-16: £29m) as at December 2016, 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.
UKAR	The Group's lending and other consumer credit business is governed by consumer credit law and other regulations. Claims upheld in favour of customers in relation to potential breaches of requirements could result in costs to the Group. It is not possible to provide any meaningful estimate or range of the possible cost.
NRAM	In July 2015 the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with Consumer Credit Act (CCA) customers despite receiving the same incorrect documentation. As a result the £268m provision relating to this matter was released. Whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the Consumer Credit Act, there is a risk that individual customers could make claims against NRAM. This could result in costs to NRAM where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost. NRAM Limited provided certain warranties and indemnities to Cerberus in respect of the sale to Cerberus of certain loans and the shares in NRAM plc. The sale agreement set various time limits for bringing claims under the warranties. For most of the warranties this time limit is 5 May 2018 or 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023.
Bradford & Bingley plc	HM Treasury has confirmed to the FCA its intention to take appropriate steps to ensure that B&B 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 B&B, which would be eliminated from the Group position. On 20 January 2009 a solicitor's letter was received notifying B&B and certain present and former B&B directors of a potential claim by former individual shareholders who subscribed for additional shares in the £401m rights issue approved on 17 July 2008. These former shareholders claim to have suffered loss through having been induced to subscribe for shares in the rights issue by allegedly materially misleading and/or incomplete statements made in the associated prospectus dated 24 June 2008 as revised and supplemented by the supplementary prospectus dated 11 July 2008. Should such a claim result in proceedings which are pursued through the courts and which succeed, the defendant directors and/or B&B could be liable in damages to certain former

	shareholders in B&B who subscribed for shares in the rights issue. In May 2009 B&B together with its legal advisors responded to the allegations raised. Nothing further was heard until 23 January 2012 when correspondence was received from the solicitors representing the former shareholders, to which B&B together with its legal advisors responded. This correspondence contained no further allegations or details of the former shareholders' potential claim. It is not possible at this stage to determine the outcome or timing of any conclusion to this matter. No provision has been made in respect of these allegations. In addition, the B&B 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 B&B 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 2017 there is no contingent liability to report (2015-16: £nil), as the B&B Pension Scheme is showing a deficit but remains covered by UKAR Ltd's operational surpluses. During 2015-16, B&B provided certain warranties and indemnities to Computershare in respect of the transfer of the mortgage servicing business. The sale contract set various time limits for bringing claims under the warranties and indemnities which vary depending upon their nature, with the majority being limited to June 2018. No provision has been made. During the year, HM Treasury has taken on a contingent liability as a result of the sale of a portfolio of UKAR's B&B mortgage assets in March 2017. These market-standard time and value capped warranties and indemnities confirming regulatory, legislative and contractual compliance have been provided to the purchasers. The maximum contingent liability arising is approximately £0.79 billion. For more information refer to remote contingent liabilities from page 86.
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	HM Treasury is currently engaged in litigation activity as the defendant. This may result in costs or damages being ordered against HM Treasury. HM Treasury has not disclosed all the information that is ordinarily required under IAS 37 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.

26. Financial risk: management objectives and policies and sensitivity analysis

26.1 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; and
- 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, liquidity risk and credit 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) - which manages the government's investments in Royal Bank of Scotland (RBS), Lloyds and UK Asset Resolution Limited (UKAR). Since 17 May 2017, the government has fully exited Lloyds and as such UKFI no longer plays this role with regards to Lloyds.

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. For RBS, UKFI aims to:

- Engage with the board and management teams of both banks to build shareholder value;
- Ensure that analytical frameworks used to assess value for money and wider policy, operational and legal implications remain robust; and
- Maintain an ongoing dialogue and communication with existing and prospective investors in RBS.

For UKAR, UKFI aims to actively engage with UKAR in the ongoing orderly run-down of its closed mortgage books with focus on maximising value for the taxpayer.

The largest concentration of financial risk outside Core 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 B&B. 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.[4]

The remainder of this note covers the following:

- Group
  - UKAR: market risk, liquidity risk, credit risk
  - Group – credit risk
- Core Treasury and Agencies

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

- Market risk
- Liquidity Risk
- Credit Risk

26.2 Group

This section focuses on the risks associated with UKAR and then credit risk for the remainder of the Group.

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 exists in loans to banking customers and comprises three types of risk: interest rate risk, foreign currency risk and other price risk. Where relevant this is discussed below.

Activity	Risk	Derivative instrument used to mitigate risk
Fixed rate mortgages	Interest rate risk	Interest rate swaps
Variable rate mortgages	Interest rate risk	Interest rate swaps
Legacy investments and funding in foreign currencies	Foreign currency risk	Foreign 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.

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 SoFP and from the investment profile of UKAR capital and reserves. UKAR measures, monitors and controls the following interest rate risks and sensitivities: mismatch risk, 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.

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 2017	At 31 March 2016
Total derivative financial assets held by UKAR	-	-	2	2	782
Total derivative financial liabilities held by UKAR	1	520	6	527	(528)
Fair value of hedging instruments	(1)	(520)	(4)	(525)	254

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 is shown below.

In £m	At 31 March 2017	At 31 March 2016
2% increase	(1)	(29)
2% decrease	(9)	30

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

In £m	At 31 March 2017	At 31 March 2016
2% increase	282	516
2% decrease	(44)	(131)

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 2017 and 31 March 2016 UKAR had no net material exposure to foreign currency 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 2017 or 31 March 2016.

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

At 31 March 2017	€ In £m	$ In £m	In other £m	Total
Financial assets:				
Cash at bank and in hand	1	1	-	2
Investment securities	163	9	-	172
Derivative financial instruments	(98)	(8)	-	(106)
Total financial assets	**66**	**2**	**-**	**68**
Financial liabilities:				
Amounts due to banks	-	-	-	-
Derivative financial instruments	64	-	-	64
Debt securities in issue	-	-	-	-
Total financial liabilities	**64**	**-**	**-**	**64**
Net currency gap	**2**	**2**	**-**	**4**

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)**

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 2017
Total financial assets	2,305	11,606	287	19,626	33,824
Total financial liabilities	(25,017)	(144)	(6)	(724)	(25,891)
Net liquidity gap	(22,712)	11,462	281	18,902	7,933
Net liquidity gap excluding HMT loans	2,304	11,477	281	18,902	32,964

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

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 2016	29,500	2,106	360	2,072	1,085	35,123
Derivatives: at 31 March 2016	-	12	41	149	570	772
Non-derivatives: at 31 March 2017	25,441	143	13	227	2	25,826
Derivatives: at 31 March 2017	-	12	31	157	537	737

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. 62% (2015-16: 53%) of the asset-backed securities are backed by UK assets. Further details about concentrations in the wholesale assets portfolio are detailed in Note 13 - Wholesale Assets of UKAR's 2016-17 Annual Accounts.

UKAR operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Group's business. Residential loans to customers are all secured on property in the UK. 33% (2015-16: 57%) of residential loans to customers 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 £18.9bn (2015-16: £34.7bn) 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 37% (2015-16: 43%) of the book.

The residential loan book includes £887.8m (2015-16: £895.7m) of lifetime (equity release) loans. On redemption, Group does not have the right to seek to recover any shortfall from the borrower or estate; hence the Group has insurance risk in respect of these loans. An insurance provision of £130.3m (2015-16: £111.1m) is carried against these balances (see Note 15 – Impairment on loans to customers of UKAR's 2016-17 Annual Accounts).

The risks in respect of the lifetime loans are common across the lifetime book.

Within the commercial mortgage portfolio there are 52 loans (2015-16: 71) totalling £257.3m (2015-16: £440.5m), with the largest 10 loans accounting for 89% (2015-16: 88%) of the portfolio. All of these loans are secured on commercial and housing association properties.

	At 31 March 2017				At 31 March 2016
In £m	**Residential mortgages**	**Commercial loans**	**Unsecured loans**	**Total**	**Total**
Neither past due nor impaired	18,151	246	322	18,719	34,129
Past due, but not impaired					
- less than 3 months	571	-	11	582	996
- 3 to 6 months	255	-	4	259	370
- over 6 months	168	-	48	216	312
Impaired	304	24	8	336	571
Total loans to customers	**19,449**	**270**	**393**	**20,112**	**36,378**
Impairment allowances	(561)	(12)	(75)	(648)	(844)
Total loans to customers net of impairment allowances	**18,888**	**258**	**318**	**19,464**	**35,534**

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 2017	At 31 March 2016	At 31 March 2015
Neither past due nor impaired	29,947	54,998	74,689
Past due, but not impaired	1,497	2,296	4,079
Impaired	377	434	659
Total collateral held in respect of residential mortgages	**31,821**	**57,728**	**79,427**

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 2017	At 31 March 2016	At 31 March 2015
Neither past due nor impaired	18,072	33,274	47,989
Past due, but not impaired	988	1,581	3,026
Impaired	280	336	539
Total collateral held in respect of residential mortgages	**19,340**	**35,191**	**51,554**

The indexed loan to value ('LTV') of residential mortgage balances, weighted by loan balance, falls into the following ranges:

%	At 31 March 2017	At 31 March 2016	At 31 March 2015
To 50% loan to value	13	13	10
50% to 75% loan to value	46	44	34
75% to 100% loan to value	37	39	48
Over 100% loan to value	4	4	8
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 2017 Residential mortgages	At 31 March 2017 Unsecured Loans	At 31 March 2016 Residential mortgages	At 31 March 2016 Unsecured Loans
Arrears 3 months and over					
- Number of cases (proportion of total cases)	No.	4,132 (2.6%)	3,281 (9.3%)	5,870 (2.0%)	4,307 (10.2%)
- Asset value (proportion of book value)	£m	622 (3.2%)	56 (17.50%)	859 (2.5%)	70 (17.8%)
- Total value of payments overdue (portion of book)	£m	29 (0.15%)	16 (5.0%)	36 (0.1%)	17 (4.4%)
Possessions					
- Number of cases (proportion of total cases)	No.	485 (0.3%)	-	507 (0.2%)	-
- Asset value (proportion of book value)	£m	71 (0.4%)	-	76 (0.2%)	-
- Total value of payments overdue (portion of book)	£m	3 (<0.1%)	-	4 (<0.1%)	-

Arrears 3 months and over and possessions					
- Number of cases (proportion of total cases)	No.	4,617 (2.9%)	3,281 (9.3%)	6,377 (2.1%)	4,307 (10.2%)
- Asset value (proportion of book value)	£m	692 (3.7%)	56 (17.5%)	935 (2.7%)	70 (17.8%)
- Total value of payments overdue (portion of book)	£m	32 (0.2%)	16 (5.0%)	40 (0.1%)	17 (4.4%)
Payments overdue in respect of all arrears and possessions	£m	38 (0.2%)	17 (5.3%)	49 (0.1%)	18 (4.5%)
Loan impairment provision: as % of total balances	%.	3	19	2	20
Loan impairment provision: new possessions	No.	1,242	-	1,853	-

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.

Where fair values cannot be obtained because they are not quoted in active markets, 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").

	2016-17		2015-16	
In £m by counterparty	**Carrying Value**	**Discounted Value***	**Carrying Value**	**Discounted Value***
Loans to Ireland	3,227	3,424	3,227	3,420
Loans from Infrastructure Unit Finance Ltd	94	111	99	115
FSCS recoverables: financial institutions	53	54	55	56
UKAR investment securities held as loans	260	258	302	284
Other loans	2	4	-	-
Loans sub-total	**3,636**	**3,851**	**3,683**	**3,875**
Statutory debt: Dunfermline	2	2	23	22
Statutory debt: other institutions	9	9	13	14
Statutory debt sub-total	**11**	**11**	**36**	**36**
Total	**3,647**	**3,862**	**3,719**	**3,911**

*With the exception of UKAR investment securities, there are no current market prices available.

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 2016 the Ireland Debt Governance Board made a positive assessment, forecasting 100% recovery with repayment expected to take place in 2019-2020.

FSCS recoverables	FSCS recoverables: financial institutions includes the amounts that FSCS considers recoverable from the administration of failed institutions. In 2016-17 this relates to London Scottish Bank and Kaupthing Singer & Friedlander (KSF). Further information is available in the FSCS Annual Report and Accounts.
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.
Statutory debt	Outstanding statutory debt loans include Dunfermline, KSF and Heritable. Statutory debt is managed by specialist external administrators an d 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 2017			At 31 March 2016	
	Total amount lent £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2016-17 +/- 5% £m	Current (forecast) recovery %	Impact on Net comprehensive (income)/ expenditure for the year 2015-16 +/- 5% £m
Stat Debt: Dunfermline*	1,540	100/(100)	-/-	99/(100)	-/-
Stat Debt: KSF	494	85/(87)	(24)/8	83/(85)	(24)/10
Stat Debt: Heritable	92	98/(98)	(2)/-	98/(98)	1/-
Total	**2,126**		(26)/8		**(23)/10**

*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.

26.3 Core Treasury and Agencies

Market Risk

Market risk is the risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market price. Other price risk and liquidity risks are sub-sets of market risk and discussed below.

Market risk at the Core Treasury level primarily relates to the impact of moves in market interest rates on the Bank of England Asset Purchase Facility Fund (BEAPFF). Moves in market rates, over and above those caused by the operations of the BEAPFF itself, are driven by multiple factors including actual or expected monetary and fiscal policy changes, changes in the market's risk premia assessments, and movements in related international markets.

The BEAPFF is a quantitative easing mechanism that was set up in 2009 to purchase gilts financed by the creation of central bank reserves, initially to the sum of £200bn. The £200bn was loaned by the Bank of England to a subsidiary company, BEAPFF Ltd, to manage the quantitative easing program. The size of the scheme has been extended on several occasions, such that at 31 March 2017 the loan from the Bank of England had increased to £499bn.

Beginning in August 2016, lending and additional asset purchases were undertaken by BEAPFF Ltd. A Term Funding Scheme (TFS) was introduced to provide term funding to banks at rates close to Bank Rate and a new Corporate Bond Purchase Scheme (CBPS) was set up to purchase high-quality private sector assets. The extended portfolio now allows for authorised purchases and lending totalling up to £545bn, as summarised in the table below:

In £bn	
Government bond purchases	435
Corporate bond purchases	10
Term funding scheme (up to)	100
Total quantitative easing package	**545**

Further information can be found in BEAPFF Ltd's Annual Report and Accounts.

HM Treasury provides an indemnity to the Bank of England for any losses or profits from operating the BEAPFF. The derivative is valued on the basis of the difference between the fair value of BEAPFF Ltd's assets and liabilities. The assets mainly comprise the portfolio of financial assets but include some cash holdings. Cash generated from coupon income and redemptions is primarily used to finance the Bank of England loan and reinvest in portfolio assets. Surplus cash is transferred to HM Treasury on a quarterly basis. The company's liabilities are represented by the Bank of England loan and accrued interest on the loan.

It is difficult to predict the movement in the BEAPFF derivative as the fair value of its financial assets is re-priced in response to market changes. At 31 March 2017 the BEAPFF's assets exceeded its liabilities by £51.2bn, driven by market-value gains within its portfolio and interest income received. When there is an excess of assets over liabilities, the derivative value is represented by a liability on BEAPFF's SoFP and by a corresponding asset on HM Treasury's SoFP (see Note 14 –Derivative financial assets). The transfers of surplus cash to HM Treasury have the current effect of part-settling this derivative. However the full value of the derivative is not payable until such time as the scheme is unwound.

In the event that the fair value of the BEAPFF's assets fell below that of its liabilities, the indemnity would conversely entail BEAPFF Ltd recognising a derivative asset and HM Treasury a derivative liability. That liability would not be payable until such time as the scheme is unwound. In such market conditions, however, it may be unlikely that there would be a surplus of cash available if the interest payable at Bank Rate on the Bank of England Loan increased significantly above coupon income receivable. If there were a shortfall of cash HM Treasury would fund this by way of quarterly cash transfers, as set out in the deed of indemnity and in line with the current quarterly arrangement with BEAPFF.

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.

As of August 2016, oversight arrangements for the BEAPFF have been strengthened. This includes enhanced information sharing between the Bank and Treasury to monitor the operation and performance of the facility and regular risk oversight meetings of Treasury and senior Bank officials. Whilst the Monetary Policy Committee (MPC) retains independence for setting monetary policy, the Treasury has the opportunity to provide views to the MPC on the design of the schemes within the BEAPFF as they may affect the Government's broader objectives.

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 2017 is £0.5bn (2015-16: £0.4bn).

Credit risk for the BEAPFF is smaller in comparison to market risk as the majority of the BEAPFF assets are high quality gilts with a low default risk. Additionally all of the corporate bond assets are investment grade and all loans under the Term Funding Scheme are issued against collateral with conservative 'haircuts.'

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 2017 is £11.8bn (2015-16: £10.5bn).

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 the BEAPFF. The bulk of assets held by the Company are gilts and are liabilities of the broader public sector. Accordingly, the impact on the public sector as a whole of any change in the market value of the gilts held by the Company is matched by changes in the market value of those gilts on the liability side of the public sector balance sheet.

Other Price Risk

Price risk is the risk of a decline in the value of a security or a portfolio. Price risk relates to HM Treasury's shareholding in RBS and Lloyds.

HM Treasury purchased shares in RBS and Lloyds 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 were 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 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.

In £m	Net Operating Income 2016-17	Net Operating Income 2015-16	Reserves 2016-17	Reserves 2015-16
Increase +10%	-	-	2,136	2,321
Increase +25%	-	-	5,339	5,803
Decrease -10%	(406)	(1,878)	(1,730)	(443)
Decrease -25%	(3,469)	(4,696)	(1,870)	(1,107)
Investments – listed entities			21,355	23,211

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 liquidity 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 be required to make payments to the BEAPFF if the Bank Rate rises and exceeds the coupon rate for the gilt holdings (as the interest paid on the APF loan would exceed the interest earned from the coupon payments) or if the losses from gilt sales exceed the cash reserves held by the BEAPFF in an active unwind scenario.

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 however fees are set at commercial rates where required by state aid rules. The guarantees do not involve direct cash support but they do expose HM Treasury to potential liabilities if the guarantees are called.

Infrastructure and Projects Authority (IPA) which is part of the Cabinet Office monitors the guarantees on an ongoing basis and assesses the likelihood of a pay out by the Treasury. The IPA's Head of Portfolio Management 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 from page 86.

Project	Description	Maximum exposure in £m March 2017	March 2016	Projected end date
National Loan Guarantee Scheme	The National Loan Guarantee Scheme (NLGS) was launched by the Treasury on the 20 March 2012 to help small UK businesses access cheaper finance. On 1 August 2012, the Bank of England and HM Treasury announced the opening of the Funding for Lending Scheme (FLS). Market conditions mean that the FLS is a more favourable option for banks, and banks who have previously offered NLGS loans are now choosing to deliver credit easing to the whole economy through the FLS. The NLGS is no longer accepting new guarantees and the scheme concluded on 2 May 2017.	2,900	2,900	May-2017
National Car Parking	National Car Parking is a £8.8m guarantee to enable energy efficient lighting to be installed at 149 carparks in the UK. The guarantee for the loan notes was issued on 4 December 2013. The loan notes issued by NCP in 2013 and guaranteed by HMT under the UK guarantee scheme were fully repaid in May 2017.	2	5	Dec-2017
Drax biomass	Drax biomass is a £75m guarantee that underpins private funding to convert four of the coal fired generation units at Drax power station to biomass. The guarantee was announced on 24 April 2013. The bonds issued by Drax in 2013 and guaranteed by HMT under the UK guarantee scheme were refinanced in May 2017. This was the first infrastructure project guarantee issued by HMT under the UK guarantee scheme, and is now also the first guarantee in the portfolio to have come off risk. The biomass conversion project was completed at the end of 2016, on time and within the original project budget. Drax refinanced, and accordingly the financial guarantee came off risk effective from 5 May 2017.	76	76	Jun-2018
INEOS Grangemouth	INEOS is a £230m guarantee that underpins private funding to build Europe's largest ethane storage tank at Grangemouth petrochemical plant in Scotland. The guarantee was announced on 17 July 2014.	245	227*	Jul-2019

Deposit guarantees***	Wholesale borrowings and deposits with B&B and borrowings, derivative transactions, and wholesale deposits in respect of NRAM plc.	213	1,743	Sept-2025
Speyside	Speyside is a guarantee for bonds worth up to £48.5 million for the Scottish Speyside Biomass Power project in Moray Scotland. The guarantee for the bonds was issued on 18 August 2014.	50	50	Jun-2028
Help to Buy guarantees**	The Help to Buy: mortgage guarantee scheme was launched on the 8 October 2013 to address the shortage of high loan-to-value mortgages by offering lenders the option to purchase a guarantee on mortgages where the borrower has a deposit of between 5% and 20%. The scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2017 will continue to be accepted into the scheme until 30 June 2017.	1,443	1,067	Dec-2030
Countesswells	Countesswells is a £86m guarantee that will allow a major development in Aberdeen to go ahead that will deliver new housing, schools healthcare and parks over the next 15 years. The guarantee was announced on 22 March 2016.	86	86	Mar-2031
Mersey Gateway	The Mersey Gateway is a £257m guarantee that underpins the issuance of bonds to fund the construction of a 1km long cable-stayed, dual-three lane bridge over the River Mersey between Widnes and Runcorn plus associated changes to approach road. The guarantee was announced on 10 March 2014. HM Treasury remains exposed until the bonds are repaid in March 2043.	267	267	Mar-2043
University of Gloucestershire	University of Gloucestershire is a £40m guarantee for the construction of a new student village at the University of Gloucestershire, which will have over 570 new rooms. In addition the guarantee also covers refurbishment activities on the existing media centre including a gym, dining hall, students' union office, and over 1,000 square metres of office space for university staff. The guarantee for the bonds was issued on 4 February 2014.	39	39	Sep-2051
University of Northampton	University of Northampton is a guarantee supporting up to £292m worth of public bonds (£232m) and Local Authority loans (£60m) to fund the Waterside Project, which will see the University relocating into a brand new purpose-built facility in the town's centre. The guarantee was announced on 13 November 2014.	300	301	Mar-2056

* The amount guaranteed is €285m. This is converted to £ GBP at the reporting date using the exchange rate per www.xe.com

** Per the April 2017 service review board papers compiled using February 2017 data

*** Eliminated on consolidation

27. Group financial instruments - fair value hierarchy

In £m	2016-17 Level 1	2016-17 Level 2	2015-16 Level 1	2015-16 Level 2
Available-for-sale financial assets				
Investments – listed entities	21,355	-	23,210	-
Investments – unlisted entities	-	4,863	-	4,684
Investment securities	-	23	-	52
Derivative financial assets and liabilities				
Derivative financial assets	-	51,177	-	39,176
Derivative financial liabilities	-	(527)	-	(528)

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 reference to discounted future cash flows using observable market parameters including swap rates, interest rates and currency rates, or by reference to underlying net asset value.
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. 2016-17: £6m (2015-16: £6m).

28. 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.

28.1 Group

In £m	2016-17 Fair Value	2016-17 Carrying Value	2015-16 Fair Value	2015-16 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	2,655	-	6,069
Trade and other receivables*	-	13,547	-	1,854
Loan hedging asset**	-	455	-	437
Loans and advances	3,865	3,647	3,909	3,719
Loans to banking customers	18,720	19,464	32,563	35,533
Financial assets: available-for-sale assets				
Available-for-sale assets	-	26,241	-	27,945
Financial assets: fair value through SoCNE				
Derivative financial assets	-	51,177	-	39,175
Financial liabilities and guarantees: amortised cost				
Trade and other payables***	-	(1,525)	-	(1,457)
Other financial liabilities	-	-	-	(9)
Debt securities in issue	(231)	(204)	(5,104)	(5,159)
Cash collateral due to banks	-	-	-	(554)
Financial guarantees	-	(201)	-	(270)
Financial liabilities: fair value through SoCNE				
Derivative financial liabilities	-	(527)	-	(528)

* 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.

28.2 Core Treasury and Agencies

In £m	2016-17 Fair Value	2016-17 Carrying Value	2015-16 Fair Value	2015-16 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	2	-	1
Trade and other receivables*	-	1,377	-	1,194
Loans and advances	28,640	27,968	32,252	31,483
Financial assets: available-for-sale assets				
Available-for-sale assets	-	34,311	-	35,784
Financial assets: fair value through SoCNE				
Derivative financial assets	-	51,175	-	38,394
Financial liabilities and guarantees: amortised cost				
Trade and other payables***	-	(672)	-	(484)
Financial guarantees	-	(225)	-	(641)

29. Related party transactions

The entities listed in Note 31.3 – Basis for consolidation are regarded as related parties to HM Treasury. The Treasury has had material transactions with UKAR and FSCS during the year, including material loan balances and repayments (Note 11 – Loans and advances).

Although the Bank of England, the Royal Mint, Local Partnerships, RBS and Lloyds[5] 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 are recorded in the SoCNE.

HM Treasury received dividends from Lloyds of £185m. RBS and Lloyds 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.

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.

30. Auditor's remuneration

Remuneration for the audit of the Treasury Group was a notional cost of £360k (2015-16: £360k). In addition, £1,160k (2015-16: £419k[6]) was charged by the NAO for other audit services, of which £124k (2015-16: £107k) was notional. The increase is due to the audit of UKAR being conducted by the NAO for the first time. £103k (2015-16: £nil) was paid to the NAO in respect of non-audit services.

5 The government has fully exited Lloyds and all Lloyds Banking Group ordinary shares were sold by HM Treasury by 31 May 2017.

6 Restated to include the following HM Treasury company audits - IUK Investments Holdings Ltd, Help to Buy (HMT) Ltd, Infrastructure Finance Unit Ltd and HM Treasury UK Sovereign Sukuk plc.

31. Statement of accounting policies

These financial statements have been prepared in accordance with the 2016-17 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.

These financial statements have been prepared on a going concern basis.

31.1 IFRS in issue but not effective

The disclosures below detail the effect that new accounting standards are expected to have on HM Treasury's Group.

IFRS 9 Financial Instruments

In July 2014 the IASB published the final version of IFRS 9 'Financial Instruments', which will replace IAS 39 except for the elements of IAS 39 relating to macro-hedging (which has been treated as a separate project from IFRS 9). IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The Group will not utilise the option under the standard of early adoption as the Financial Reporting Advisory Board (FRAB) has taken the decision that adoption in the public sector will first apply across the public sector in 2018-19.

IFRS 9 does not require prior period comparative information to be restated. The HMT Group in line with FRAB decision for the entire public sector, will apply retrospective application without restatement.

IFRFS 9 carried forward unchanged almost all of the accounting requirements for financial liabilities. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes (i.e. the effect) in own credit risk. No significant impact is anticipated for the HMT Group in respect of its financial liabilities.

Implementation will require significant judgements in respect of the HM Treasury Group's business model, and changes to the HM Treasury Group's established fair value and provisioning models, methods and management judgements. The HM Treasury Group summarises below its expected approach to the classification and measurement, impairment and hedge accounting IFRS 9 requirements for financial instruments.

31.2 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 by HM Treasury.

31.3 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 listed in the Designation Order 2016-17 issued by HM Treasury. Core Treasury and Agencies include HM Treasury plus Office of Financial Sanctions Implementation and Office of Tax Simplification along with the UK Debt Management Office, National Infrastructure Commission[7] and the Government Internal Audit Agency who are recognised as executive agencies. 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	Deposit guarantee scheme
UKGI Financing plc	Not trading – dormant shell
UK Financial Investments Ltd	Manage government investments
UK Government Investments Ltd	Manage government shareholdings
Infrastructure Finance Unit Ltd	Provides infrastructure loans
IUK Investments Holdings Ltd	Investment in IUK Investments Ltd
IUK Investments 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	Issue of Sukuk

UKAR includes the consolidation of a number of Arm's Length Bodies relating to NRAM and B&B plc.[8]

Refer to Note 10 – Available-for-sale assets for HM Treasury's ownership interests in other entities, which are not discussed here.

31.4 Significant judgements and estimates

Date of recognition of sale of loans

As detailed in Note 8 – Gain on disposal of assets in the SoCNE on 31 March 2017 UKAR announced that following an open and competitive process B&B had agreed to sell two separate asset portfolios comprising performing buy-to-let loans for a total carrying value of £11.8bn to Prudential plc and to funds managed by Blackstone. The contracts for sale were signed on 30 March 2017. Financial completion, including receipt of the balance of the sale proceeds, occurred on 25 April 2017.

[7] National Infrastructure Commission is consolidated from 24 January 2017.

[8] http://www.ukar.co.uk/media-centre/press-releases/2016

The sale was recognised at the point of contract signature for the following reasons:

- contract signature committed all parties to the deal;
- the risks and rewards of the loans had passed to the buyers by this date;
- B&B was to continue to collect the cash flows arising on the loans until financial completion, but B&B was contractually obliged to pass the accumulated flows to the buyers at financial completion; and
- in the judgement of the Directors, at the point of contract signature although there remained conditions which were to be satisfied, the probability that the sale would not proceed to successful financial completion in accordance with the contractually agreed terms was remote.

At the point of contract signature the best estimate was recognised in respect of the amount of the sale proceeds and of the loss on sale. In the Financial Statements for the year to 31 March 2017 these amounts have been adjusted to reflect the final proceeds as determined on financial completion in April; this adjustment is considered to be an adjusting event as defined by IAS 10 'Events after the Reporting Period'.

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 26 – Financial risk, on page 134, 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 which 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. This judgement is made by UKAR and reviewed by UKFI.

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 £29m lower (2015-16: £40m) or £35m higher (2015-16: £47m) respectively.

Impairment of available-for-sale financial assets

In determining whether an impairment loss has been incurred in respect of RBS and Lloyds 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 rely on the application of professional judgment, historical experience, and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Provision balances which contain regular, homogeneous transactions are often derived from financial models. Estimates and assumptions applied in these models are continually evaluated and reviewed.

31.5 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.

31.6 Impairment of non-financial assets

Impairments are permanent diminutions in the service potential of non-current assets. All assets are assessed annually for indications of impairment. An impairment loss is recognised in the 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.

31.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with financial institutions net of bank overdrafts. Highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value are also included. Such investments are normally those with less than three months' maturity from the date of acquisition.

31.8 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 or loss. Derivatives, including separate embedded derivatives, are also classified as held for trading unless they are designated as hedges and subject to hedge accounting.
Loans and receivables	Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Those maturing in less than 12 months from the balance sheet date are disclosed within current assets, whist those with a maturity beyond 12 months are recorded within non-current assets.
Available-for-sale financial assets	Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held to maturity investments or financial assets 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 rate (EIR) method.

Fair value measurement

The Group measures certain 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 are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Note 31.4
Disclosures of fair value measurement hierarchy	Note 27
Financial Instruments	Note 28

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 (which 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.

De-recognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Group has transferred substantially all the risks and rewards 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.

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.

Assets carried at amortised cost

For financial assets carried at amortised cost, the Group first considers whether there is any objective evidence of impairment for those assets considered significant in their own right. For those assets which are not considered individually significant, these are assessed for evidence of impairment on a collective basis.

Loans and advances

Objective evidence of an impairment loss includes 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 any others which management consider to be individually impaired.

All loans that have been assessed as having no individual impairment are then grouped together with those of similar characteristics and assessed collectively. An assessment is made of possible impairments 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 available-for-sale, 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. In this case, significant is more than a 20% and prolonged is more than 6 months.

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 SoFP 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.

31.9 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 arising from past events, 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, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events; or it is a present obligation arising from past events but is not recognised because either an outflow of economic benefits is not probable to settle the obligation 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.

31.10 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 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.

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.

31.11 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 include ordinary and preference share capital. Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary.

On initial recognition, debt issued is measured at its fair value of directly attributable issue and transaction costs. Subsequent measurements are at amortised cost using the 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.

31.12 Financial Instruments: Financial Liabilities

Classification

Financial liabilities are classified on initial recognition as either at fair value through profit or loss, or financial liabilities measured at amortised cost.

Financial liabilities at fair value through profit or loss	Financial liabilities at fair value through profit or loss are liabilities held for trading or designated as at fair value through profit or 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 originate.

Measurement

Financial liabilities are measured amortised cost using the EIR method or at fair value through profit or loss.

Derivative Financial Liabilities

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, are discharged or cancelled.

31.13 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 68 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.

31.14 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 driven by UKAR's results for the year but includes HM Treasury UK Sovereign Sukuk plc and other subsidiary companies that fall within the charge to Corporation Tax.

31.15 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 more information refer to UKAR's Annual Report and Accounts.

31.16 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 OCI, 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.

31.17 Fair value hedge accounting

A fair value hedge is used to hedge exposures to variability in fair values, 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.

31.18 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 the SoCNE 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.

31.19 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 have been retained. The counterparty liability is included in cash collateral. Securities purchased under agreements to resell reverse repos are recorded as cash and cash equivalents. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the EIR method.

31.20 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.

31.21 Off-Balance Sheet loan commitments

Off-Balance sheet loan commitments are disclosed in Note 23 - 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.

31.22 Operating segment reporting

In accordance with the relevant reporting requirements, including IFRS 8, the Statement of Parliamentary Supply (SOPS) 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.

32. Events after the reporting period

32.1 Article 50

On 29 March 2017 the UK Government submitted notification to leave the EU in accordance with Article 50 of the Treaty on European Union (Article 50). Since the reporting date the negotiation process was formally launched on 19 June 2017 and the EU issued a position paper setting out their principles for the financial settlement. The negotiation process between the UK and the EU will last two years. During this period the UK remains a full member of the EU with full rights and obligations arising from membership.

The financial arrangements for the withdrawal from the EU remain subject to negotiation. Consequently, this is considered a non-adjusting event and there is no impact on 2016-17 financial statements.

32.2 UKAR B&B mortgage assets sale

On the 31 March 2017, the Chancellor announced the sale of UKAR’s B&B mortgage assets to Prudential plc and funds managed by Blackstone.

At the point of contract signature the best estimate was recognised in respect of the amount of the sale proceeds and of the loss on sale. In the Financial Statements for the year to 31 March 2017 these amounts have been adjusted to reflect the final proceeds as determined on financial completion in April; this adjustment is considered to be an adjusting event as defined by IAS 10 ‘Events after the Reporting Period’.

The sale proceeds of £11.4bn were received by B&B in full on 25 April 2017 reducing the Trade receivables (see Note 9); on 26 April 2017 the proceeds were subsequently used by B&B to repay £11bn of the Statutory Debt owed to the FSCS loans (effective date for the FSCS loan repayment was agreed as 25 April 2017), who in-turn repaid a mirror loan to HM Treasury.

B&B used the remaining £0.4bn in proceeds to repay a portion of the working capital facility provided by HM Treasury (see Note 8 – Gain on disposal of assets in the SoCNE).

HM Treasury subsequently surrendered the £11.4bn to the Consolidated Fund (Note 9 – Trade and other receivables and Note 11- Loans and advances).

32.3 Lloyds share sale

On 17 May HM Treasury sold its remaining Lloyds Banking Group ordinary shares, fully returning Lloyds Bank to the private sector. The proceeds from shares sold subsequent to 31 March 2017 were £948m.

Lloyds Banking Group ordinary shares sold after 31 March 2017	**£m**
April 2017	562
May 2017	386
Total proceeds	**948**

32.4 Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature. There were no changes to the financial statements between the date when the Accounting Officer signed the accounts and the date they were authorised for issue.

Trust Statement

Foreword to the Trust Statement

Introduction

The Trust Statement reports the revenue, expenditure, assets and liabilities related to the fines collected by HM Treasury from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) for the financial year 2016-17. The costs of running HM 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 HM Treasury after deducting its enforcement costs and requires HM 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 HM Treasury, which is required to pay those receipts to the Consolidated Fund. Further information on penalties applied by the PRA is available on the PRA website.

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 HM 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.

HM 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.

The governance statement and a full statement of Accounting Officer responsibilities to the Trust Statement and Resource Account is included within the main body of the report from page 41.

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 HM Treasury's Annual Accounts. No non-audit work was carried out by the auditors for HM Treasury.

Financial Review

HM Treasury has received £150m in fine income from the FCA (2015-16: £825m) and £27m from the PRA (2015-16: £nil). The reduction in FCA fines is due to less fines issued and collected, following a spike in penalties for foreign exchange and LIBOR manipulation in 2014-15 and 2015-16 which has not been repeated.

HM Treasury Trust Statement

THE AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I have audited the financial statements of HM Treasury Trust Statement for the year ended 31 March 2017 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue and Expenditure, 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 Trust Statement 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 2017 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
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

17 July 2017

Statement of Revenue and Expenditure

For the period ended 31 March 2017

In £m	Note	2016-17	2015-16
Net fine income	2	**177**	**825**
Net revenue for the Consolidated Fund		**177**	**825**

The notes on pages 161 and 162 form part of this statement.

Statement of Financial Position

as at 31 March 2017

In £m	Note	2016-17	2015-16
Current assets			
Receivable from the FCA/PRA		3	2
Cash and cash equivalents		-	-
Total assets less current liabilities		**3**	**2**
Balance on Consolidated Fund account	3	**3**	**2**

The notes on pages 161 and 162 form part of this statement.

Tom Scholar
Permanent Secretary

13 July 2017

Statement of Cash Flows

For the period ended 31 March 2017

In £m	Note	2016-17	2015-16
Net cash flow from operating activities	A	176	843
Cash paid to the Consolidated Fund		(176)	(843)
Increase in cash in this period		-	-

A: Reconciliation of net cash flow to movement in net funds

In £m	2016-17	2015-16
Net revenue for the Consolidated Fund	177	825
(Increase)/Decrease in non-cash assets	(1)	18
Net cash flow from operating activities	**176**	**843**

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 2016-17 FReM 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 £m.

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	2016-17	2015-16
Fine income from Financial Conduct Authority	150	825
Fine income from Prudential Regulation Authority	27	-
Net fine income	**177**	**825**

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	2016-17	2015-16
Balance on Consolidated Fund Account as at 1 April	2	20
Net revenue for the Consolidated Fund	177	825
Less amount paid to the Consolidated Fund	(176)	(843)
Balance on Consolidated Fund Account as at 31 March	**3**	**2**

4. Events after reporting date

There were no events after the reporting date.

Better Regulation

The Better Regulation framework principles have been embedded across the department and balanced with the Treasury's financial stability objectives. The Treasury has a constructive relationship with the Better Regulation Executive within the Department for Business, Energy and Industrial Strategy (BEIS), ensuring that the framework delivers on this agenda whilst making sure that the system is proportionate for all government departments.

The Small Business, Enterprise and Employment (SBEE) Act 2015 requires transparency on all regulatory provisions introduced during the Parliament and for the government of the day to publish a Business Impact Target (BIT) in respect of qualifying regulatory provisions that come into force or cease to be in force during the Parliament.

The Enterprise Act 2016 extended the provisions of the SBEE Act to bring a list of regulators in scope of the BIT. The list includes the Financial Conduct Authority and the Payment Systems Regulator, who must now also publish information on regulatory provisions that have been brought into force during the reporting period.

The implications of an early election meant that the government published an Interim Report on 26th April 2017, representing the best effort at producing a transparent record of new regulatory and deregulatory measures within the available timescales.[1]

Deregulatory Measures from the Previous Parliament

The Treasury has delivered significant deregulatory measures in the final Business Impact Target (BIT) reporting period of the 2016-17 Parliament, with the following measures coming into force before 8 June 2017:

- Digital cheques imaging; a significant deregulatory measure that will save businesses over £93.54 million per annum, and will deliver a wide range of benefits including faster clearing times of cheques and greater customer convenience
- Reforms to the 100 year old legislation on insurance contracts law which will help businesses save over £8.80 million per annum
- Removing the requirement for large businesses to complete a burdensome 'qualifying declaration' to bank with a non-ring-fenced bank and introducing a requirement for banks to inform their business customers if they are eligible to bank outside the ring-fence. This reduces an unnecessary burden on businesses, delivering £8.93 million of savings

1 The government will produce a more comprehensive report as soon as it is practicable to do so. The Interim Report can be found via the below link: https://www.gov.uk/government/publications/business-impact-target-bit-annual-report-2016-to-2017

- Creating a legal obligation for large firms to pay insurance claims within a reasonable time, which will deliver savings of £370,000 a year to businesses, and will benefit small businesses in particular
- Modernising limited partnership law so as to remove unnecessary administrative burdens and increase legal clarity for firms, delivering £400,000 worth of savings to businesses per year

Future Deregulatory Measures

In addition, the Treasury has laid legislation for a further significant deregulatory measure that will come into force in January 2018: amending the definition of financial advice. This will allow firms to provide more useful information to support customer decision-making, such as the merits and risks associated with buying and selling particular investments. This change is projected to save businesses £415 million per year.

The Treasury is also working with the Law Commission to reform Bills of Sale legislation. The Law Commission's final report and recommendations were published in September 2016, and in February 2017 the Treasury agreed to support the Law Commission in drafting primary legislation to enact the necessary reforms. Reform will reduce costs and unnecessary burdens on lenders, while increasing consumer protections.

Cutting Red Tape Reviews

In March 2017, the Better Regulation Executive published the 'Cutting Red Tape Review of the UK's Anti-Money Laundering (AML) and Counter Financing for Terrorism (CFT) regime'. The Review identified ways to improve the effectiveness of the supervisory regime by removing unnecessary burdens but without having a material impact on the fight against money laundering. In its response, the government set out its plans to reform the regime, especially to ensure supervisors operating in the same sector, and across the regime, adopt consistently high supervisory standards and to reform the approval process to simplify AML guidance, and sought further views on specific issues. These measures, and other reforms to the AML supervisory regime, will help ensure consistently high standards of supervision whilst minimising opportunities for money laundering and unnecessary burdens on businesses.

Sustainability Report

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

In its Departmental Business Plan, the Treasury has committed to:

- assess and manage environmental, social and economic impacts and opportunities in its policy development and decision making;
- deliver the actions in the business plan to increase environmental sustainability, including by increasing the proportion of revenue accounted for by environmental taxes;
- implement the department's plan to deliver on the Greening Government Commitments (GGC); and
- 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; and
- 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.

In addition the Treasury has identified where its commitments, policies and programmes contribute to the delivery of the government's Sustainable Development Goals

Place the public finances on a sustainable footing

Pass a law so that nobody working 30 hours on the Minimum Wage pays income tax on what they earn	Goal 1: End poverty in all its forms
Pass a new law so that once the Personal Allowance reaches £12,500, it will automatically rise in line with the National Minimum Wage (NMW)	Goal 1: End poverty in all its forms
Take the family home out of inheritance tax by increasing the effective Inheritance Tax threshold for married couples and civil partners to £1 million, with a new transferable main residence allowance of £175,000 per person, paid for by reducing tax relief on pension contributions for people earning more than £150,000	Goal 1: End poverty in all its forms
Bring in tax-free childcare to support parents back into work	Goal 5: Achieve gender equality and empower all women and girls
Return the public finances to balance at the earliest possible date in the next Parliament	Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Ensure the stability of the macroeconomic environment and financial system, enabling strong, sustainable and balanced growth

Support first time buyers who want to work hard, save up for a deposit and buy their own home	Goal 1: End poverty in all its forms
Continue to support the credit union movement in making financial services more accessible	Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Ensure the UK's financial services industry is the best regulated in the world with a new system of supervision by the Bank of England	Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Increase employment and productivity, and ensure strong growth and competitiveness across the UK through a comprehensive package of structural reforms	
Give businesses the most competitive taxes of any major economy	Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Support businesses by lowering taxes on jobs and enterprise	Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Invest over £100 billion in the UK's infrastructure over this Parliament	Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

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 Plan is aligned with the pan-government strategy and will be endorsed by the Treasury's Executive Management Board.

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 2016-17 programme of seminars included:

- Steve Elderkin, Deputy Director Analysis and Evidence at Defra to discuss the circular economy (ie the aim to recycle and recover waste rather than it following a linear route to landfill);
- Peter Atherton of Liberum Capital discussed energy investments. He asked "Why won't private investors fund energy projects in the UK and what can Government do about it?"
- Lord Browne held an informal discussion on UK energy policy; and
- Internally arranged discussion on why liquidity is low in GB electricity markets, and what can be done about it.

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 2016-17 the Treasury continued with its 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 have a low carbon footprint as they are obtained from British growers.

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 are still actively monitored and there has been an increase in the number of ladybirds from last year. 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 2016-17 the Treasury, 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 70%. The Treasury's water consumption has slightly increased from last year but the department is working towards the government benchmark of $6m^3$ per FTE.

Summary of performance against GGC targets in 2016-17

Key Target	Baseline	Movement	Actual
1. Reduce greenhouse gas emissions by 25%	4,216 tCO_2e	-70%	1,245 tCO_2e
2. Reduce waste by 25%	485 t	-67%	159 t
3. Reduce water consumption	14,810m^3	-21.9%	11,557 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 70% from its 2009-10 baseline figure of 4,216 tCO_2e. This has produced substantial savings in Treasury energy costs over the 7 year period.

Energy and CO_2 emissions

	2012-13	2013-14	2014-15	2015-16	2016-17
Electricity (mWh)	4,118	2,844	2,750	2,642	2,988
Gas (mWh)	285	87	35	31	29
Whitehall District Heating System (mWh)	1,833	1,082	1,005	710	768
Total CO_2 emissions (tCO_2e)[3]	**2,682**	**1,679**	**1,751**	**1,517**	**1,245**

Energy costs (£000s)

	2012-13	2013-14	2014-15	2015-16	2016-17
Electricity	362	302	268	271	591
Gas	2	2	1	1	2
Whitehall District Heating System	228	155	148	180	214
Total	**592**	**459**	**417**	**452**	**807**

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.

Cut domestic business travel flights by 20%

2016-17 saw a decrease in the total CO_2 emissions from travel. Domestic flights were down 41% from last year's figures and sit at a five year low. This is, in part, down to the departments role in educating 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

	2012-13	2013-14	2014-15	2015-16	2016-17
Fleet[4] (km)	13,561	21,119	35,156	34,813	43,428
Domestic rail (km)	555,577	536,316	731,257	636,084	601,652
Domestic flights (km)	218,706	204,640	314,809	255,425	142,095
Standard taxis[5] (km)	12,535	5,147	10,266	19,745	10,441
Hybrid taxis (km)	4,329	9,773	10,275	12,401	12,261
No. of domestic flights	345	314	372	389	229
Total CO_2 emissions (tCO_2e)	**78**	**67**	**92**	**79**	**50**

Travel Costs £000

	2012-13	2013-14	2014-15	2015-16	2016-17
Fleet (including Government Car Service)	214	235	274	309	252
Rail	358	351	410	339	310
Domestic flights	43	52	56	63	63
Taxis	53	57	47	74	57
Total	**668**	**695**	**787**	**785**	**682**

4 Fleet emissions relate to private individuals cars used for business purposes. Emissions do not include the government car service. In 2016-17 the c02 conversion factor changed and there sas increased travel to Norwich due to a one-off project.

5 Standard taxis include private hire, petrol or diesel and include people carriers or saloon cars. This does not include black cabs.

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 159 tonnes in 2016-17. This has been achieved with no waste being sent to landfill.

Waste (tonnes)

	2012-13	2013-14	2014-15	2015-16	2016-17
Waste incinerated with energy recovery	81	57	78	72	78
Waste recycled	101	84	69	51	75
Waste sent for anaerobic digestion	6	5	6	5	6
ICT waste recycled	19	-	-	-	-
ICT waste reused	1	-	-	-	-
Total	**208**	**146**	**153**	**128**	**159**

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

1 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.

2 Although paper consumption has increased in 2016-17, it remains significantly below the baseline figure of 27,030 reams of paper (A4 equivalent).

Paper consumption (reams)

Reams	2012-13	2013-14	2014-15	2015-16	2016-17
A4	13,435	11,225	14,052	15,358	15,794
A3	281	237	139	218	560
Total (A4 Equivalent)	**13,997**	**11,699**	**14,330**	**15,794**	**16,914**

Target 3: Reduce water consumption

In 2016-17 the Treasury's water consumption in 1HGR, calculated per FTE equivalent, was 10m³/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)

	2012-13	2013-14	2014-15	2015-16	2016-17
Total consumption	16,992	11,465	11,327	9,498	11,577
Per FTE	13	11	10	8	10

Water cost (£000s)

	2012-13	2013-14	2014-15	2015-16	2016-17
Total cost	32	23	23	36	44

The Treasury Group

Treasury Group Executive Agencies

Name	Function	Accounting Officer
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.	Robert Stheeman is the Accounting Officer and Chief Executive.
Government Internal Audit Agency	Officially launched on 1 April 2015, this body provides internal audit services to government departments	Jon Whitfield is the Accounting Officer and Chief Executive.
National Infrastructure Commission (NIC)	The Commissioners provide expert, impartial advice to the government on infrastructure, work with the Chair and each other to shape and develop the national infrastructure assessment and specific studies, and engage with the government, industry, interest groups and other stakeholders to promote the NIC and gather views on future infrastructure needs and solutions.	Phillip Graham is the Accounting Officer and Chief Executive.

Treasury Group Non Departmental Public Bodies

Name	Function	Accounting Officer
Office for Budget Responsibility (OBR)	Created in 2010, the OBR provides independent and authoritative analysis of the UK's public finances	Robert Chote is the Accounting Officer and Chairman.

Treasury Group Levy Funded Bodies

Name	Function	Accounting Officer
Financial Services Compensation Scheme (FSCS)	A single scheme to provide compensation in the event of authorised financial services firms being unable or likely to be unable to meet claims against it. The FSCS is operationally independent from the Treasury	Mark Neale is the Accounting Officer and Chief Executive.
Money Advice Service (MAS)	Established as an independent body accountable to the Financial Conduct Authority and HMT, MAS' aim is to provide information to the public on financial matters including on how the information to the public on financial matters, including on how the UK financial system works and personal financial management. It was announced in the 2016 budget that MAS will be restructured. MAS, the Pensions Advisory Service and Pension Wise (currently part of DWP) will be replaced with a single financial guidance body. The new body will go live no earlier than autumn 2018.	Caroline Rookes is the Accounting Officer and Chief Executive.

Treasury Group companies

Name	Function	Accounting Officer
UK Government Investments Limited (UKGI)	UKGI began operating on 1 April 2016 as a government company, wholly owned by HM Treasury, which brings together the functions of the Shareholder Executive (ShEx) (formerly part of the Department for Business, Innovation and Skills) and UK Financial Investments (UKFI) under a single holding company.	Mark Russell is the Accounting Officer and Chief Executive.
UK Financial Investments Ltd (UKFI)	UKFI is a wholly owned subsidiary of UKGI. It is responsible for managing the shareholding the government's shareholding in the Royal Bank of Scotland Group plc and the Lloyds Banking Group plc. It was established as part of the UK Government's response to the financial crisis.	James Leigh-Pemberton is the Accounting Officer and Chairman.
UK Asset Resolution (UKAR)	UKAR is the holding company established in October 2010 to bring together the business of Bradford and Bingley and NRAM plc. In October 2013 UKAR Corporate Services Ltd (UKAR cs), a subsidiary of UKAR became responsible for the administration of the government's Help to Buy mortgage guarantee scheme on behalf of the Treasury.	Ian Hares is the Accounting Officer and Chief Executive.

Treasury Group additional bodies

Name	Function	Accounting Officer
Sovereign Grant	The Treasury is responsible for the upkeep of the Sovereign Grant payments which support HM The Queen in her official duties. Introduced in 2012 this funding replaced the Civil List and the 3 grants in aid for travel, communications and the maintenance of the Royal Palaces.	The keeper of the Privy Purse and the Treasurer's Office has overall responsibility for the Sovereign's financial affairs. This post is currently held by Sir Alan Reid GCVO who is also the accounting officer for the Sovereign Grant.
The Royal Mint Advisory Committee on the Design, Seals Coins and Medals. (RMAC)	RMAC was established in 1922 by King George V to raise the standard of numismatic art and this remains its primary concern, It is responsible for recommendations on all new designs for UK coins and official medals.	As the Chief Executive of the Royal Mint, Adam Lawrence is also the Accounting Officer for the RMAC.
Office of Tax Simplification (OTS)	As an independent office of the Treasury, the OTS provides the government with independent advice on simplifying the tax system	As Director General, Tax and Welfare in the Treasury, James Bowler is Accounting Officer for the OTS.
Office of Financial Sanctions Implementation (OFSI)	The Office of Financial Sanctions Implementation helps to ensure that financial sanctions are properly understood, implemented and enforced in the United Kingdom.	As Accounting Officer for the Treasury, Tom Scholar is also Accounting Officer for OFSI.

ISBN 978-1-4741-4853-5