HM Treasury

Annual Report and Accounts 2017-18

HC 1109

July 2018

HM Treasury

Annual Report and Accounts 2017-18

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This is part of a series of departmental publications which, along with the Main Estimates 2018-19 and the document Public Expenditure: Statistical Analysis 2018, present the government's outturn for 2017-18 and planned expenditure for 2018-19.

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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 2017 to March 2018 (inclusive), and is split into 4 main sections:

- the **Performance Report** includes a summary of progress and key milestones achieved during 2017-18 (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 2018, and additional information designed to enable readers to understand these results
- the **Trust Statement** provides a record of fine income collected by Treasury on behalf of government during the financial year.

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Foreword by the Exchequer Secretary to the Treasury

Since joining the Treasury in January this year it has been my pleasure to be here during a significant turning point in the UK's recent history. While negotiations towards the UK's exit from the EU continue, it has never been more important for the Treasury to evaluate the economic impact and initiatives needed to support individuals and businesses and to create the most favourable conditions for the UK's economy to grow in the years ahead.

Our economy is resilient; employment is at a record high; we are creating more start-ups than any other country in Europe and must continue to build the enterprise culture that encourages entrepreneurship and the economic model that helps businesses grow and realise ambitions. However, our productivity, particularly in small and medium-sized businesses, lags behind our major competitors and we cannot sustain our successes if we allow that to persist.

The productivity opportunity of today is to drive awareness and adoption of new digital technologies which will transform every business as well as public services in the years ahead. That is why the Chancellor created the £31 billion National Productivity Investment Fund to be a campaign on four fronts: to invest in the digital and logistical networks that connect businesses and people together; to re-shape our education system for the digital age with an additional £260 million investment in maths and computer science education and to work with employers to develop respected standards of apprenticeship and introduce technological qualifications for 16-18 years year olds; to increase access to finance for business, with the British Business Bank now providing more than £4 billion to over 65,000 smaller businesses; and to maintain a highly competitive tax environment for business people, reducing corporation tax to 19%, maintaining enterprise incentives such as SEIS, EIS, Entrepreneurs Relief and R&D tax credits as well as the Patent Box to back new ideas and technology for the benefit of all.

Not since the financial crisis of the last decade has it been more important to assure individuals and businesses that the UK economy will continue to recover and prosper as we stick to our fiscal rules and continue to reduce debt; and I am proud of the Treasury's commitment to provide this assurance. The department has grown to over 1,300 staff in the past year to meet the challenge of leaving the EU while continuing to deliver on the four objectives of its Single Departmental Plan, including the upcoming 2019 Spending Review. Within this it is important to note its progress towards maintaining diversity in its workforce and encouraging the development and progression of staff from all backgrounds.

In the year in which Jane Austen has been recognised on the new £10 bank notes, it is fitting to recall her words as underpinning the positive steps taken by the Treasury towards its goals: "It isn't what we say or think that defines us, but what we do."

We will continue to deliver our vision for post-Brexit Britain: an open dynamic, evolving market economy, that works for everyone.

I am confident of the Treasury's ability to provide excellent support to ministers in the delivery of their duties, and I know it will continue to do so as we move through 2018-19 and beyond.

Robert Jenrick
Exchequer Secretary to the Treasury

29 June 2018

Chapter 1

Performance Report

Performance overview

The Treasury is the government's economics 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 taking a balanced approach, reducing the deficit and getting debt to fall while investing in Britain's future; 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: Rt Hon Elizabeth Truss MP (Chief Secretary), Mel Stride MP (Financial Secretary), Robert Jenrick MP (Exchequer Secretary) and John Glen MP (Economic Secretary).

In order to achieve these goals, the Chancellor set the department 3 objectives for 2017-18:

- 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
- 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 1,300 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.

Key issues and risks

The Treasury faces a range of risks in its dual role as the UK's economics and finance ministry and 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 government's economics and finance ministry, the department must react to events in the global and UK economy, and ensure the sustainability of the public finances. As a central government department and employer the department must ensure its budget is allocated appropriately in order to meet its objectives and must act to ensure value for money and to deliver on its duty of care to staff and others.

Over the course of the year, the Executive Management Board and directors have actively considered such risks as part of the Treasury's Risk Management Framework. This Framework enables the identification and management of risks to the department's four strategic objectives, as set annually in the Single Departmental Plan (SDP) and set out in the Performance Analysis. The Key Performance Indicators used to assess performance against these objectives are set out below. The Governance Statement provides further detail.

Overview of Treasury Group resources

The Treasury's finances

Treasury Group Financial Position as at 31 March 2018 (31 March 2017)[1]

Derivative financial assets
£40.8bn (£51.2bn)

Investments
£26.4bn (£26.2bn)

Loans to banking customers and assets held for sale
£17.2bn (£19.5bn)

Other loans and advances
£3.3bn (£3.6bn)

Inventories, cash and other current assets
£2.6bn (£15.1bn)

PPE, intangibles and other non-current assets
£1.7bn (£1.8bn)

Total assets £92.0bn (£117.4bn)

Debt securities in issue
£0.2bn (£0.2bn)

Derivative financial liabilities
£0.5bn (£0.5bn)

Provisions
£1.5bn (£1.4bn)

Other payables and financial liabilities
£1.4bn (£1.7bn)

Financial guarantee liabilities
£0.2bn (£0.2bn)

Total liabilities £3.7bn (£4.0bn)

Treasury Group Net Assets

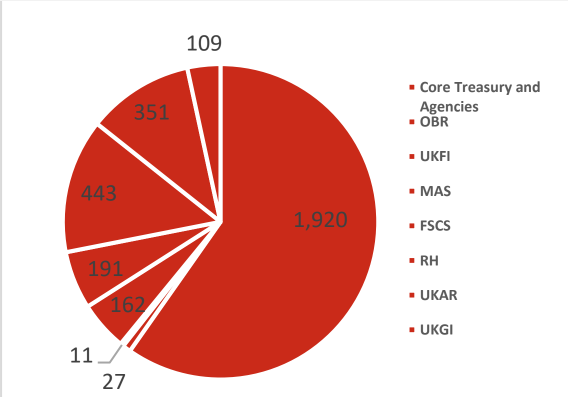
£88.3bn
(£113.4bn)

Treasury Group financial performance in 2017-18

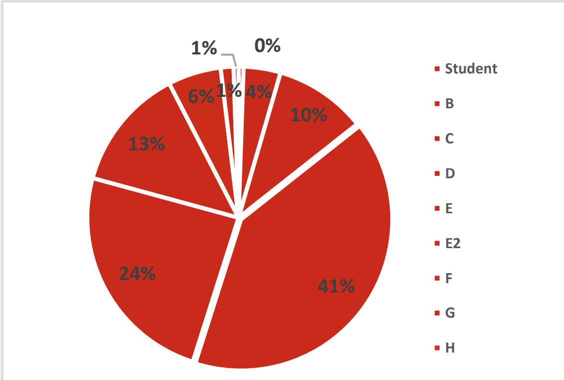
In £m	2017-18 Estimate	2017-18 Outturn
Resource DEL	237	226
Resource AME	24,187	(679)
Capital DEL	18	(78)
Capital AME	(2,993)	(3,697)

[1] Further information on the Treasury Group's Consolidated Statement of Financial Position can be found in the Financial Statements on page 117. Prior year (2016-17) comparatives are shown in brackets.

Treasury Group average number of persons employed 2017-18[2]



Core Treasury grade split at 31 March 2018



Treasury key performance indicators April 2017 – March 2018

Public sector net debt (PSND) as a percentage of GDP	
This is a stock measure of the public sector's net liability position ie 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 Office for Budget Responsibility (OBR) forecast shows the government is on track to meet two years early. Public sector net debt is forecast to have peaked in 2017-18 at 85.4%, and is forecast to fall to 77.9% by 2020-21. *Source*: Office for National Statistics Public Sector Finances and Office for Budget Responsibility

Cyclically-adjusted Public Sector Net Borrowing (CAPSNB) as a percentage of GDP	
Cyclically adjusted PSNB is a measure of the level	The government's fiscal mandate is to reduce

2 Throughout this document the term 'Core Treasury and Agencies' includes the following Agencies: the UK Debt Management Office (DMO), the Government Internal Audit Agency (GIAA) and the National Infrastructure Commission (NIC).

of borrowing if the economy was operating at full capacity (e.g. adjusting for the current position in the economic cycle).	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 2022-23, 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 1.9% of GDP in 2017-18, and was forecast by the OBR to fall to 0.9% of GDP in 2022-23. *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 2017. At the 2018 Spring Statement the OBR forecast the UK's economy to grow by 1.5% in 2018 and 1.3% in 2019. *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, peaking at 3.1% in November 2017. It has subsequently fallen to 2.5% in March, and the OBR forecast it to continue to fall over 2018, reaching 2.1% by Q4. It is then expected to remain around the 2% target. *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 75.6% and we currently have the third highest employment rate (15-64) in the G7 (74.4%) after Germany (75.6%) and Japan (75.7%). *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 £183.2 billion in 2017. This was 9.3% of GDP. In 2017, business investment increased by 2.4 per cent. *Source:* Office for National Statistics

Growth in input per hour	
Growth in output per hour is the main indicator of productivity growth.	Productivity growth has slowed globally since the financial crisis, but in the UK the slowdown has been more acute: slowing from an average rate of 2.1% a year in the decade before the crisis to just 0.2% a year since. *Source:* Office for National Statistics

Snapshot of Treasury activity in 2017-18

April

- Increases in Personal Allowance and Higher Rate Threshold come into effect
- New market-leading investment bond launched by NS&I

May

- Chancellor speaks at the Belt and Road Forum in Beijing
- Sale of the last of the government's shares in Lloyds
- Operating Committee created to handle operating issues and freeing up more EMB time, chaired by Charles Roxburgh

June

- Ministerial appointments and reappointments following the General Election: Rt Hon Mel Stride MP as Financial Secretary to the Treasury and Paymaster General, Stephen Barclay MP as Economic Secretary, Elizabeth Truss as Chief Secretary to the Treasury and Andrew Jones as Exchequer Secretary to the Treasury
- Baroness Neville-Rolfe steps down as Commercial Secretary to the Treasury
- Chancellor delivers his Mansion House speech, setting out his priorities for the economy
- Mike Driver appointed to Treasury Board and Treasury Board Sub-Committee as head of the government finance function

July

- Launch of New Digital Infrastructure Fund with the Infrastructure and Projects Authority
- The Royal Mint strikes the billionth new £1 coin
- Dave Ramsden announced as Deputy Governor at the Bank of England
- Taylor Review of modern working practices published
- OBR publish the Fiscal Risks Report
- Whole of Government Accounts 2015-16 published
- HM Treasury Annual Report and Accounts 2016-17 published
- Chancellor visits Brazil and Argentina to strengthen economic and trade ties

August

- New National Investment Fund to help cutting-edge British start-ups proposed and consultation launched on financing growth in innovative firms
- Beth Russell announced as new Director General Tax & Welfare
- New customs proposal laid out by government in paper on future relationship with EU
- One millionth Help to Buy: ISA opened

September

- Lord O'Neill steps down as Commercial Chancellor meets with North of England's Metro Mayors to discuss boosting growth across the Northern powerhouse regions
- UK and Singapore hold 3rd financial dialogue
- Finance Bill 2017 published
- Richard Hughes takes on the role of Acting Chief Economic Advisor on an interim basis

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 Trade and Customs White Paper published
- Chancellor attends IMF, G20 and G7 meetings in Washington
- Round pound ceases to be legal tender

November

- Over 160 firms sign up to HM Treasury's Women in finance Charter
- Sir Michael Barber publishes the Public Value Review
- Taxation (Cross-border Trade) Bill introduced in Parliament
- The Budget
- Finance (No.2) Bill 2017 introduced

December

- Treasury’s Single Departmental Plan 2017-18 published

January

- Charles Randell CBE appointed Chair of the Financial Conduct Authority, effective from 1 April 2018
- Robert Jenrick MP appointed Exchequer Secretary to the Treasury, John Glen MP appointed Economic Secretary to the Treasury
- Clare Lombardelli appointed as Chief Economic Advisor, taking up post on 3 April
- European Union (Withdrawal) Bill completes passage through the Commons
- Patient Capital Review is published

February

- Anne Jessop appointed as chief executive of the Royal Mint (the first female CEO in its one-thousand-year history)

March

- First Spring Statement
- Finance (No. 2) Bill receives Royal Assent
- International FinTech Conference

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 officials:	**Dave Ramsden**, Director General, Chief Economic Advisor (until September 2017) **Richard Hughes**, Acting Director General, Acting Chief Economic Advisor (from September 2017)
KPIs:	PSND as a percentage of GDP CAPSNB as a percentage of GDP PSNB as a percentage of GDP
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, and brings 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 Investments Ltd (UKFI) UKFI, incorporated in 2008, was established to manage the government's investments in banking sector assets following the financial crisis. On 31 March 2018 UKFI ceased trading and transferred its activities to its parent UKGI, which has assumed responsibility for continuing UKFI's mandate.
Office for Budget Responsibility (OBR) Created in 2010 to provide independent and authoritative analysis of the UK's public finances, the OBR is an Executive Non-Departmental Public Body (NDPB) sponsored by the Treasury.	Government Internal Audit Agency (GIAA) GIAA was officially launched on 1 April 2015, and provides assurance to Accounting Officers that financial management practices meet required standards.
Debt Management Office (DMO)	UK Asset Resolution (UKAR)

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.	UKAR is the holding company established in October 2010 to bring together the businesses of Bradford & Bingley plc (B&B) and NRAM (formerly Northern Rock (Asset Management) plc).

Delivering the government's fiscal mandate

The government is committed to the fiscal rules set out in the 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 in the 2016 Autumn Statement, 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 2017-18 the department continued prioritising spending control within the public sector, providing oversight of major public service expenditure, delivering the 2015 Spending Review and working with the Devolved Administrations on tax and spending issues.

The Office for Budget Responsibility's (OBR) March 2018 fiscal forecast 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 2017-18[3] the government made further progress in reducing the deficit as a percentage of GDP. Between 2016-17 and 2017-18 it has fallen from 2.3% to 2.1%. This means that, since 2010, the government has reduced the deficit by three quarters, from 9.9% in 2009-10.

In the 2016 Autumn Statement the Chancellor announced that in future he would hold a single fiscal event each year: a Budget to be held in the autumn. The government recognised that the previous cycle of two fiscal events per year increased the frequency with which tax and spending announcements were made throughout the year. This arguably contributed to a significant degree of churn and uncertainty in the tax system. The move to a single fiscal event was welcomed by economists and tax experts, including the International Monetary Fund, the Institute

[3] Office for National Statistics, March 2018 Public Finances bulletin, published 24 April 2018

for Government, the Confederation of British Industry, the Chartered Institute of Taxation and the Institute for Fiscal Studies.

The 2017 Autumn Budget was the first Budget in this new cycle, followed by the 2018 Spring Statement. In the Spring Statement the OBR produced an updated fiscal and economic forecast but the government did not make tax or spending announcements. The government launched several consultations, indicating the direction of policy travel and allowing stakeholders to engage in policymaking at the early stages of the process. By reducing the volume of churn in the tax system, and allowing stakeholders to engage in the early stages of policy making, the government believes that the move to a single fiscal event will help establish a more stable, considered and open approach to tax policymaking.

Fiscal transparency and risk management

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 eight years, while also producing a number of reports that fulfil its duty to examine and report on the sustainability of the public finances. In 2016 the Prime Minister asked the International Monetary Fund (IMF) to conduct a Fiscal Transparency Evaluation of the UK. The IMF 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*".

The OBR published its first Fiscal Risks Report (FRR) on 13 July 2017 in accordance with the 2015 revisions to the Charter of Budget Responsibility. The report highlights the key risks to the public finances over a medium (five year) and long-term (50 year) horizon. It includes chapters on risks from the macroeconomy, financial sector, receipts and spending, the balance sheet and debt interest, as well as a fiscal stress test showing the combined impact of several risks materialising at once.

Its publication in July 2017 put the UK at the forefront of international practice in fiscal risk disclosure and management. The IMF said that the FRR "*raises the bar on the assessment and quantification of fiscal risks to a new level that other countries should look to meet*".

The Government will produce a response to the FRR in the summer of 2018, outlining progress in managing the 57 risks outlined in the original report.

Government Finance Function

HM Treasury plays a critical role in leading the work of the Government Finance Function, building on the success of the Financial Management Reform programme. The functional vision and strategy have been refreshed to better align with key work priorities, supported by a new central team structure providing increased leadership capacity and strengthening the functional centre. This includes the appointment of Mike Driver as the head of the Government Finance Function and the creation of a new Director post at the Treasury, to lead the department's work.

Standing teams in the Treasury have continued to deliver costing projects, working in collaboration with other government departments. These have driven insight in cross-cutting areas of public spending and helped to build capability across

Whitehall. Work has begun on a data strategy for government finance, which aims to bring about a step-change in the quality of financial data across government to support better informed decision-making. Technological upgrades to OSCAR (a cross government consolidation finance system) have strengthened the business continuity of the service to finance teams across government.

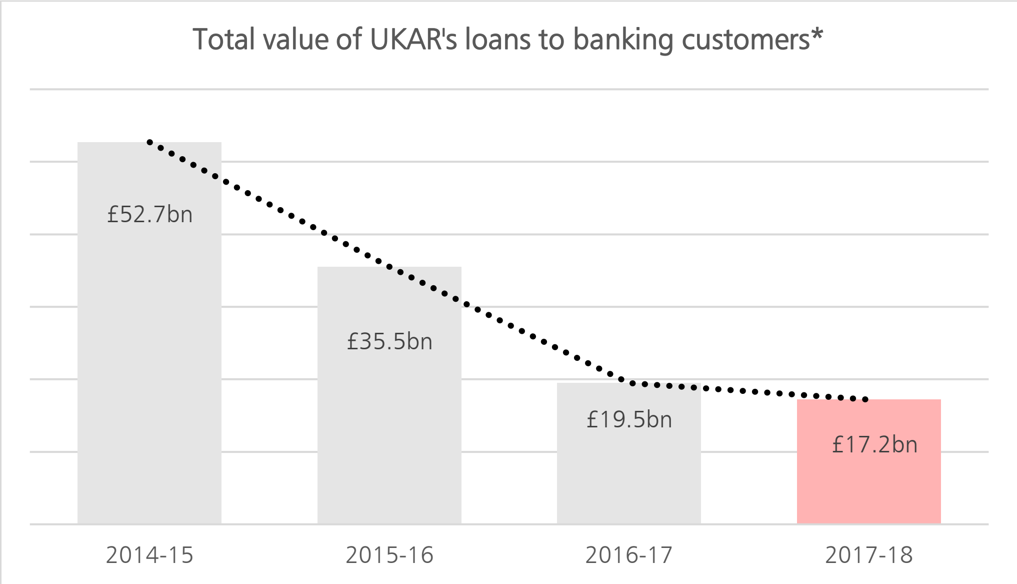
The Treasury has worked closely with the Cabinet Office on embedding and developing Single Departmental Plans to support improved financial planning across government, as well as the development and rollout of a planning maturity model to help departments self-assess their planning capability and identify areas for development.

Wider areas of Treasury work on financial management have included the launch of the Balance Sheet Review, working with departments to identify opportunities to improve the management of the government's assets and liabilities in areas such as estates optimisation, improving returns on investments and reducing the costs of liabilities. The 2016-17 Whole of Government Accounts (WGA) were published in June a one month improvement from the previous year. The WGA consolidates the audited accounts of over 7,000 organisations across the UK public sector and is a comprehensive record of what the government spends, receives, owns, owes and is committed to.

The Treasury has also continued to co-ordinate and work collaboratively with central function teams based in other departments including the Ministry of Justice, the Cabinet Office and the Department of Health and Social Care. Key achievements across these teams have included the launch of the 'Excellence in Finance Business Partnering' handbook, the development and implementation of finance Key Performance Indicators (KPIs) for global processes, and the launch of the Government Finance people offer.

Returning taxpayers' investments in distressed financial institutions – the sale of loan assets

During 2017-18 the Treasury made further progress in returning financial sector assets acquired in 2008-09 to the private sector. In the 2017 Autumn Budget, the government announced that it expects to divest the remaining Bradford & Bingley (B&B) and NRAM (formerly Northern Rock (Asset Management) plc) loans by March 2021, subject to achieving value for money and market conditions remaining supportive. In 2017-18 UK Asset Resolution (UKAR) completed an £11.8 billion sale of B&B loans recognised at the end of 2016-17, the first of two 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. The second phase of sales were launched in 2017-18 and completed in May 2018.



*Includes assets held for sale

The government fully exited its shareholding in Lloyds Banking Group in May 2017, recouping £21.2 billion in total, almost £900 million more than the initial investment made in 2009. In September 2017, the European Commission formally approved an alternative package of measures to resolve Royal Bank of Scotland's (RBS) final state aid commitment. The agreement and implementation of the alternative package will boost competition in the UK small and medium-sized enterprises (SMEs) banking market whilst resolving one of the remaining legacy issues hampering sales of the government's shareholding.

In the 2017 Autumn Budget, reflecting the progress made on RBS' legacy issues, the government announced its intention to recommence the privatisation of RBS by March 2019, as part of a programme of sales delivering around £15 billion by 2022-23. See further Note 33 of the Accounts below on events after the reporting period.

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 Advisor until September 2017 **Richard Hughes**, Acting Chief Economic Advisor from September 2017 **Mark Bowman**, Director General International and EU
KPIs:	GDP CPI inflation
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 in the 2016 Budget that MAS will be restructured along with the Pensions Advisory Service and Pension Wise into a single financial guidance body.	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 Financial Policy Committee (FPC) remit in the 2017 Spring Budget and published the Monetary Policy Committee (MPC) remit in the 2017 Autumn Budget. Alongside the publication of the FPC remit, recommendations were made to the Prudential Regulation Committee (PRC) and the Financial Conduct Authority (FCA), 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 in the 2017 Autumn Budget that within the MPC's remit the government's economic objective continued to be strong, sustainable and balanced growth.

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 Prices Index (CPI). In the 2017 Spring Budget, the Chancellor 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 FCA 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.

As part of the move to a single fiscal event each year, the annual remits for the Bank's Financial Policy Committee and Monetary Policy Committee will be reaffirmed in Autumn Budgets.

Transition to the new £1 coin

The transition to the new £1 coin has been successfully completed. Production of the new coin started in March 2016. Communications campaigns to prepare business and the public for the new coin were launched in October 2016 and January 2017. At the introduction of the coin on 28 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. Over 1.1 billion new £1 coins have been issued into circulation.

Following a further extensive communications campaign, including a partnership between HM Treasury, The Royal Mint and the BBC Children in Need charity, 1.5 billion round £1 coins have been removed from circulation. This met the number targeted and represented the same proportion of coins removed from circulation as in previous recoinages of other, high-value coins. The round £1 coin was formally demonetised on 15th October 2017. The returned coins are being securely disposed of by the Royal Mint.

Financial stability and structural reform

During 2017-18, the Treasury continued its work with the PRA and FCA to ensure that UK banks are becoming ring-fencing compliant. Ring-fencing requires the largest UK banks to separate into a ring-fenced (retail) bank and a non-ring-fenced (investment) bank by January 2019. Ring-fencing will increase financial stability by insulating core banking services from shocks originating elsewhere in the global financial system, and by ensuring that a ring-fenced bank can keep running even if the non-ring-fenced bank fails.

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 major UK government corporate finance negotiations, and acting as shareholder for, and leading establishment of, UK government arm's-length bodies, as required and in line with HMT priorities. UKGI began operating on 1 April 2016, with UKFI as its subsidiary. The merger was completed on 1 April 2018, combining the knowledge and expertise of the two organisations, with UKFI ceasing to exist as a separate entity. HM Treasury has updated its Framework Document with UKGI, retaining the power to set UKGI's strategy, objectives and appoint board members.

Europe

The Treasury made progress in negotiations with the EU on separation issues, in particular the Financial Settlement, in the run up to the December 2017 European Council on the wider Withdrawal Agreement in March 2018, and on the terms of a time-limited implementation period which minimises uncertainty.

During 2017-18 the Treasury worked closely with the Department for Exiting the European Union (DExEU) and departments across government on the UK's exit from the EU to support the government's objective of a deep and special partnership with the EU. This included publishing a joint Treasury/HMRC/DExEU future partnership paper in August 2017 which set out the government's aspirations for the UK's future customs arrangements. This considers two broad approaches to a future customs relationship with the EU that would facilitate the UK's objectives: a highly streamlined customs arrangement; and a new customs partnership with the EU. Additionally, in March 2018 the Chancellor set out a vision on including financial services in a free trade deal with the EU. This is grounded in mutual recognition and outcomes-based equivalence, with proper governance structures, dispute resolution and a collaborative dialogue. Finally, the Treasury has continued to work with other government departments on economic analysis to inform and underpin decisions on the future relationship 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.

In the 2017 Autumn Budget the Treasury made an additional £3 billion of funding available over the next two years – £1.5 billion in each year – so that departments and the Devolved Administrations can continue to prepare effectively for Brexit. In the 2018 Spring Statement, the Treasury published the departmental allocations of EU Exit funding for 2018-19[4].

EU withdrawal: the financial settlement

The UK formally notified the EU of its intention to leave the Union by triggering Article 50 on 29 March 2017. The terms on which the UK will leave, including any financial settlement payable by the UK towards commitments and liabilities that the EU entered into when the UK was a member state, will be determined by the withdrawal agreement under Article 50 and become legally binding when ratified. The negotiations are ongoing.

On 8 December 2017, the UK and EU negotiators published a Joint Report on progress during the first phase of the negotiations.[5] The report covered the components of the financial settlement and the principles for their valuation. In January 2018, the Chancellor of Exchequer wrote to the Treasury Select Committee outlining the details of the agreement in the Joint Report[6] and setting out a reasonable central estimate of the value of the settlement of £35-39 billion (€40-45 billion).

On 19 March 2018, the UK and EU negotiators published a draft withdrawal agreement,[7] which translated the Joint Report into a draft legal text.

On 20 April 2018, the National Audit Office published a report on the financial settlement.[8] The NAO's report assessed the reasonableness of this estimate and identified issues for the Treasury to consider in managing the risks attached to the settlement.

International

The government also continued to protect and promote the UK's global interests through engagement with bilateral and multilateral partners.

The Treasury furthered UK international priorities through its influence at the G20, G7 and international financial institutions. This included:

- hosting a week of G20 and private sector infrastructure events in London to support the Argentine presidency of the G20

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4 https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-03-13/HCWS540/

5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/665869/Joint_report_on_progress_during_phase_1_of_negotiations_under_Article_50_TEU_on_the_United_Kingdom_s_orderly_withdrawal_from_the_European_Union.pdf

6 https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/2017-19/Correspondence-from-the-Chancellor-of-the-Exchequer-relating-to-the-UK-EU-Withdrawal-financial-settlement-dated-24-January.pdf

7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/691366/20180319_DRAFT_WITHDRAWAL_AGREEMENT.pdf

8 https://www.nao.org.uk/wp-content/uploads/2018/04/Exiting-the-EU-The-financial-settlement.pdf

- sharing UK best practice and expertise and encouraging collective action to close the global infrastructure gap
- working with international partners to promote the PM's commitment to make a global economy that works for everyone
- championing international action on issues such as tax transparency, debt and trade in service liberalisation
- encouraging collaboration and greater understanding on issues affecting the New Economy, such as digitalisation and crypto assets
- working with international financial institutions such as the IMF, AIIB and EBRD to take forward UK international economic goals.

The government remains committed to enhancing economic relationships with high-growth emerging markets such as China, India and Brazil. The Chancellor met his counterpart, Vice-Premier Ma Kai, for the 9th UK-China Economic and Financial Dialogue in December 2017. This included announcements to deepen the UK-China trade, investment and economic relationships. Both sides agreed to accelerate preparations for launch of the London-Shanghai Stock Connect, committed to launch feasibility studies into a UK-China bond connect and mutual recognition of funds and announced the award of new operating licences. Members of the UK-China Financial Services Summit delivered joint market recommendations to both governments and the Bank of England and People's Bank of China convened for their inaugural Joint Symposium.

The Chancellor met Indian Finance Minister Jaitley in April 2017 for the 9th India-UK Economic and Financial Dialogue. They announced progress on the joint India-UK Green Growth Equity Fund, a sub-fund of the Indian National Investment and Infrastructure Fund. Deeper collaboration on FinTech was also announced including regulatory co-operation between the Reserve Bank of India and the Financial Conduct Authority.

The second UK-Brazil Economic and Financial Dialogue was held in July 2017 between the Chancellor and Finance Minister Meirelles. Announcements included a new UK-Brazil Green Finance Partnership including business-to-business co-operation, support for Brazil's application to the OECD and liberalisation of sectors including infrastructure and financial markets.

Senior officials also engaged in a series of dialogues focusing on co-operation in financial services in key markets. The third UK-Singapore Financial Dialogue was held in Singapore in September 2017, and included discussions on FinTech, cybersecurity, market access and Brexit continuity. The fourth UK-Korea Financial Forum was held in Seoul in November 2017. The sixth UK-Hong Kong Financial Forum was held in Hong Kong in December 2017.

The Financial Services Trade and Investment Board (FSTIB) published its Annual Report in November 2017. Chaired by HM Treasury, FSTIB brings together senior figures from government and industry to advance the UK's international trade and investment agenda on financial services. The Annual Report details progress made over the 2016-17 year across the Board's seven work streams: the UK-US, UK-China, and UK-India financial partnerships, as well Capital Markets, Fintech, Investment Management, and Insurance.

The second International FinTech Conference took place on 22nd March 2018. Attended by over 120 FinTech firms and over 500 investors, the Conference showcased the UK FinTech sector to an audience of both international and domestic investors with the aim of boosting investment and the UK's international competitiveness in this area. The Conference featured the signing of the UK Australia FinTech Bridge by the Chancellor and Australian Treasurer Scott Morrison. This is the most ambitious bridge to date and will make it easier for FinTech firms to move between the two markets.

The Financial Action Task Force (FATF) – which is the standards setter for anti-money laundering, counter terrorist financing and other associated threats – is in the process of assessing the UK against these standards, as part of its regular peer review assessment cycle. This intensive process culminates in a published report, known as a Mutual Evaluation Report (MER). HM Treasury leads the UK delegation to the FATF and is managing the MER process together with the Home Office. In preparation for the UK's evaluation, HM Treasury submitted written evidence to the FATF in Autumn 2017. HM Treasury also hosted a team of FATF assessors conducting an onsite assessment in the UK in March 2018, where they tested the effectiveness of the UK's regime through interviews with UK government departments, law enforcement agencies, AML/CTF supervisors and the private sector to test compliance with the FATF standards and the effectiveness of AML/CTF measures. The UK's MER will be published in late 2018.

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 **Beth Russell**, Director General Tax and Welfare (from 02/08/17) **James Bowler,** Director General Tax and Welfare (until 07/05/17)
KPIs:	UK employment rate Business investment as a share of GDP Growth in input per hour
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 established at the 2016 Autumn Statement to provide sustained and targeted investment in areas critical for improving productivity: economic infrastructure, housing and R&D. At the 2017 Autumn Budget the Chancellor expanded the NPIF to £31 billion and extended it to 2022-23, to give departments and industry long-term planning certainty and to underpin the government's new Industrial Strategy.

Over £24 billion of the NPIF has been allocated to date. This includes:

- £740 million for digital infrastructure, to mobilise the market to develop full-fibre broadband networks and 5G capacity

- £7 billion for R&D, which will support the government's ambition of increasing the R&D intensity of the economy to 2.4% of GDP by 2027
- £4.9 billion for transport, including a £1.7 billion Transforming Cities Fund, designed to drive productivity by improving intra-city transport and reducing congestion
- £11.5 billion for housing, to unlock more homes in high demand locations so that people can live near the best job opportunities for them.

In the 2016 Autumn Statement the government established the National Infrastructure Commission (NIC) to provide expert advice and independent recommendations to meet the country's strategic infrastructure needs.

This year will be a defining one for the NIC, as their first once-in-a-Parliament National Infrastructure Assessment (NIA) will be published in July 2018. This will cover all economic infrastructure sectors, and make recommendations on UK infrastructure investment needs over the next 30 years.

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.

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. The Competition and Markets Authority (CMA) is the UK's competition authority, and has a duty to promote competition for the benefit of consumers. The CMA is an independent non-ministerial government department, which is funded directly by HM Treasury and sponsored by the Department for Business, Energy and Industrial Strategy (BEIS). The CMA's most recent impact assessment found that they delivered £18.60 in direct financial benefits for consumers for every £1 they spend. In the 2017 Autumn Budget the CMA was given an extra £2.8 million to increase their enforcement activity, which will further enhance their impact in increasing competition in markets and cracking down on businesses breaching competition law.

In support of competition in the Financial Services sector, the government launched its first Fintech Sector Strategy on 22 March 2018. This strategy removes barriers to entry and growth for FinTech firms. Fintech has helped to promote competition in the UK's Financial Services sector, stimulating firms to offer products and services to consumers that are better value, higher quality or more innovative than their competitors. Fintech also benefits the wider economy, with Fintech firms targeting markets that are underserved by incumbents, particularly in generating new lending for small businesses and supplying the vitally important capital that fuels economic growth across the UK.

In 2017, HM Treasury transposed the Second Payment Services Directive, which came into effect on 13 January 2018. This creates the regime that enables new Fintech firms to be regulated for the first time. This regulatory regime is supported by the implementation of the CMA's Open Banking project which entered a managed rollout on 13 January 2018 and provides a secure way for these firms to access customer accounts.

The UK is home to the world's most international financial centre. Ensuring the UK continues to form strong capital market ties with the world's fastest growing economies is vital to building closer and richer financial relationships with key partners of the future. International bond issuances through London's capital markets are an important channel for achieving this and there has been growth in Indian bond listings in London, as well as a feasibility study into the creation of a UK-China bond market connect arrangement.

In December 2017, HM Treasury published the Investment Management Strategy (IMS) II, setting out the government's long-term approach to strengthen the UK's global brand for asset management and create an environment in which firms can deliver the best possible outcomes for investors. The overall strategy for HM Treasury, in collaboration with industry, is to ensure that the UK remains a globally competitive location for asset management.

Recognising the opportunities presented by the global transition to a low carbon economy, the Economic Secretary established and co-convened the Green Finance Taskforce with BEIS minister Claire Perry MP. The taskforce's report, 'Accelerating Green Finance', sets out recommendations to government and industry on scaling up investments in the UK's green economy and ensuring the UK remains the world's leading centre for green finance.

As part of the government's aim to support growing businesses, in response to the Patient Capital Review, the government launched a 10-year action plan in the 2017 Autumn Budget to unlock over £20 billion to finance growth in innovative firms. Measures include setting up a new £2.5 billion investment fund incubated in the British Business Bank that will co-invest with private investors, unlocking £7.5 billion of public and private investment. As well as doubling the Enterprise Investment Scheme (EIS) annual investment limit for knowledge intensive companies and their investors and a consultation on a new EIS fund structure for investment in knowledge intensive companies, HM Treasury has also established a Pension Investment Taskforce to look at how to remove any barriers holding back pension funds from investing in patient capital.

Furthermore, in the 2017 Autumn Budget, the government announced further business rates reductions worth £2.3 billion over the next five years, including bringing forward the switch to CPI indexation to April 2018, addressing the so-called 'staircase tax', continuing the £1,000 discount for smaller pubs and increasing the frequency of property revaluations to every three years following the next revaluation, so that bills more accurately reflect current rental values. To ensure ratepayers benefit from more frequent revaluations at the earliest point, the Spring Statement 2018 announced the next revaluation will be brought forward by one year to 2021.

Boosting the economy in the nations and regions

Over the reporting year HM Treasury, working with others, has continued to deliver on the government's objectives to strengthen the Union and to deliver shared growth and prosperity across the UK. In December, the department published, for the first time, a breakdown of changes in the devolved administrations' block grant funding from 2015 to the present to increase transparency.[9]

Scotland

Scotland benefitted from a £2 billion boost to the Scottish government's budget in 2017-18 alongside further targeted support. This included legislation to allow Police Scotland and Scottish Fire and Rescue Service to claim VAT refunds in the Finance Act 2018 and introducing a Transferable Tax History mechanism which will encourage investment in the North Sea.

The UK government also made progress on city deals in Scotland. This included announcing the Edinburgh City Deal, opening negotiations for a Borderlands Growth Deal, and continuing to support the Tay Cities and Stirling and Clackmannanshire City Deals. In addition, the Prime Minister also announced the formal beginning of talks for an Ayrshire Growth Deal in March 2018. In total, the UK government has announced £1 billion of funding for the delivery of City Deals in Scotland.

Full devolution of non-savings and non-dividends income tax rates and thresholds in Scotland (excluding the personal allowance) commenced in April 2017, making the Scottish Parliament more accountable to the people it serves.

Wales

The Welsh government benefitted from a £1.2 billion increase to its budget in the 2017 Autumn Budget. This included over £65 million of additional spending power in recognition of relative funding needs in Wales.

The UK government is continuing to support a growth deal in both North Wales and Mid-Wales to boost investment and productivity across Wales and is also delivering on our commitment to invest £615 million over 20 years for the Cardiff and Swansea City Deals.

The UK government also continues to support transport infrastructure in Wales. The Severn Crossing has come back into public ownership and tolls were reduced from the beginning of 2018. The government is also investing in rail, for example, infrastructure upgrades that will provide direct services from Pembroke Dock to London via Carmarthen and considering proposals to improve journey times on the Wrexham-Bidston line.

Full devolution of property and landfill taxes commenced in April 2018, empowering the Welsh Assembly to make decisions and to be more accountable to the people it serves.

Northern Ireland

In the 2017 Autumn Budget, Northern Ireland benefitted from an increase of over £660 million to the budget of the Northern Ireland Administration and further targeted support. This included a commitment to open negotiations for a City Deal

9 https://www.gov.uk/government/publications/block-grant-transparency-december-2017-publication

for Belfast, the first city deal in Northern Ireland, as part of the commitment to a comprehensive and ambitious set of city deals across Northern Ireland.

The government also confirmed its commitment to devolve the power to set the rate of Corporation Tax in Northern Ireland, subject to a restored Executive demonstrating its finances are on a sustainable footing.

In the 2018 Spring Statement, the UK government published a call for evidence considering the impact of VAT and Air Passenger Duty on tourism in Northern Ireland. Following requests from the Northern Ireland Civil Service to draw down funding committed in the Financial Annex to the Confidence and Supply Agreement, HM Treasury made available £20 million in 2017-18 following Parliament's authorisation in the Supplementary Estimates and will make a further £410 million available for 2018-19.

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 is a continuous programme of improvement across the department. In March 2017 the Executive Management Board set out their priorities for 2017-18 and for creating a more open, inclusive and diverse department. This work was taken forward under four 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

- The Treasury provided inclusive leadership training to all senior staff and increased director accountability for diversity through objective setting
- The department also continued its talent offer for junior staff from under-represented groups and commissioned a review of the graduate recruitment programme to identify how it could increase the diversity of the graduate intake. This was completed in March 2018 and action will be taken on the recommendations over 2018-19
- In addition, the department will develop new targets for internal progression of staff into the SCS from under-represented groups.

Openness

Making us a transparent organisation that truly listens and understands public and stakeholders' needs

- The Treasury began a programme of visits across the country to help increase engagement and gather views to inform policy making. This programme will continue over 2018-19 and will include a number of initiatives to improve the sharing of information and ideas within the department.

Work-life balance

Making us an organisation that champions good work-life balance for all staff, encouraging and supporting flexible working

- A quarterly survey of staff has been rolled out to monitor wellbeing and help identify the key levers to help improve staffs' work-life balance
- Over 2018-19 the department will take action on these key levers, including clear messaging and support for flexible working and a pilot of a localised flexible resourcing model.

Skills and management excellence

Embedding the learning and development strategy and improving our management capability

- The Treasury has set up development programmes for the policy professions and created management awards to recognise best practice
- Over 2018-19 more work will be done to signpost development opportunities for other Treasury professions, improve the quality and quantity of feedback and review the appraisal process for 2019-20.

In addition to the above work streams, in response to the 2017 staff survey, a new work stream has been established on workspace, to modernise the department's facilities and produce a long-term strategy to create a professional workspace that meets the Treasury's future needs.

Recruitment

Key Treasury recruitment campaigns in 2017-18 included:

- two graduate recruitment campaigns which brought in around 160 policy advisers at Treasury Range D, joining in two cohorts in April and September
- two Director General campaigns (Tax and Welfare, and Chief Economic Advisor), and four Director campaigns (Office of Financial Sanctions Implementation, Personal Tax, Welfare and Pensions, Business and International Tax and Strategy, Planning and Budget)
- Significant work to plan for the introduction of new policy apprentices into the Treasury. This has led to a recruitment drive for 15 new apprentices, to start later in 2018.

The Treasury introduced a new recruitment platform in 2018 with the aim of improving efficiency, and data integrity. To support the greater representation of diversity in the workforce, the Treasury uses name and school blind recruitment for external recruitment into the department. The department has also completed an external audit of graduate recruitment practices to identify further areas for improvement, and will begin implementing these recommendations from 2018-19 onwards.

In addition, the Treasury has supported interchange opportunities, including loans to and from other government departments, and 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.

Reward and recognition

The Treasury is continuing to make the department's reward strategy simpler, fairer and better aligned to its workforce priorities, as in 2016-17. To achieve this, the department has focused on reducing overlap between pay ranges, raising grade minima, shortening pay ranges, and targeting money to where it is most needed to build a fairer system overall, within the public sector pay policy. Treasury is also committed to minimising the gender pay gap within the organisation.

The department has a policy of recognising 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

- special non-consolidated awards paid in-year to staff to recognise exceptional performance for specific contributions or pieces of work during the year.

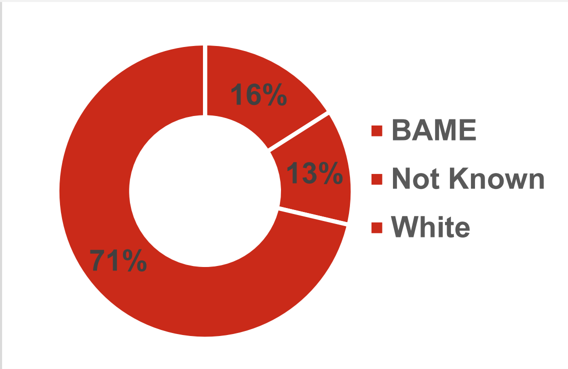
This is in line with practice across the Civil Service and the private sector. Due to the nature of the performance appraisal system, annual performance awards are paid in the year following the one in which the individual's performance was assessed as exceptional.

The Treasury, like other government departments, published its first annual report on the gender pay gap in December 2017 (see page 33 for further details).

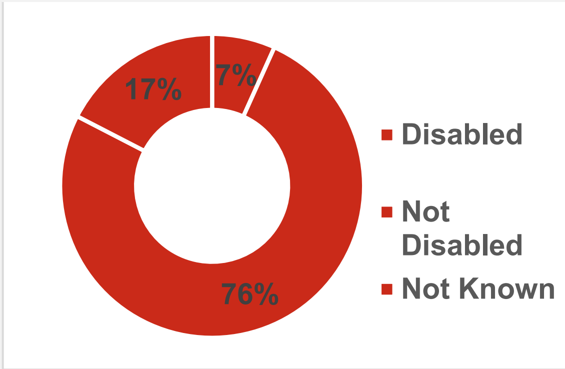
Diversity

The Treasury seeks to promote a culture which values difference and recognises that diversity enriches the economy and society. The department's diversity statistics are shown on the next page.

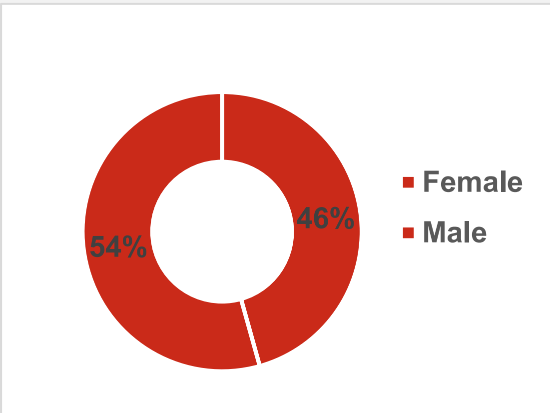
Core Treasury diversity at 31 March 2018



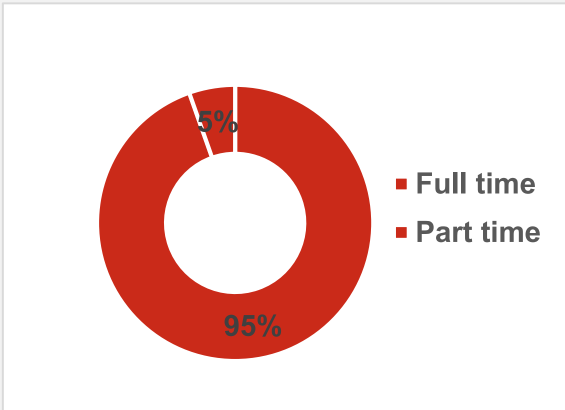
Core Treasury diversity at 31 March 2018



Core Treasury diversity at 31 March 2018



Core Treasury diversity at 31 March 2018



The Treasury has a four-year *Diversity and Inclusion Action Plan* (2016-20) detailing actions to ensure the Treasury improves representation, particularly in the Senior Civil Service, on women, employees with a disability, BAME employees and employees from lower socio-economic backgrounds. This work is aligned closely with the Civil Service wide diversity and inclusion agenda.

Focus	Progress
Leadership	Being inclusive and championing diversity is a priority for the Treasury's Senior Civil Servants. To support this

	priority, the Treasury has been running Inclusive leadership workshops for its senior civil service. The majority of the Treasury's SCS have attended this training and new members of the SCS will also have the opportunity to attend this training to learn what more they can do to create a culture where everyone feels valued.
Disability	The Treasury has reached Disability Confident Leader Level 3 and was assessed as meeting this standard by the Business Disability Forum. The Diversity and Inclusion Action Plan (2016-20) seeks identify the barriers for staff with disabilities, and find solutions to support career progression. The Treasury continues to run Disability Confident Manager training courses to ensure managers know how to support colleagues with a disability and to raise awareness of support available for employees with a disability. The Treasury is also committed to ensuring equality of opportunity for all disabled staff, so applicants for positions at the Treasury are invited to notify the organisation if special arrangements are required to enable them to participate in the recruitment process.
Ethnicity	The Treasury has continued to embed its BAME Talent offer in collaboration with its employee 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.
Social Mobility	In 2017 the Treasury took part in the first Social Mobility Employer Index, which ranks employers according to the actions they are taking to be open to accessing and progressing talent from all backgrounds. Around 100 UK employers took part and HMT was ranked 40th. Following this work the Treasury has considered what more can be done in this area and is taking forward a survey to establish an evidence base on the socio-economic background of its employees.
Mental Wellbeing	An employee-run Mental Wellbeing Network has been in place for five years. The Network runs seminars on mindfulness, monitoring staff stress and anxiety levels, and providing training to volunteers to become specialist mental wellbeing supporters.

Bullying and harassment	The 2017 people survey indicated that 9% of employees felt they had experienced bullying and harassment, and 8% experience discrimination. Senior management consider any bullying or harassment in the workplace to be unacceptable. Particular focus was given to areas in the department where incidents were higher by developing action plans, setting up fair treatment Champions, and running anti bullying and harassment awareness raising throughout the year.
Outreach	The Treasury has (i) worked with the National Mentoring Consortium, a programme that provides support to Black and Asian undergraduates planning managerial and professional careers (ii) participated in the Civil Service-wide Diversity Internship programme and (iii) in conjunction with London Youth the Treasury run a 3 day familiarisation programme in London for 15-17 year olds to introduce them to the workplace and the work of the Treasury and provide career guidance.
Development programmes	In 2017-18, the Treasury continued to run a development programme, Prospects, for business support staff and promoted participation in the "Positive Action Pathway", a Civil Service-wide development programme for employees from under-represented groups, alongside the Catalyst programme to support staff in the transition to the Senior Civil Service.

Additionally, in accordance with the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, HM Treasury publishes the department's gender pay gap data annually. The most recent report was published in respect of 2016-17[10] and includes mean and median gender pay gaps (3.4% and 14.6% respectively); the mean and median gender bonus gaps (20.7% and 10.0% respectively); the proportion of men and women who received bonuses (40% and 35% respectively); and the proportions of male and female employees in each pay quartile (men: 48% quartile 1, 49% quartile 2, 57% quartile 3, 51% quartile 4; women: 52% quartile 1, 51% quartile 2, 43% quartile 3, 49% quartile 4).

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 continues to meet the Civil Service Health and Wellbeing Champion's 5 Civil Service Wellbeing Priorities that were signed up to in the previous year. In addition, a sense check was completed by the department against recommendations made in the Prime

[10] https://www.gov.uk/government/publications/hm-treasury-gender-pay-gap-report-2016-to-2017/gender-pay-gap-report-2016-2017-hm-treasury-group

Minister's independent review 'Thriving at Work' that was published in October 2017. A plan of actions was scoped and work has commenced to provide even better support to all HM Treasury employees including those with mental ill health or poor wellbeing, so they remain in and thrive at work.

The department has also taken action to help prevent the onset of musculoskeletal disorders in its employees by carrying out numerous Display Screen Equipment assessments and drop in sessions so individuals understand the best way to sit at their workstation and appropriately adjust their chairs. This is important in a hot desking environment.

Using the Cross-Government Framework, the department tendered for new contracts to deliver Occupational Health, Employee Assistance Programme and Eyecare services. All contracts are now in place for the next three years.

During 2017-18 there were 10 Accident, Near Miss or Work Related Ill Health reports compared to five in the previous year. The reports detailed five falls on steps, three falls on flat surfaces, one accident at an external team event and one near miss incident. Five of these accidents were reported to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations. Follow up action is underway internally relating to falls on steps to help prevent further accidents from occurring.

Staff survey

The Treasury uses its annual staff survey results as an indicator of progress on staffing matters. In October 2017, the department took part in the annual Civil Service People Survey and, with a 94% response rate, the department can have a high level of confidence in the results. The departmental results show 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 61%, and when just the highest performing organisations are considered, the department is 9% more engaged than its peers in this category. In addition to measuring levels of engagement, the survey takes views on 85 questions across 19 themes. The 2017 scores show an improvement across 2 themes (Engagement Index; Pay and Benefits). However, the scores for four themes (My work; My team; Resources and Workload; Leadership and Managing Change) have suffered a reduction of between 1-2 percentage points this year. Overall the Treasury's scores are well above the Civil Service High Performers.

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 the Treasury's risk management is in the Governance Statement from page 50 and Note 27 to the financial statements.

Summary of key financial risks

Type of risk	Relates to	Carrying amount (£ billion)	Note to the Accounts
Credit risk	UKAR loans to banking customers	12.3	12
Credit risk	Loans and advances	3.3	11
Credit risk	Financial guarantees	0.2	22
Price risk	RBS shareholding	21.8	10
Market risk	BEAPFF	40.8	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 and discussed in detail at the Operating Committee and then agreed at the Audit and Risk Committee.

The Treasury's Audit and Risk Committee agreed minor changes to the plan throughout the year reflecting changes in HM Treasury's assurance needs and key risks, and by 31 March 2018 Internal Audit had issued 23 audit reports and 5 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 2017-19 parliamentary session to date, Treasury ministers responded on or before the parliamentary deadlines in relation to 99% of the 1,809 ordinary written questions received; 99% of the 1,061 named day questions received; and 99% of the 337 Lords written questions tabled to the department.

In addition to questions from individual Members of Parliament during the 2017-19 session, ministers and officials appeared at various Committee sessions, including:

House of Commons Treasury Committee hearings	
Work of the Chancellor of the Exchequer	October 2017
Budget: Autumn 2017	December 2017
HM Treasury Annual Report and Accounts	January 2018
Childcare	January 2018
Women in Finance	March 2018

Work of the Chancellor of the Exchequer	April 2018

Source: House of Commons Treasury Committee

House of Commons Public Accounts Committee hearings	
Hinkley Point C	October 2017
Brexit and the Border	November 2017
Government borrowing	November 2017
Whole of Government Accounts	November 2017
Exiting the EU	December 2017
PF1 and PF2	March 2018
Implementing EU Exit: the financial settlement	April 2018

Source: House of Commons Public Accounts Committee

Scrutiny by the public – correspondence and information requests

In the calendar year 2017, the Treasury replied to 11,424 items of correspondence: 6,489 from MPs (ministerial correspondence) and 4,935 direct from members of the public (treat official correspondence). 77% of the replies sent by Treasury Ministers to MPs were answered within the Treasury's 15-working day deadline, an improvement of two percentage points on the 2016 performance.

In 2017, the department received 1,105 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 95% of these cases, an increase from 92% in 2016.

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 2016-17 in December 2017.

This report sets out that 1 complaint within the Treasury Group was accepted for investigation during 2016-17, relating to the Equitable Life Payment Scheme. During 2016-17 no complaints were upheld, partly or in full.

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:

- Progress in delivering the One Mission, One Bank strategy – June 2017
- HM Treasury's economic analysis in the lead up to the referendum on European Union membership – July 2017
- First sale of shares in Royal Bank of Scotland – July 2017
- Whole of Government Accounts 2015-16 – July 2017
- Contribution to Bank of England Review – managing the potential conflicts of interest – August 2017
- Investigation into the management of the Libor Fund – September 2017
- The Nuclear Decommissioning Authority's Magnox contract – October 2017
- Evaluating the government balance sheet: borrowing – November 2017
- The Administration of the Scottish rate of income tax 2016-17 – November 2017
- Green Investment Bank – December 2017
- A short guide to HM Treasury 2017 – December 2017
- PFI and PF2 – January 2018
- Exiting the European Union – financial settlement – April 2018

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 184.

Sustainability

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

Following the commitment by the PM to remove all single-use plastics from government departments, HM Treasury initiated a strategy to deliver on this and other environmental issues, such as waste, water usage and electricity usage, in the Spring. This includes:

- Increasing the discount for using own coffee cup from 9p to 20p
- Introducing a 9p discount for using own reusable tub for takeaway food in the canteen
- Selling reusable coffee mugs at the Treasury café
- Selling reusable takeaway food containers in the Treasury canteen
- Allowing porridge and soup to be purchased in a reusable mug

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 186.

Non-financial information

During 2017-18, HM Treasury had no reportable incidents relating to anti-corruption and anti-bribery matters. Issues of social matters and respect for human rights are addressed through this report's separate disclosures on diversity and disability.

Tom Scholar
Permanent Secretary

29 June 2018

Chapter 2
Accountability Report

Corporate Governance Report

Report from the Lead Non-Executive Board Member

The Treasury has continued its focus in 2017-18 on the formal process of exiting the European Union, supporting negotiations on the Withdrawal Agreement. Particular focus has been on the Financial Settlement and on the terms of a time-limited implementation period. In addition, the department has worked closely with others to articulate proposals to allow the government to meet its aspirations for the UK's future customs arrangements. In his Mansion House speech on 21 June this year, the Chancellor re-iterated his vision for financial services in a free trade deal with the EU, highlighting the importance to the UK's economic success of being open to the world and a global leader in finance.

This year saw the introduction of the Autumn Budget on 22 November in the move to a Single Fiscal Event. The decision was widely welcomed by economists and tax experts as a means to establish a more stable, considered and open approach to tax policy-making. The Spring Statement on 13 March included an updated fiscal and economic forecast from the OBR and launched a number of consultations.

The department has expanded this year to reflect additional work to support our EU exit and stands at 1,360 today. I'm pleased to see that, in spite of continuing challenges and workload, the Treasury staff survey results show that staff are as motivated, engaged and as interested in their work as ever. In fact, staff engagement has increased to 74%, which is well above the civil service average.

In March 2017, the Executive Management Board set out the focus for the Treasury change programme, Building a great Treasury. Over the year, good progress was made across the four work-streams: Diversity and Inclusion; Openness; Work-life Balance; and Skills and Management Excellence. In response to the staff survey this year, a new work-stream has been set up to improve workspace for staff. The non-executives have been impressed with the Department's commitment to, and progress with, this important multi-year initiative. As discussed by the non-executives and leadership team over the past year, and given the increased pressures on the department, it must continue its focus on workforce strategy, particularly recruitment and retention, capacity and skills development (including bringing in specialist expertise and experience), agility, prioritisation and work-life balance.

This year, the Government Finance function was brought into the Treasury to create a strong centre of financial management at the heart of government. To lead the

10,000 finance professionals across government, Mike Driver was appointed as head of the function and Veronica Povey to a new Director post as his deputy.

In line with the recommendations from the 2016-17 Board Effectiveness Evaluation, the Treasury Board expanded its remit to provide increased scrutiny and challenge of the Treasury's arm's lengths bodies (ALBs). This year we had detailed meetings with the senior teams at both NS&I and the National Infrastructure Commission, in addition to the regular ALB risk reporting. This work was supported by the introduction of a new, enhanced risk management framework that seeks to improve the effective identification, assessment and management of risk across the whole Treasury Group. The non-executives have welcomed the continued improvements in risk and performance reporting.

At the senior level, there have been a number of changes within the department. James Bowler was appointed Director General Public Spending in succession to Julian Kelly, and Beth Russell was appointed Director General Tax and Welfare to replace James Bowler. Following Sir Dave Ramsden's departure, Richard Hughes stood in as interim Chief Economist. The Treasury Board are grateful to him for doing such an excellent job. After an external recruitment campaign, Clare Lombardelli has been appointed as Chief Economist to the Treasury. I am delighted to say that the Treasury's Executive Management Board reached gender parity during the year, and that amongst the Treasury's two most senior grades below Permanent Secretary (Director and Director General), the Treasury has met its 2020 target of 50% women. This progress shows the importance of setting targets and relentlessly measuring progress in order to achieve real change.

Throughout the year, the non-executives have contributed their experience, expertise and time to the department in a wide variety of areas. Their approach continues to be one of independent oversight—of challenge and support. I would like to thank all of them for their contributions to Board meetings. I know they will continue to help the department focus on both the risks and opportunities in the months and years ahead.

There have been changes in the non-executive team as well this year. Our lead non-executive, Baroness Sarah Hogg, has come to the end of her term. Sarah has brought great political insight and commitment to the non-executive team and will be much missed by both the Treasury team and her non-executive colleagues. Since her departure in December, I agreed to act as interim lead non-executive until a replacement is appointed, and I must admit that Sarah has proved a very hard act to follow. A recruitment is currently taking place to replace Sarah and me, as my term ends this coming September. Given the expanding portfolio of the department, an additional non-executive is being sought to expand the non-executive team.

In closing I would like to pay tribute to a Department with whom I have worked over several decades, for the past six years as a Board member. It has been a great privilege to work with a Department of such highly talented, highly professional and totally committed individuals, focused on doing the very best they can for the country, and I wish them all the very best for the months and years ahead.

Dame Amelia Fawcett
Interim Lead Non-Executive Board Member

29 June 2018

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 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 devolved responsibility for a defined range of departmental work to supporting ministers,[1] who as at 31 March 2018 were:

- The Chief Secretary to the Treasury: Elizabeth Truss
- The Financial Secretary to the Treasury and Paymaster General: Mel Stride
- The Economic Secretary to the Treasury and City Minister: John Glen
- The Exchequer Secretary to the Treasury: Robert Jenrick

From 1 April 2017 to the Election in June 2017 and from June 2017 to January 2018 the Chancellor was supported by ministers as outlined in the Remuneration and Staff report on page 66.

Non-Executive Board Members

The Treasury's Non-Executive Board Members provide challenge to help shape the 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. Outside of the formal meetings, individual members have shared their commercial and professional expertise across the Treasury including on the cross-government management accounts, the Single Departmental Plan (SDP) and the £1-coin project.

Baroness Sarah Hogg stepped down from the Board on 31 December 2017, after seven years as the lead non-executive. Dame Amelia Fawcett's second (and final) term ends in September 2018. A recruitment process is underway to replace them and to appoint an additional non-executive so the department will have five non-executive board members in 2018-19. Following Baroness Sarah Hogg's departure, Dame Amelia Fawcett has acted as interim lead non-executive until a replacement is appointed. Richard Meddings re-appointment for a second term of three years was approved by the Prime Minister. Richard's appointment now runs until 30 June 2020.

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

Baroness Sarah Hogg – Lead Non-Executive Director to 31 December 2017

Appointed: 31 December 2016 (one year extension to second term). Appointment finished 31 December 2017.

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 was Chair of the Financial Reporting Council 2010-14 and Chairman of Frontier Economics 1999-2013. 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: Senior Independent Director of the Financial Conduct Authority; Chairman of the Audit Committee for the John Lewis Partnership; National Director Times Newspapers; Trustee for the Queen Elizabeth Diamond Jubilee Trust; Non-executive Director BG Group; Member of the Takeover Panel.

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

Dame Amelia Fawcett – Interim lead non-executive (from January 2018)

Appointed: 1 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 of the Standards Board for Alternative Investment (formerly 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.

Richard Meddings

Appointed: Reappointed 1 July 2017 (second term).

Experience: Richard was also appointed as Audit and Risk 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 eight years. Richard is a chartered accountant and worked in the banking industry (including at Hill Samuel, Barclays, Woolwich and Credit Suisse) in his early career.

Other roles: Non-Executive Director TSB (September 2017 - present) and Chairman from 1 February 2018; Non-Executive Director, Deutsche Bank AG (October 2015 - present); Non-Executive Director JLT plc (September 2017 - present); Non-Executive Director Teach First (February 2016 - present). Financial Reporting Review Panel in FRC (2008 – 2018) and Board member of International Chambers of Commerce UK (2007 – present); Non-executive Director, Legal & General plc (December 2014 to May 2017); Non-executive Director and Senior Independent Director of 3i Group plc (2008-2014) and chair of Audit and Risk Committee; and Main Board Director (2002-2014) and Group Finance Director (2006–2014) Standard Chartered PLC.

Committees: Treasury Board; Treasury Board Sub-Committee; Nominations Committee and Chair of the Audit and Risk 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: Member of the Board of Trustees of Royal National Theatre; Chair of the Audit Committee of the Football Association;
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 and Risk Committee.

The Permanent Secretary and the senior civil service

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. The Permanent Secretary was Tom Scholar throughout 2017-18.

Charles Roxburgh is the Second Permanent Secretary. He chairs the Executive Management Board's Operating Committee.

There are five Directors General (DG) in the Treasury (as at 31 March 2018) who act as senior policy advisers to the Chancellor on specific areas:

- Mark Bowman, DG International and EU
- James Bowler, DG Public Spending
- Katharine Braddick, DG Financial Services
- Beth Russell, DG Tax and Welfare
- Richard Hughes, Acting Chief Economic Adviser.

James Bowler was appointed DG Public Spending in succession to Julian Kelly on 8 May 2017. To ensure sufficient management oversight, James continued as DG Tax and Welfare while a recruitment was undertaken to appoint a successor. Following a Whitehall-wide competition Beth Russell was appointed as DG Tax and Welfare and took up post on 2 August 2017.

Following the departure of Dave Ramsden on 4 September 2017, and while a recruitment was undertaken, Richard Hughes was appointed as Acting Chief Economic Adviser on an interim basis. The recruitment has now concluded and Clare Lombardelli has been appointed. Clare took up post on 3 April 2018.

Treasury's internal structure

The Treasury is divided into 13 Director led groups.

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

HM Treasury Executive Management Board (at 31 March 2018)

Permanent Secretary:	Tom Scholar
Second Permanent Secretary:	Charles Roxburgh
Directors General:	James Bowler
	Mark Bowman
	Beth Russell
	Katharine Braddick
	Richard Hughes
Directors:	Katherine Green (Operations Director)
	Sophie Dean (Finance Director)
	Clare Lombardelli (Director, Strategy, Planning and Budget).

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 43 and 44. Richard Meddings declared his appointment as Non-Executive Director and chairman of TSB and as TSB is a direct competitor with NS&I, one of the department's arm's length bodies, mitigation was put in place to ensure that Richard isn't involved in any discussion or receives any papers relating to NS&I. This mitigation was specifically exercised at a Treasury Board Sub-Committee during the year.

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 2017 showed 58% of staff were aware of how to raise a concern under the Civil Service Code and 83% were confident that if a concern was raised it would be investigated properly.

The department has three nominated officers responsible for investigating staff concerns that are raised confidentially.

During 2017-18 the department received one internal whistleblowing concern relating to a procurement. This was investigated in accordance with the department's internal policy.

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 and Parliament can be found from page 35 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 the Treasury can be found on page 36.

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 31 of the financial statements. There is no remuneration for the value-for-money work.

Workforce reporting

The Treasury's workforce is critical to its ability to operate effectively, it relies on the expertise of its staff, their hard work and dedication. Information on sickness absence, off payroll engagements and staff pension costs is within the Staff Report on pages 77 to 85.

Personal data

One protected personal data incident in the department was reported to the Information Commissioner's Office during 2017-18. Three internal emails on the same subject were mistakenly sent to a third-party email account on three consecutive days. The emails contained a number of email addresses external to government.

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 2017 numbers 310 and 1256 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note 32.3 to the accounts).

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

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

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

HM Treasury appointed the Permanent Secretary 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 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.

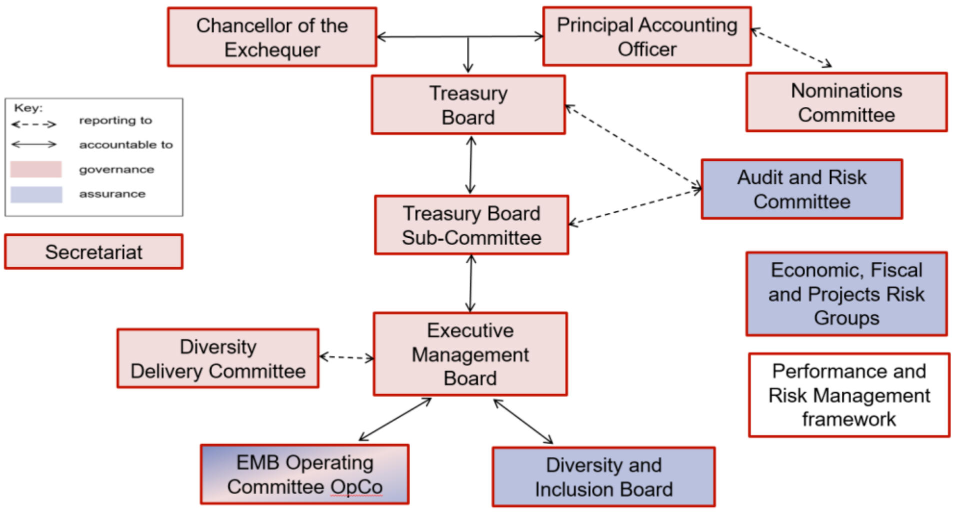
I also confirm that this annual report and accounts as a whole is fair, balanced and understandable, and I take personal responsibility for judgements made to ensure that it is fair, balanced and understandable.

Governance Statement

The Governance Statement is a personal statement by the Principal Accounting Officer, outlining his role and responsibilities, and recording the stewardship and risk management undertaken within the department. It also 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.

The Treasury Board and its committees



The Treasury Board

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

The Board draws on the experience of attendees to provide advice, support and challenge to the effective running of the department in relation to performance, 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.

The Board met once during 2017-18. The session covered the priorities and challenges facing the department along with resourcing. The meeting also reflected on the move to a single fiscal event, the service ministers receive from the department, the Finance Function work being overseen by the department and the expanded remit of the Audit and Risk Committee.

Board effectiveness evaluation

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

The department has however decided to defer its Board Effectiveness Evaluation until the new Lead Non-Executive, replacing Baroness Hogg whose appointment came to an end in December 2017, is appointed. Deferring the Effectiveness Evaluation will ensure the views and input of the new Lead Non-Executive are included.

The department has implemented the recommendations from last year's evaluation including expanding the remit of the Treasury Board Sub-Committee to oversee the department's arm's length bodies.

Treasury Board Sub-Committee

The Treasury Board Sub-Committee (TB(SC)) is made up of the Non-Executive members of the Treasury Board and the Executive Management Board. TB(SC) was also joined, until his retirement in December 2017, by Edward Troup, the Executive Chair and First Permanent Secretary at HMRC. This year the Board invited Mike Driver to join in his capacity as the Head of the Government Finance Function.

TB(SC) meets to consider the department's performance and key risks, as well as specific policy areas. It now meets with the department's arm's length bodies to provide oversight.

Over the course of the year the TB(SC) has considered a broad range of both policy and corporate issues facing the department including Europe and Brexit negotiations, the resourcing of the department, the Government Finance Function, the Debt Management Office; NS&I; the Royal Mint and the Office of Financial Sanctions Implementation.

TB(SC) met five times during the financial year.

The Executive Management Board

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

They are joined on EMB by the Directors for Finance, Operations and Strategy, Planning and Budget. 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 with the Directors from across the department to receive updates and understand the risks across the department and to ensure sufficient executive oversight. EMB meet separately for additional sessions where members will consider the strategic direction of specific Treasury policy areas.

An annual business planning process, overseen by EMB and cleared by ministers, sets the department's priorities for the year ahead – focusing on the Treasury's core functions, ministerial priorities and identified risks.

The Board also ensures delivery against the department's work programme, and the efficient and effective allocation of resources.

Sub-committees to the Executive Management Board

The EMB Operating Committee (OpCo) and the Diversity and Inclusion Board are sub-committees of EMB.

OpCo was established this year as a sub-committee of EMB to oversee the financial, planning, operational and risk management issues of the department. It also provides financial, commercial and business case approval.

OpCo meets monthly and the membership is made up of the Second Permanent Secretary (Charles Roxburgh), the Director General Financial Services (Katharine Braddick), the Directors of Finance (Sophie Dean), Operations (Katherine Green) and Strategy Planning and Budget (Clare Lombardelli), the Deputy Director of Governance and Assurance (Kate Ivers) and two or three Directors from the policy side of the Treasury.

The Diversity and Inclusion Board (DIB) oversees the Treasury's staff diversity networks and sets the diversity and inclusion agenda.

DIB is chaired by Lowri Khan (Director, Financial Stability) who is joined by the EMB champion for diversity Beth Russell. Beth is leading on implementing the Diversity Action Plan across the department. They are joined by representatives of staff networks across the department.

EMB also has three sub-committees looking specifically at risk. Following a review of risk management across the department a Projects Risk Group was created to complement the work of the Economic Risk Group and the Fiscal Risk Group. It is chaired by the department's Project Management Champion. The Economic and Fiscal Risk Groups are chaired by Director Strategy Planning and Budget and the Chief Economic Adviser respectively.

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 EMB and senior managers to take action where appropriate.[2]

Audit and Risk Committee

Following a review of risk management across the department the Audit Committee extended its remit this year to become an Audit and Risk Committee (ARC).

The ARC provides independent, objective and constructive challenge on the robustness of the control mechanisms in place and the evidence provided to deliver

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2 Further information on how the department manages risk can be found on pages 56 and 57.

the assurance needed by the Board. It supports the Permanent Secretary and the other core department Accounting Officers in their responsibilities for managing risk, control and governance. The Committee may consider any issue relating to the running of the Treasury as well as any delivery or reputational risk.

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

As at 31 March 2018, the membership of the Committee was as follows:

- Richard Meddings (chair) – see biography on page 44
- Tim Score – see biography on page 44
- Peter Estlin – Alderman, City of London; Senior Advisor, Barclays plc, (previously Group Financial Controller and acting Group CFO); Governor, Bridewell Royal Hospital; Board Member, Trust for London and Trustee, Morden College
- Zarin Patel – formerly Chief Operating Officer of The Grass Roots 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 Humphry – Director of Government Finance Transformation – central finance function. Previously Finance Director – Department of Communities and Local Government (now Ministry of Housing, Communities and Local Government)

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

Audit and Risk Committee's Chair's Report

I would like to thank all members of the committee for their interest, diligence and commitment throughout the year.

In this financial year the Committee has continued to provide challenge to the work of the Treasury and to assist it in its focus on operational controls. One of the roles of the Committee is to provide advice and input to the Principal Accounting Officer, receiving a regular report on the activities of the department from him at each meeting, and it has done this over a range of issues including relating to the Treasury Accounts but also to the oversight of the department's controls.

In the year, the Committee met regularly with the National Audit Office and with Group Internal Audit, both privately and in full committee, to discuss with them findings from their various reports and management actions consequently taken. The Committee also had oversight of the internal audit annual work plan and monitored its performance through the year.

As part of our work we have received reports from the Treasury on certain key areas, some topics of which are consistent with the prior year, including IT capability and Cyber security, the operation, control and financial reporting of the Asset Purchase Facility, aspects of the operations of OFSI, GDPR readiness, the reporting and oversight of the Treasury's arm's length bodies and oversight of the Single Departmental Plan process.

The main work of the Committee remained centred on the various Treasury Accounts, including Central Funds as well as separately the review and sign off of the Whole of Government Accounts, with particular focus in the WGA on removing certain current remaining qualifications and on improving the narrative explanation within the Accounts to make them more readily understandable for the reader.

The Committee continues to challenge the management team's work and to introduce ideas for discussion from the perspective primarily of finance and control and then provides an assurance to the Board about the internal controls that operate.

Each of my colleagues, Peter Estlin, Jacinda Humphry, Zarin Patel and Tim Score has brought to the Committee's work their significant experience which has been invaluable.

Richard Meddings

Chair, Treasury Group Audit and Risk Committee

29 June 2018

Nominations Committee

The Nominations Committee is made up of the Permanent Secretary with the Non-Executive Directors. It considers succession planning within the department and reviews 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.

Attendance of members at Board and Committee meetings

Attendance	Treasury Board	TB(SC)	Audit and Risk Committee	Nominations Committee
Ministers				
Chancellor	0/1	-	-	-
Chief Secretary	0/1	-	-	-
Financial Secretary and Paymaster General	1/1	-	-	-
Economic Secretary	0/1	-	-	-
Exchequer Secretary	1/1	-	-	-
Non-Executives				
Baroness Sarah Hogg	1/1	4/4	-	1/1
Dame Amelia Fawcett	1/1	5/5	-	1/1
Richard Meddings	1/1	3/5	5/5	1/1
Tim Score	1/1	5/5	4/5	1/1
Mike Driver	1/1	2/4	-	-
Edward Troup	-	4/4	-	-
Peter Estlin	-	-	5/5	-
Zarin Patel	-	-	5/5	-
Jacinda Humphry	-	-	2/5	-
Executives				
Tom Scholar	1/1	4/5	-	1/1
Charles Roxburgh	1/1	4/5	-	-
Dave Ramsden	-	2/2	-	-
Mark Bowman	-	3/5	-	-
James Bowler	-	5/5	-	-
Julian Kelly	-	1/1	-	-
Katharine Braddick	-	4/5	-	-
Clare Lombardelli	-	5/5	-	-
Katherine Green	-	4/5	-	-
Sophie Dean	1/1	3/3	-	-
Kate Ivers	-	2/2	-	-
Beth Russell	-	5/5	-	-
Richard Hughes	0/1	2/3	-	-

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 continued to be reviewed, improved and updated over the course of the year.

Following fiscal events lessons learned exercises are conducted so the information provided to the EMB meetings 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 their discussions and decision making.

Risk management

The Treasury faces macro and micro level risks in its dual role as the UK's economics and finance ministry and 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 government's economics ministry, the department must react to events in the global and UK economy, and ensure the sustainability of the public finances, while operationally ensuring it allocates its budget appropriately in order to meet its objectives, ensuring value for money and delivery on its duty of care to both staff and stakeholders.

The Treasury's Risk Management Framework enables the identification and management of risks to the department's four strategic objectives, as set annually in the Single Departmental Plan (SDP). The department has reviewed its Risk Management Framework this year to improve the effectiveness of the Framework and embed it better in the day to day work of the department.

The Framework is underpinned by three Risk Groups and the new Operating Committee (OpCo), who are responsible for monitoring, challenging and reporting on performance against and risks to the Treasury's objectives. This overarching structure has been retained following the review, with several improvements. The existing Economic Risk and Fiscal Risk Groups have remained in place, but the functions of the previous Operational Risk Group have now been split between two new boards to enable better challenge in each area. Following agreement by the department's Audit and Risk Committee, EMB and TB(SC), the department created a new Projects Risk Group. The risk group is responsible for identifying, assessing and supporting the management of operational policy or reputational risks to the department and for ensuring that major policy projects in the department employ sufficient project, programme and risks management disciplines. OpCo is now responsible for identifying, assessing and reporting against operational risks to the department, for example relating to the Treasury's own finances or departmental security risks.

By tracking indicators, horizon-scanning, and assessing the likelihood, probability, impact and potential mitigation of risks, the Risk Groups contribute to the Treasury's risk management framework, enabling the Executive Management Board and senior managers to take action where appropriate.

These groups report into the Quarterly Performance and Risk Report which analyses trends across key performance data and assesses the level of risk to delivery of the objective. The Quarterly Performance and Risk Report, which reflects on risk and performance across the department, is discussed by EMB and the Treasury Board Sub-committee on a quarterly basis. 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.

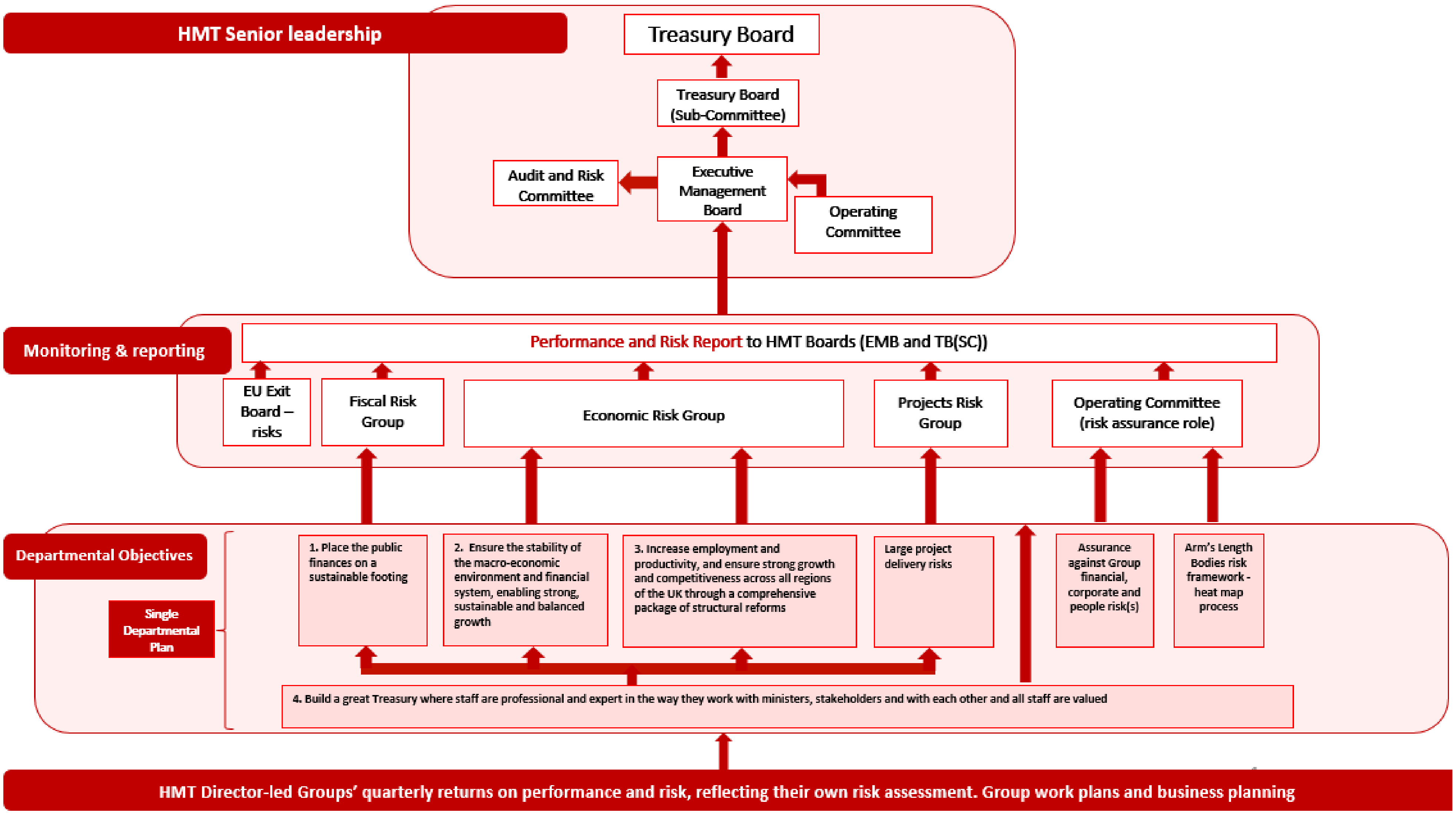
The department has a sound system in place to consider the risks faced by the Treasury, challenge the assumptions made about these risks and, where appropriate, offer advice on how best to mitigate risk. Within this structure each individual has a role to play, with some key positions holding specific accountabilities. Following the review of risk, steps are also underway to improve communication of this Framework across the department and ensure that it is fully embedded.

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.


HMT Senior leadership
Treasury Board
Treasury Board (Sub-Committee)
Audit and Risk Committee
Executive Management Board
Operating Committee
Monitoring & reporting
Performance and Risk Report to HMT Boards (EMB and TB(SC))
EU Exit Board – risks
Fiscal Risk Group
Economic Risk Group
Projects Risk Group
Operating Committee (risk assurance role)
Departmental Objectives
Single Departmental Plan
1. Place the public finances on a sustainable footing
2. Ensure the stability of the macro-economic environment and financial system, enabling strong, sustainable and balanced growth
3. Increase employment and productivity, and ensure strong growth and competitiveness across all regions of the UK through a comprehensive package of structural reforms
Large project delivery risks
Assurance against Group financial, corporate and people risk(s)
Arm's Length Bodies risk framework - heat map process
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
HMT Director-led Groups' quarterly returns on performance and risk, reflecting their own risk assessment. Group work plans and business planning

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 from page 194 of this report.

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

Account Name and Accounting Officer	Notes
Consolidated Fund (CF) Tom Scholar	The CF was set up in 1787 and is akin to the government's current account. It receives the proceeds of taxation and other government receipts.
National Loans Fund Tom Scholar	The NLF was established in 1968 and is akin to the government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office and National Savings and Investments.
Contingencies Fund James Bowler	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) Clare Lombardelli (from 3 April 2018)	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) James Bowler	The WGA consolidates the audited accounts of around 7,000 public sector organisations to produce a comprehensive, accounts based picture of the financial position of the UK public sector.

Internal audit arrangements

David Whatley, Group Chief Internal Auditor (Government Internal Audit Agency), who was appointed as Chief Auditor on 31 August to replace Chris Wobschall on a temporary arrangement, 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 and Risk Committee. His 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 format 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 department's Audit and Risk Committee and Principal Accounting Officer.

GIAA has delivered a wide programme of challenging internal audit engagements throughout 2017-18, 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 range of Treasury work covering risk management and performance, corporate functions, cyber security, fiscal calendar, 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. In addition, GIAA have relied on (where appropriate and required) 3rd party assurances from the IPA.

I took over as Group Chief Internal Auditor from Chris Wobschall on 1 September 2017.

David Whatley

Group Chief Internal Audit, GIAA

29 June 2018

Operational issues facing the department in 2017-18

In preparing this Governance Statement I have considered people and security 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 expanded this year to reflect additional work to support our EU exit, with a target of circa 1,300 by end March 2018, which was met. The department has continued to experience a high turnover of staff and, recognising the risk this creates in maintaining skills and experience across the department, EMB regularly monitors staff turnover rates and reasons. The department uses targeted measures such as the pay award, strengthened line management and a stronger learning and development offer to encourage retention.

The department's workforce strategy is currently under review, to look at options to reposition the way that the Treasury attracts and recruits people, to strengthen talent pipelines, increase retention and enable more strategic workforce planning. This piece of work also has a strong diversity and inclusion theme, reflecting the department's determination to ensure our workforce reflects the wider society we serve.

Recognising an engaged workforce is important to high performing organisations, EMB pays close attention to the annual Staff Survey results. The 2017 results show a response rate of 94% with an engagement score of 74%, which is up one percentage point on 2016. EMB reviewed the staff survey results and considered the themes where the department does well and less well. One of the key areas of feedback from colleagues related to the workplace environment where desk space was at a premium as the department had grown. EMB arranged for some quiet room space to be converted to workable desk space and is considering some longer-term solutions.

There was a further graduate recruitment campaign this year that saw over 111 new HEO/SEOs join the department in September 2017. The department significantly invests in the development of its graduates to help them become more professional and expert in policy making. An integral part of this is our Graduate Development Programme which consists of a mixture of structured and on-the-job learning with support from line managers and wider Treasury colleagues.

The first part of the September 2017 Graduate Development Programme was three weeks long. This covered policy making skills & knowledge, fiscal policy, economics, knowledge about the Civil Service and the Treasury's context and governance. Following this, there are three distinct modules which develop our new policy advisers' skills and knowledge about the different Treasury groups, their work and how this enables the department to achieve its core objectives.

Security

Physical, cyber and information security remains a priority for the department in being able to deliver its objectives.

Recognising the ongoing security threats, the security of staff is paramount. Additional security measures were put in place this year including the completion of barriers at entrances to the Government Offices Great George Street building, an improved process for managing authorised visitor access to our building, and additional cyber tools from work with the National Cyber Security Centre.

Our Incident Management planning includes a process to account for staff which has been tested and exercised this year, in response to terrorist attacks and ongoing security threats. Group business continuity plans across the department are regularly challenged and updated to ensure they remain relevant, robust and up to date.

Staff are required to undertake the mandatory annual Responsible for Information training and we have increased the targeted briefings and campaigns that have been delivered by our security team in those areas of the department holding the most sensitive information.

In preparation for GDPR a project has been created, supported by a communications campaign, to identify, assess and put in place action plans for the personal data we are managing.

In addition, EMB receive six monthly updates covering all aspects of security from the Departmental Security Officer (DSO) and physical, cyber and information security risks are reviewed by the new OpCo who added a specific reference to our risk appetite around EU Exit related information.

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.[3]

Recognising the risks, both operational and reputational, to the department of the work of its arm's length bodies (ALBs), several steps have been taken during 2017-18 to enhance the governance of the department's ALBs. These included implementing the recommendation from the 2016-17 Board Effectiveness Evaluation that the TB(SC) extend its remit to provide oversight to the department's ALBs. Following the implementation of the recommendation the TB(SC) now has a programme of meetings with the leadership of all ALBs, in each case starting with a briefing from the internal sponsor team, who are the main liaison point between the department and the ALB, and then meeting the ALB itself to provide challenge and oversight.

In addition, the department is undertaking a programme of Tailored Reviews of its ALBs. These reviews will consider:

- whether their functions are still necessary
- how effective and efficient they are
- their corporate governance.

The first Tailored Review, of NS&I, is due to report in 2018. The reviews are overseen centrally by the Cabinet Office.

To strengthen the Treasury's governance and oversight of the ALBs and other entities, the department has introduced a new risk management framework. The process seeks to improve the effective identification, assessment and management of the operational risks presented across Treasury Group, ensuring that they can be escalated as appropriate. This framework was formally introduced in November 2017 following consideration by OpCo and the Audit and Risk Committee.

[3] Further information on the Treasury Group can be found on page 194ff.

The process feeds into the Quarterly Performance and Risk Report and identified levels of risk are considered by OpCo.

In recognition of the reputational, legal and financial risks and assurances required relating to financial sanctions, the Office of Financial Sanctions Implementation (OFSI) undertook a governance review during the year. The Treasury Board (Sub-Committee) commissioned the review to ensure the department has adequate oversight and is able to support strategic choices, performance and capability, risk management and decision making in OFSI. The review recommended an enhanced governance model for OFSI, with the creation of an OFSI Advisory Board and increased reporting into OpCo. Both these recommendations were agreed by OpCo to be implemented in 2018-19.

In addition, OFSI became a Director led Group with the role of Head of OFSI becoming a Director-level position, supported by a Deputy Director head of the office, to ensure sufficient senior management oversight. Following a Whitehall-wide recruitment campaign, Rena Lalgie was appointed as Director and took up her post on 25 February 2018.

The Treasury is responsible for specific EU Exit issues, including the financial settlement, customs, financial services and stability, fiscal implications, tax and financial sanctions. During 2017-18, the department has periodically reviewed its EU Exit governance structures. This has sought to ensure there is appropriate strategic oversight of the Treasury's EU Exit work for phases 1 and 2 of the EU Exit negotiations. Specific governance changes include the formation of a Phase 2 Negotiations Board, Future Economic Partnership Board and an EU Exit Analysis Board which all report into the Treasury's EU Exit Board. The department is also implementing recommendations from a review of its governance in March 2018 to ensure consistent reporting of risk and improve the flow of information.

Ensuring there is sufficient senior oversight of the EU Exit work is essential. EMB created a customs director role and following a Whitehall-wide competition Sue Catchpole was appointed permanently on 30 January 2018.

In addition to ensure appropriate senior level oversight in the European teams, when Jonathan Black (Director, Europe) left the department at the end of the January, Matthew Taylor, the Director with most European experience was moved to replace Jonathan to ensure appropriate senior cover.

The Corporate Governance Code

As part of the preparation of this report, and recognising that the Corporate Governance Code was updated in 2017,[4] the Treasury has undertaken an assessment of its compliance with the Corporate Governance Code for Central Government Departments. This assessment has provided assurances that the Treasury complies with the principles of the Code.

Oversight

A number of Parliamentary Committees, including the Public Accounts Committee and the Treasury Select Committee, have called witnesses from across the Treasury

4 https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

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 PAC's October 2016 report on *The Government Balance Sheet* was formally responded to in December 2016, with one of seven recommendations implemented. Treasury Minutes Progress Reports in October 2017 and January 2018 reported the implementation of a further two recommendations. The remaining four recommendations will be included in the July 2018 and the January 2019 Progress Reports.

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 the Treasury Legal Advisers (Government Legal Department) 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 60) and to the Audit and Risk Committee throughout the period. In turn the Audit and Risk Committee has challenged and endorsed the Government Internal Audit Agency's work programme throughout the year, which included following up on key internal audit actions with management to ensure they were complied with.

The 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 104. The cost of the external audit is disclosed in Note 31 of the financial statements and is referenced in the Governance Report on page 47.

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, the UK Government Investment 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 2017-18, he is able to provide assurance from 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 am assured the Treasury has a strong system of controls to support the department's achievement of its policies, aims and objectives. I therefore have no disclosures of control weaknesses to make for the 2017-18 financial year.

Tom Scholar
Permanent Secretary

29 June 2018

Remuneration and Staff Report

Remuneration Report[5]

Treasury ministers – single total figure of remuneration (audited)

£[6]	2017-18 Salary and FYE	2017-18 Benefits in kind	2017-18 Pension benefits	2017-18 Total	2016-17 (restated) Salary and FYE	2016-17 (restated) Benefits in kind	2016-17 (restated) Pension benefits	2016-17 (restated) Total
Philip Hammond Chancellor of the Exchequer (from 14/07/16)[7]	67,505	6,700	16,000	**90,000**	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**
Elizabeth Truss Chief Secretary to the Treasury (from 13/06/17)	25,344 (31,680)	-	7,000	**32,000**	-	-	-	-
David Gauke Chief Secretary to the Treasury (from 15/07/16 to 10/06/17): Financial Secretary to the Treasury (to 14/07/16)	7,920 (31,680)	-	2,000	**10,000**	31,680	-	9,000	**41,000**
Greg Hands Chief Secretary to the Treasury (from 12/05/15 to 14/07/16)	-	-	-	-	10,560 (31,680)	-	2,000	**13,000**
Mel Stride Financial Secretary to the Treasury (from 12/06/17)	25,432 (31,680)	-	7,000	**32,000**	-	-	-	-
Jane Ellison Financial Secretary to the Treasury (from 15/07/16 to 09/06/17)	5,984 (31,680)	-	1,000	**7,000**	21,545 (31,680)	-	8,000	**30,000**
John Glen Economic Secretary (from 10/01/18)	5,052 (22,375)	-	2,000	**7,000**	-	-	-	-
Stephen Barclay Economic Secretary to the Treasury (from 14/06/17 to 09/01/18)	11,939 (22,375)	-	3,000	**15,000**	-	-	-	-
Simon Kirby Economic Secretary to the Treasury (from 16/07/16 to 09/06/17)	4,289 (22,375)	-	1,000	**5,000**	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**
Robert Jenrick Exchequer Secretary (from 10/01/18)	5,052 (22,375)	-	2,000	**7,000**	-	-	-	-
Andrew Jones Exchequer Secretary to the Treasury (from 15/06/17 to 09/01/18)	12,723 (22,375)	-	3,000	**16,000**	-	-	-	-
Damian Hinds Exchequer Secretary to the Treasury (from 12/05/15 to 14/07/16)[8]	-	-	-	-	7,458 (22,375)	-	1,000	**8,000**

[5] Certain disclosures within the remuneration report have been audited as per the FReM 5.3.4.

[6] 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.

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

[8] The Exchequer Secretary role ceased to exist in August 2016 for the remainder of 2016-17. The role was reinstated in June 2017.

Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury (from 09/01/17 to 13/06/17)[9]	15,997 (78.891)	-	N/A	**16,000**	13,775 (78,891)	-	N/A	**14,000**
Lord O'Neill Commercial Secretary to the Treasury (to 23/09/16)[9]	N/A	-	N/A	-	N/A	-	N/A	-

Treasury ministers – severance payments[10]

audited)

The table below represents the severance payments made to former ministers.

£[11]	2017-18 Actual Severance	2017-18 Receivable Severance	2016-17 Actual Severance	2016-17 Receivable Severance
George Osborne Chancellor of the Exchequer and First Secretary of State (to 13/07/16)	-	-	16,877	16,877
Simon Kirby Economic Secretary to the Treasury (from 16/07/16 to 09/06/17)	5,594	5,594	-	-
Andrew Jones Exchequer Secretary to the Treasury (from 15/06/17 to 09/01/18)	5,594	5,594	-	-
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury (from 09/01/17 to 13/06/17)	19,723	19,723	-	-

[9] The Commercial Secretary to the Treasury was previously an unpaid role, however Baroness Neville-Rolfe received a salary. 2016-17 has been restated to reflect salary received in that year. Baroness Neville is also opted out of the pension and so there are no pensions benefits to disclose.

[10] 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.

[11] 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.

Treasury ministers – pension benefits (audited)

£000	Accrued pension at pension age as at 31/3/18	Real increase in pension at pension age	CETV at 31/3/18	CETV at 31/3/17	Real increase in CETV
Philip Hammond Chancellor of the Exchequer	10-15	0-2.5	240	208	12
George Osborne Chancellor of the Exchequer and First Secretary of State [12]	-	-	-	119	-
Elizabeth Truss Chief Secretary to the Treasury	5-10	0-2.5	61	54	2
David Gauke Chief Secretary to the Treasury[12]	5-10	0-2.5	59	57	-
Greg Hands Chief Secretary to the Treasury[12]	-	-	-	42	-
Mel Stride Financial Secretary to the Treasury	0-5	0-2.5	21	14	4
Jane Ellison Financial Secretary to the Treasury[12]	0-5	0-2.5	24	23	-
John Glen Financial Secretary to the Treasury	0-5	0-2.5	3	2	1
Stephen Barclay Economic Secretary to the Treasury	0-5	0-2.5	10	7	-
Simon Kirby Economic Secretary to the Treasury[12]	0-5	0-2.5	9	8	-
Harriet Baldwin Economic Secretary to the Treasury[12]	-	-	-	7	-
Robert Jenrick Exchequer Secretary to the Treasury	0-5	0-2.5	1	-	-
Andrew Jones Exchequer Secretary to the Treasury	0-5	0-2.5	14	11	1
Damian Hinds Exchequer Secretary to the Treasury[12]	-	-	-	10	-
Baroness Lucy Neville-Rolfe DBE CMG Commercial Secretary to the Treasury[13]	N/A-	N/A	N/A	N/A	N/A
Lord O'Neill Commercial Secretary to the Treasury[12]	N/A	N/A	N/A	N/A	N/A

[12] These ministers have left the Treasury.

[13] Pension benefits do not accrue on the Commercial Secretary role.

Additional ministerial remuneration borne by HM Treasury (audited)

£000	2017-18	2016-17 (restated)
Theresa May, Prime Minister (from 14/07/16)	75-80	50-55
David Cameron, Prime Minister (to 13/07/16)	-	20-25
Julian Smith Chief Whip, Commons (from 02/11/17); Deputy Chief Whip, Commons (from 13/06/17 to 01/11/17)	25-30	-
Gavin Williamson, Chief Whip, Commons (to 01/11/17)	20-25	20-25
Mark Harper, Chief Whip, Commons (to 14/07/16)	-	5-10
Christopher Pincher, Deputy Chief Whip, Commons (from 09/01/18)	5-10	-
Rt Hon Ester McVey, Deputy Chief Whip, Commons (from 02/11/17 to 09/01/18)	5-10	-
Anne Milton, Deputy Chief Whip, Commons (to 11/06/17)	5-10	30-35
Lord Taylor of Holbeach, Chief Whip, Lords (from 06/08/14)	120-125	120-125
The Earl of Courtown, Deputy Chief whip, Lords (from 16/07/16)	105-110	105-110
Lord Gardiner of Kimble, Deputy Chief Whip, Lords (to 15/07/16)	-	35-40
Baronesses- and Lords-in-Waiting (7 posts, 3 unpaid)[14] (2016-17: 9 posts, 3 unpaid)	410-415	400-405
Government and Assistant Government Whips (17 posts, all paid)[15] (2016-17, 17 posts, 2 unpaid)	255-260	255-260

[14] Baronesses and Lords in Waiting comprise: Baroness Chisholm of Owlpen, Baroness Stedman- Scott OBE, Baroness Vere of Norbiton, Baroness Buscombe, Baroness Goldie, Lord Young of Cookham and Viscount Younger of Leckie

[15] Government and Assistant Government Whips as at 31 March 2018 comprise: Chris Heaton-Harris MP, Michael Ellis MP, Mike Freer MP, Nigel Adams MP, Andrew Stephenson MP, Stuart Andrew MP, Craig Whittaker MP, Rebecca Harris MP, Mark Spencer MP, David Rutley MP, Paul Maynard MP, Kelly Tolhurst MP, Mims Davies MP, Wendy Morton MP, Jo Churchill MP, Amanda Milling MP, Nusrat Ghani MP.

Senior management – single total figure of remuneration (audited)

£000[16]	2017-18 Salary and FYE	Bonuses	BIK [17]	Pension benefits [18]	Total	2016-17 Salary and FYE	Bonuses	BIK	Pension benefits	Total
Tom Scholar Permanent Secretary (from 01/07/16)	185-190	-	-	65	250-255	135-140 (185-190)	15-20	-	47	200-205
Charles Roxburgh Second Permanent Secretary (from 04/07/16): Director General, Financial Services (to 03/07/16)[19]	155-160	-	-	N/A	155-160	150-155	-	-	N/A	150-155
John Kingman Acting Permanent Secretary (01/04/16 to 30/06/16): Second Permanent Secretary (to 31/03/16)[19]	-	-	-	N/A	-	55-60 (180-185)	-	-	N/A	55-60
Mark Bowman Director General, International and EU	125-130	15-20	-	36	175-180	125-130	10-15	-	56	190-195
Richard Hughes Acting Chief Economic Advisor (from 04/09/17)[20]	70-75 (110-115)	-	-	N/A	70-75	-	-	-	-	-
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service (to 01/09/17)	55-60 (130-135)	-	-	3	60-65	130-135	10-15	-	34	175-180
Julian Kelly Director General, Public Spending and Finance (to 07/05/2017)	25-30 (120-125)	5-10	-	6	35-40	120-125	10-15	-	57	190-195
James Bowler Director General, Public Spending (from 08/05/17); Director General, Tax and Welfare (to 07/05/2017)	125-130	5-10	-	36	165-170	120-125	10-15	-	56	190-195
Beth Russell Director General Tax and Welfare (from 02/08/17; Director, Personal Tax Welfare and Pensions (to 01/08/2017)	115-120	5-10	-	122	250-255	100-105	10-15	-	72	180-185
Clare Lombardelli Director, Strategy, Planning and Budget	95-100	10-15	-	29	135-140	95-100	5-10	-	46	145-150
Katherine Green Director, Corporate Services[21]	70-75	5-10	-	25	105-110	65-70	-	-	33	100-105
Sophie Dean Director, Finance and Commercial (from 24/09/17)[21]	35-40 (60-65)	-	-	10	45-50	40-45 (60-65)	-	-	63	105-110
Kate Ivers Acting Director, Finance and Commercial (to 01/10/17)[21]	45-50 (90-95)	-	-	34	80-85	25-30 (90-95)	-	-	42	70-75

16 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.

17 Benefits in kind

18 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

Katharine Braddick joined the Treasury Board on 20 October 2016 on funded secondment from the Bank of England. Of these secondment costs gross earnings during the accounting period were £175-180k (2016-17 £80-85k; FYE £175-180k).

Pay multiples (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in the organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in HM Treasury in the financial year 2017-18 was £185,000-190,000 (2016-17: £200,000-205,000). This was 4.3 times (2016-17: 4.4 times) the median remuneration of the workforce, which was £43,442 (2016-17: £45,918).

The decrease in the remuneration ratio is primarily driven by changes in the grade mix of employees.

In 2017-18, no employees received remuneration in excess of the highest paid director. Remuneration ranged from £17,000 to £188,000 (2016-17: £17,000-£203,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash-equivalent transfer value of pensions.

any increase or decreases due to a transfer of pension rights. Figures are restated for retrospective updates and are reported before tax.

19 Charles Roxburgh and John Kingman did not participate in the Civil Service pension scheme.

20 Richard Hughes is a member of a Partnership Pension Scheme.

21 Katherine Green worked 0.8 FTE. Sophie Dean works 0.7 FTE and was on maternity leave until 24/09/17. Kate Ivers was Acting Finance and Commercial Director until Sophie Dean returned from maternity leave. Kate Ivers' salary disclosed relates to the Acting Director, Finance and Commercial role to 01/10/17.

Senior management – pension benefits[22] (audited)

£000	Accrued pension at pension age as at 31/3/18 and related lump sum	Real increase in pension at pension age	CETV at 31/3/18	CETV at 31/3/17[23]	Real increase in CETV
Tom Scholar Permanent Secretary	60-65 plus a lump sum of 140-145	2.5-5 plus a lump sum of 0	981	889	27
Mark Bowman Director General, International and EU	40-45 plus a lump sum of 90-95	0-2.5 plus a lump sum of 0	619	567	11
Dave Ramsden Chief Economic Adviser and Head of the Government Economic Service	50-55 plus a lump sum of 150-155	0-2.5 plus a lump sum of 0	993	975	2
Julian Kelly Director General, Public Spending and Finance	40-45 plus a lump sum of 30-35	0-2.5 plus a lump sum of 0	611	607	2
James Bowler Director General, Public Spending; Director General, Tax and Welfare	40-45 plus a lump sum of 95-100	0-2.5 plus a lump sum of 0	584	536	9
Beth Russell Director General, Tax and Welfare; Director Personal Tax Welfare and Pensions	30-35 plus a lump sum of 80-85	5-7.5 plus a lump sum of 7.5-10	483	386	67
Clare Lombardelli Director, Strategy, Planning and Budget	20-25	0-2.5	226	202	6
Katherine Green Director, Corporate Services	15-20 plus a lump sum of 40-45	0-2.5 plus a lump sum of 0	250	224	8
Sophie Dean Director, Finance and Commercial	15-20	0-2.5	226	211	4
Kate Ivers Acting Director, Finance and Commercial	40-45 plus a lump sum of 55-60	0-2.5 plus a lump sum of 0-2.5	742	687	22

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

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

Fees paid to Non-Executive Board members (audited)

£000[24]	2017-18 Fees	2017-18 Benefits in kind	2016-17 Fees	2016-17 Benefits in kind
Baroness Hogg Lead Non-Executive for HM Treasury (to 31/12/17)	5-10	-	10-15	-
Richard Meddings Non-Executive Board member and Chair of the Audit Committee	20-25	-	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	-	10-15	-
Peter Estlin Member of the Audit Committee	5-10	-	5-10	-
Zarin Patel Member of the Audit Committee (from 01/03/17)	5-10	-	-	-
Jacinda Humphry Member of the Audit Committee (from 01/03/17)[25]	-	-	-	-
Mary Hardy Member of the Audit Committee (to 31/12/16)	-	-	0-5	-

Baroness Hogg stepped down from her role as Lead Non-Executive Director on 31 December 2017. Dame Amelia Fawcett is acting Lead Non-Executive Director.

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

Mike Driver is also an unpaid non-executive board member and in his role as Head of Government Finance Function attends the HMT Board Meetings.

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

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

25 Jacinda Humphrey is a serving Civil Servant and is remunerated by her home department.

- the funds available to departments as set out in the government's departmental expenditure limits
- the government's inflation target, wider economic considerations, and the affordability of its recommendations.

For the Permanent Secretary and Second Permanent Secretary, remuneration is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. For the remaining executive members of the Treasury Board and the Chief Executives of DMO, GIAA and NIC, 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 (£76,011 from 1 April 2017) 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 2016-17 and comparative bonuses on those achieved in 2015-16. 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 Tax on Earnings and Pensions Act 2003. The benefit in kind is capped at 10% of gross salary.

In addition, staff 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.[26]

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 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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.

Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015.Those members who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha between 1 June 2015 and 1 February 2022. All members who switch to alpha have their existing PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having

26 http://qna.files.parliament.uk

those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

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

- the partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement)

- the accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

- further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionschemes.org.uk.

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 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 in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies (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 or staff member. It is worked out using common market valuation factors for the start and end of the period.

Staff Report[27]

Workforce dynamics

Core Treasury workforce breakdown

		31 March 2018	31 March 2017
Staff Numbers		1,328	1,228
Workforce Dynamics	Recruitment Exemptions (number)	88	136
	Annual Turnover rate %	21.2	24.3
Workforce Diversity (%)	Black and Minority Ethnic	15.9	18.4
	Women	46.5	48.2
	Disabled	6.8	6.8
Diversity of Senior Civil Servants only (%)	Black and Minority Ethnic	5.8	6.0
	Women	45.2	43.0
	Women (Top Management Posts)	50.0	35.7
	Disabled	2.9	3.0
	Part time	17.3	20.0
Attendance (AWDL)[28]	Actual (days)	2.4	2.6

27 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 2017-18. With the exception of the table on page 81 which details average staff numbers, all numbers are presented on an actual basis as at the reporting date.

28 AWDL: Average working days lost

Core Treasury – Number of Senior Civil Servants by pay band

Range[29]	31 March 2018	31 March 2017
SCS1	76	69
SCS2	18	20
SCS3	7	7
Total	**101**	**96**

Core Treasury – staff composition at 31 March 2018

	Female	Male	Total
All employees	606	722	**1328**
Of which:			
Directors (SCS2)	10.2	8.0	**18.2**
Senior Civil Service	43.9	56.8	**100.7**

Recruitment[30]

Core Treasury recruitment 2017-18 (2016-17)[31]

Range	Permanent Appointments	Fixed term appointments	Loans from other Government Departments	Secondments	Total
B	12 (16)	52 (41)	0 (0)	0 (0)	64 (57)
C	36 (27)	2 (4)	0 (0)	0 (0)	38 (31)
D	205 (235)	8 (4)	18 (21)	8 (10)	239 (270)
E	58 (73)	4 (7)	4 (10)	11 (7)	77 (97)
E2	17 (10)	0 (2)	5 (7)	0 (6)	22 (25)
Commercial Specialists	0 (1)	0 (0)	0 (0)	0 (0)	0 (1)
SCS 1,2,3	3 (15)	0 (1)	1 (1)	1 (1)	5 (18)
Total	**331 (377)**	**66 (59)**	**28 (39)**	**20 (24)**	**445 (499)**

Diversity

Core Treasury grade diversity as at 31 March 2018 (31 March 2017)

Range	Women	People from Minority ethnic backgrounds	People with disabilities
B	55.7 (44.4)	22.9 (29.2)	8.2 (9.7)
C	67.4 (65.5)	29.6 (31.7)	12.6 (8.6)
D	41.8 (47.2)	16.9 (20.5)	6.8 (8.1)
E	42.9 (42.2)	15.5 (16.9)	7.1 (6.3)
E2	49.5 (51.7)	6.6 (7.8)	3.9 (3.3)
SCS 1,2,3	45.2 (43.0)	5.8 (6.0)	2.9 (3.0)

29 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 SCS1 to SCS3 are members of the Senior Civil Service.

30 For information on staff matters, such as welfare, recruitment policy and diversity see Objective 4 on page 28ff.

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

Core Treasury gender diversity as at 31 March 2018 (31 March 2017)

	Male	Female
Executive Management Board members and Group Directors	50.0 (64.3)	50.0 (35.7)
Senior Managers (SCS, not including EMB)	55.3 (56.7)	44.7 (43.3)
All staff	53.5 (51.8)	46.5 (48.2)

Health, safety and wellbeing

Sickness absence

	Jan – Dec 2017 (AWDL)	Jan – Dec 2016 (AWDL)
Government departments	6.8 *	7.1
Treasury and its agencies	3.2	3.8
Core Treasury	2.4	2.6

* Latest cross-government data available is at June 2017

Days lost (in Core Treasury) to mental health and related issues

	Jan – Dec 2017	Jan – Dec 2016
Total days lost	409	586.5
Long term absences days lost	112	452
Short term absences days lost	297	134.5

Staff with no sickness absence

	Jan – Dec 2017	Jan – Dec 2016
Treasury and its agencies	66%	66%
Core Treasury	70%	69%

Trade Union Facilities Time[32]

Relevant union officials

The total number of employees who were relevant union officials during the relevant period was two (2 FTE).

Percentage of pay bill spent on facility time

The percentage of total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period was nil. The total cost of facility time was £1,519 of a total pay bill of £77,432,516.[33]

HM Treasury has no agreement in place for facilities time and therefore has nothing to disclose in relation to the percentage of time spent on facility time or paid trade union activities by employees.

Performance awards payments

Core Treasury (£)

	2017-18	2016-17
Performance awards	551,683	661,247
Special non-consolidated awards	244,354	212,130

32 There is nothing to disclose here for HMT agencies – DMO, GIAA and NIC

33 Calculated as the total gross amount spent on wages, employer pension contributions and employer national insurance contributions during the period.

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	2017-18 Ministers	Special Advisers	Permanent staff	Others[34]	Total	2016-17 Total
Salaries and wages	1	-	146	20	**167**	**162**
Social Security costs	-	-	17	-	**17**	**16**
Staff pension costs	-	-	14	-	**14**	**9**
Total staff costs	**1**	**-**	**177**	**20**	**198**	**187**
Less recoveries for outward secondments	-	-	(2)	-	**(2)**	**(2)**
Net staff costs	**1**	**-**	**175**	**20**	**196**	**185**
Core Treasury and Agencies	1	-	114	13	**128**	**116**
ALBs and other bodies	-	-	63	7	**70**	**71**
Total staff costs	**1**	**-**	**177**	**20**	**198**	**187**

Average number of persons employed[35]

	Ministers	Special Advisers	Permanent staff	Others	2017-18 number Total	2016-17 number Total
Core Treasury and agencies	5	6	1,873	48	**1,932**	**1,706**
ALBs and other bodies	-	-	1,061	233	**1,294**	**1,577**
Total persons employed	**5**	**6**	**2,934**	**281**	**3,226**	**3,283**

34 'Others' relates to non-permanent staff such as short term contract, agency and temporary staff, as well as staff seconded in from other bodies.

35 Total staff in ALBs and other bodies includes 351 UKAR, 443 Royal Household staff and 500 in other bodies. The increase in Core Treasury and agencies is attributable to additional staff employed by HMT for Brexit and increased staff within GIAA.

Staff pension costs

Staff pension costs for permanent staff of £14 million (2016-17: £8 million) are primarily employer contributions, including £18 million (2016-17: £17 million) payable to the Civil Service Pension Schemes, £5 million (2016-17: £7 million) payable to defined contribution schemes and £10 million credit (2016-17: £16 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 75. 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.[36]

For 2017-18, employer's contributions of £18 million (2016-176: £17 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 2017-18 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 (2016-17: £0.2 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 £8,621 (2016-17: £6,875) 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), UK Government Investments Ltd (UKGI) 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 £1 million (2016-17: net liability of £6 million).

UKAR operates several 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.

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

The amount recognised in the Statement of Financial Position relating to Bradford & Bingley's (B&B) defined benefit scheme is a net asset of £355.8 million and a net liability for post-retirement medical benefits of £8.2 million (2016-17: net asset of £257 million and a net liability for post-retirement medical benefits of £5 million) and the amount recognised relating to NRAM's defined benefit scheme is a net asset of £188.1 million (2016-17: net asset of £222 million).

In 2017-18 UKAR contributed £63.9 million to address the deficit in B&B's defined benefit scheme (2016-17: £58 million) and £30 million to NRAM's defined benefit scheme (2016-17: £30 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

	2017-18			2016-17		
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	6	-	3	3
£50,001 – £100,000	1	1	2	-	5	5
£100,001 – £150,000	-	-	-	-	-	-
£150,001 – £200,000	-	-	-	-	-	-
>£200,001	-	-	-	-	-	-
Total exit packages	4	6	10	-	8	8
Total Resource Cost (£'000)	137	244	381	-	544	544

Group[37]

Exit package cost band	2017-18 Compulsory redundancies	2017-18 Other departures	2017-18 Total	2016-17 Compulsory redundancies	2016-17 Other departures	2016-17 Total
<£10,000	5	-	5	2	-	2
£10,000 – £25,000	6	5	11	7	9	16
£25,001 – £50,000	12	8	20	7	12	19
£50,001 – £100,000	5	4	9	4	8	12
£100,001 – £150,000	-	1	1	2	1	3
£150,001 – £200,000	-	-	-	1	1	2
>£200,001	1	-	1	-	-	-
Total exit packages	29	18	47	23	31	54
Total Resource Cost (£'000)	1,066	759	1,825	1,121	1,476	2,597

Consultancy

Consultancy and contingent labour

£m	2017-18		2016-17	
	Core Treasury and Agencies	Group	Core Treasury and Agencies	Group
Consultancy	18	166	18	152
Contingent labour	11	18	10	17
Total	29	184	28	169

HM Treasury and its agencies and arm's length bodies use professional service providers to support specialist work. This includes consultancy, contingent labour (temporary workers), legal advice and IT expertise.

The £15 million increase in Group expenditure is largely due to UKAR's expenditure increasing by £12 million following the outsourcing of mortgage servicing operations to Computershare in 2016-17. More information can be found in Note 8 of the UKAR Annual Report and Accounts.

37 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.

Non – payroll staff

There were 23 Non-payroll staff across the department and Agencies as at 31 March 2018, a decrease from 43 in 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 (PSC) are paid gross by the employer.

While off-payroll arrangements may sometimes be appropriate in the public sector for those engaged on a genuinely interim basis, they are not appropriate for those in management positions or those working for a significant period with the same employer.

The tables below show off-payroll engagements for bodies for which the Treasury holds management information data which it reports on a regular basis.

In addition, there have been no board members and/or senior officials with significant financial responsibility between 1 April 2017 and 1 April 2018 who have been engaged off-payroll.

Off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than 6 months

As of 31 March 2018, there were no engagements that matched the above criteria for Core Treasury, DMO, NIC or GIAA.

New off-payroll appointments, or those that reach six months in duration between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months

There were no appointments that matched the above parameters for NIC or GIAA so they are not included in the following table.

	Core Treasury	DMO
The number of existing engagements, or those that reached six months in duration between 1 April 2017 and 31 March 2018.	3	5
Of which:		
Number assessed as within the scope of IR35.	3	4
Number assessed as not within the scope of IR35	-	1

None of these engagements were direct (via PSC, contracted to the department) and are not on the payroll. No engagements were reassessed for consistency or assurance purposes during the year and none saw a change in IR35 status.

Tom Scholar
Permanent Secretary

29 June 2018

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply and related notes (audited)

For the period ended 31 March 2018

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.

		2017-18							2016-17
		Estimate			Outturn			Voted Outturn compared with Voted Estimate	Outturn
In £000	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Saving/ (Excess)	Total
Departmental Expenditure Limit									
Resource	SoPS 1.1	229,620	7,300	**236,920**	218,824	7,017	**225,841**	10,796	159,369
Capital	SoPS 1.2	17,530	-	**17,530**	(78,311)	-	**(78,311)**	95,841	(2,098)
Annually Managed Expenditure									
Resource	SoPS 1.1	24,183,365	3,759	**24,187,124**	(682,651)	3,985	**(678,666)**	24,866,016	(25,457,795)
Capital	SoPS 1.2	(2,993,033)	-	**(2,993,033)**	(3,696,566)	-	**(3,696,566)**	703,533	(19,731,493)
Total Budget		**21,437,482**	**11,059**	**21,448,541**	**(4,238,704)**	**11,002**	**(4,227,702)**	**25,676,186**	**(45,032,017)**
Total Resource		24,412,985	11,059	**24,424,044**	(463,827)	**11,002**	**(452,825)**	24,876,812	(25,298,426)
Total Capital		(2,975,503)	-	**(2,975,503)**	(3,774,877)	-	**(3,774,877)**	799,374	(19,733,591)
Total		**21,437,482**	**11,059**	**21,448,541**	**(4,238,704)**	**11,002**	**(4,227,702)**	**25,676,186**	**(45,032,017)**
Net Cash Requirement	SoPS3			**(13,817,523)**			**(16,060,448)**	**2,242,925**	**(7,255,708)**
Administration costs				**170,922**			**165,236**	**5,686**	**159,837**

SoPS1.1 Analysis of net resource outturn by section

In £000		2017-18										2016-17
		Administration			Programme			Outturn	Estimate	Outturn	Outturn	Outturn
		Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure	net total	net total	compared to Estimate	compared to Estimate, adjusted for virements	net total
Spending in Department Expenditure Limit (DEL)												
Voted												
A	Core Treasury	146,708	(22,626)	124,082	55,450	(9,241)	46,209	170,291	178,246	7,955	7,039	118,460
B	Debt Management Office	17,334	(2,660)	14,674	3,931	(941)	2,990	17,664	18,820	1,156	1,156	18,151
C	Government Internal Audit Agency	38,128	(34,022)	4,106	-	-	-	4,106	4,350	244	244	1,963
D	Office of Tax Simplification	768	-	768	-	-	-	768	868	100	100	763
E	UK Financial Investments (net)	1,709	-	1,709	-	-	-	1,709	2,600	891	891	2,086
F	Office for Budget Responsibility (net)	2,563	-	2,563	-	-	-	2,563	2,734	171	171	2,749
G	Infrastructure Finance Unit Limited (net)	-	-	-	(4,378)	-	(4,378)	(4,378)	(4,000)	378	378	(4,121)
H	IUK Investments Ltd (net)	-	-	-	(77)	-	(77)	(77)	-	77	77	-
J	HM Treasury UK Sovereign Sukuk Ltd (net)	-	-	-	(4)	-	(4)	(4)	1	5	5	(4)
K	Royal Mint Advisory Committee (net)	-	-	-	-	-	-	-	1	1	1	-
L	Asian Infrastructure Investment Bank	-	-	-	8,848	-	8,848	8,848	9,400	552	552	-
M	National Infrastructure Commission	5,416	-	5,416	-	-	-	5,416	4,500	(916)	-	1,078
N	UK Government Investments Limited (net)	11,918	-	11,918	-	-	-	11,918	12,100	182	182	11,112
Total Voted spending in DEL		**224,544**	**(59,308)**	**165,236**	**63,770**	**(10,182)**	**53,588**	**218,824**	**229,620**	**10,796**	**10,796**	**152,237**
Non-voted												
O	Banking and gilts registration services	-	-	-	7,017	-	7,017	7,017	7,300	283	283	7,132
Total spending in DEL		**224,544**	**(59,308)**	**165,236**	**70,787**	**(10,182)**	**60,605**	**225,841**	**236,920**	**11,079**	**11,079**	**159,369**

Spending in Annually Managed Expenditure (AME)											
Voted											
-	IUK Investments Ltd (net)	-	-	-	2,666	-	2,666	2,666	-	(2,666)	-	-
P	Provisions	-	-	-	141,676	-	141,676	141,676	139,640	(2,036)	-	244,294
Q	UK coinage manufacturing costs	-	-	-	43,108	-	43,108	43,108	47,000	3,892	3,892	30,566
R	UK coinage metal costs	-	-	-	51,133	(26,203)	24,930	24,930	25,000	70	70	21,160
S	Royal Mint Dividend	-	-	-	-	(4,000)	(4,000)	(4,000)	(4,000)	-	-	(4,000)
T	Investment in Bank of England	-	-	-	-	(62,444)	(62,444)	(62,444)	(50,000)	12,444	12,444	(102,543)
U	Administration of the Equitable Life payment scheme	-	-	-	786	-	786	786	400	(386)	-	3,141
V	Sale of Shares	-	-	-	-	(426,844)	(426,844)	(426,844)	(426,844)	-	-	(1,399,296)
W	National Loan Guarantee Scheme	-	-	-	-	(3,390)	(3,390)	(3,390)	(3,390)	-	-	(61,574)
X	Loans to Ireland	-	-	-	-	(81,043)	(81,043)	(81,043)	(83,967)	(2,924)	-	(83,768)
Y	Assistance to Financial Institutions	-	-	-	369,125	(77,559)	291,566	291,566	24,950,000	24,658,434	24,628,519	(23,349,192)
Z	Sovereign Grant funding of the Royal Household (net)	-	-	-	47,349	-	47,349	47,349	76,025	28,676	28,676	41,938
AA	Money Advice Service (net)	-	-	-	9,500	-	9,500	9,500	2,500	(7,000)	-	(5,692)
AB	Financial Services Compensation Scheme (net)	-	-	-	(75,323)	-	(75,323)	(75,323)	(90,000)	(14,677)	-	(301,232)
AC	UK Asset Resolution Ltd (net)	-	-	-	(592,143)	-	(592,143)	(592,143)	(400,000)	192,143	192,143	(496,676)
AD	Help to Buy (HMT) Limited (net)	-	-	-	(12)	-	(12)	(12)	1	13	13	21
AE	Help to Buy ISA	-	-	-	-	-	-	-	-	-	-	-
AF	UK Financial Investments (net)	-	-	-	967	-	967	967	1,000	33	33	826
Total Voted spending in AME		**-**	**-**	**-**	**(1,168)**	**(681,483)**	**(682,651)**	**(682,651)**	**24,183,365**	**24,866,016**	**24,865,790**	**(25,462,027)**
Non-voted											
AG	Royal Household Pensions	-	-	-	4,279	(653)	3,626	3,626	3,400	(226)	-	3,873
AH	Civil List	-	-	-	359	-	359	359	359	-	-	359
Total spending in AME		**-**	**-**	**-**	**3,470**	**(682,136)**	**(678,666)**	**(678,666)**	**24,187,124**	**24,865,790**	**24,865,790**	**(25,457,795)**
Total resource outturn		**224,544**	**(59,308)**	**165,236**	**74,257**	**(692,318)**	**(618,061)**	**(452,825)**	**24,424,044**	**24,876,869**	**24,876,869**	**(25,298,426)**

SoPS1.2 Analysis of net capital outturn by section

In £000		2017-18						2016-17
		Gross	Income	Outturn net total	Estimate net total	Outturn net total compared to Estimate	Outturn net total compared to Estimate, adj. for virements	Outturn net total
Spending in Department Expenditure Limit (DEL)								
Voted								
A	Core Treasury	1,569	(70)	1,499	104,264	102,765	95,834	499
B	Debt Management Office	2,593	1	2,594	2,600	6	6	106
E	UK Financial Investments (net)	-	-	-	-	-	-	(23)
G	Infrastructure Finance Unit Limited (net)	(88,346)	-	(88,346)	(93,000)	(4,654)	-	(5,124)
H	IUK Investments Limited (net)	5,942	-	5,942	3,665	(2,277)	-	2,444
I	IUK Investments Holdings Limited (net)	-	-	-	1	1	1	-
Capital spending in DEL		**(78,242)**	**(69)**	**(78,311)**	**17,530**	**95,841**	**95,841**	**(2,098)**
Annually Managed Expenditure (AME)								
Voted								
V	Sale of Shares	-	(935,433)	(935,433)	(935,433)	-	-	(3,467,859)
Y	Assistance to financial institutions	-	(6,536)	(6,536)	17,000	23,536	23,236	(46,795)
Z	Sovereign Grant funding of the Royal Household (net)	4,618	-	4,618	5,000	382	382	2,252
AA	Money Advice Service (net)	500	-	500	200	(300)	-	263
AB	Financial Services Compensation Scheme (net)	(23,877)	-	(23,877)	200	24,077	24,077	(2,017)
AC	UK Asset Resolution (net)	(2,839,808)	-	(2,839,808)	(2,200,000)	639,808	639,808	(16,270,277)
AE	Help to Buy ISA	103,970	-	103,970	120,000	16,030	16,030	52,940
Capital spending in AME		**(2,754,597)**	**(941,969)**	**(3,696,566)**	**(2,993,033)**	**703,533**	**703,533**	**(19,731,493)**
Total Capital Outturn		**(2,832,839)**	**(942,038)**	**(3,774,877)**	**(2,975,503)**	**799,374**	**799,374**	**(19,733,591)**

Explanation of key variances between Estimate and net resource outturn as at 31 March 2018

SoPS 1.1 Analysis of net resource outturn by section

Spending in Department Expenditure Limit (DEL)

A - Core Treasury

- legal costs were £2 million lower than expected due to delays in litigation, pushing costs into future years
- pay costs were £1 million lower than expected due to a higher than expected number of vacancies during the year
- consultancy costs were £2 million lower than expected due to reduced expenditure on the Financial Management Review and European Investment Bank
- accommodation income increased by £1 million due to increased charges to other government departments for space in 1 Horse Guards Road
- training costs were £1 million lower than expected due to underspend on central learning and development courses
- contribution to the AIIB (Asian Infrastructure Investment Bank) Special Fund was £1 million less than expected due to exchange rate fluctuations

B - DMO

Underspend was due to lower pay costs and higher fee income resulting from a higher level of PWLB lending in February and March than forecast.

M - NIC

Overspend reflects higher accommodation, IT costs and research costs than forecast.

Spending in Annually Managed Expenditure (AME)

T - Investment in Bank of England

The investment in the Bank of England variance of £12 million arose as the amount of the final dividend was not known at the time the Estimate was finalised.

Y - Assistance to financial Institutions

The variance mainly relates to the £24.6 billion variance for fair value movements in the Bank of England Asset Purchase Facility Fund (BEAPFF) derivative, which achieved a fair value loss of £0.4 billion 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 £25 billion loss (calculated by reference to historic movements since inception), thereby generating the variance disclosed.

AC UK Asset Resolution

Variance of £192 million is mainly due to reversals of impairments on loans to banking customers following a one off exercise reviewing provisioning assumptions based on new management information.

SoPS 1.2 Analysis of net capital outturn by section

Spending in Department Expenditure Limit (DEL)

A Core Treasury

£95 million underspend due to only £5 million being issued from the Digital Infrastructure Investment Fund during 2017-18, from a budget of £100 million. The remaining undrawn amount can be drawn on during future years of the fund's operation.

H IUK Investments Limited

£3 million overspend due to capital commitments to PF2 project expected to be paid in 2018-19 being brought forward into 2017-18.

Spending in Annually Managed Expenditure (AME)

Y Assistance to Financial Institutions

Budget includes expenditure on a £30 million financing facility for FSCS which was not used, offset by £6 million lower than expected loan repayments.

AB Financial Services Compensation Scheme

Unbudgeted income of £24 million above budgeted amount due to repayment of loans made during the 2008-09 financial crisis.

AC UK Asset Resolution

Variance of £639 million is mainly due to larger than budgeted mortgage redemptions and the disposal of investment securities not included in the estimate.

SoPS2 Reconciliation of outturn to net income

In £000	Note	2017-18	2016-17
Total resource outturn in SoPS	SoPS1.1	(452,825)	(25,298,426)
Add: Capital grants		103,970	52,940
Less: Income payable to the Consolidated Fund		(213,503)	(277,571)
Net income in the SoCNE		**(562,358)**	**(25,523,057)**

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

		2017-18		
In £000	**Note**	**Estimate**	**Outturn**	**Outturn Net total compared with Estimate: saving/(excess)**
Resource Outturn	SoPS1.1	**24,424,044**	**(452,825)**	**24,876,869**
Capital Outturn	SoPS1.2	**(2,975,503)**	**(3,774,877)**	**799,374**
Accruals to cash adjustments:		**(35,255,005)**	**(11,821,744)**	**(23,433,261)**
Of which:				
Adjustments to remove non-cash items:				
Depreciation		(6,521)	(7,785)	1,264
BEAPFF fair value movements		(25,000,000)	(367,988)	(24,632,012)
New provisions and adjustments to previous provisions		(140,140)	(291,171)	151,031
Other non-cash items		(200)	684,374	(684,574)
Adjustments for ALBs and other bodies:				
Remove voted resource and capital		2,681,971	(11,749,537)	14,431,508
Add cash grant-in-aid		101,624	91,927	9,697
Adjustments to reflect movements in working balances:				
Increase in inventory		-	(19,310)	19,310
Decrease in receivables		(12,970,000)	(409,514)	(12,560,486)
Decrease in payables		-	63,906	(63,906)
Use of provisions		78,261	183,354	(105,093)
Subtotal		**(13,806,464)**	**(16,049,446)**	**2,242,982**
Removal of non-voted budget items:				
Banking and gilts registration service		(7,300)	(7,017)	(283)
Royal Household Pension Scheme		(3,400)	(3,626)	226
Civil List		(359)	(359)	-
Net cash requirement		**(13,817,523)**	**(16,060,448)**	**2,242,925**

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.

In £000	2017-18 Outturn Income	2017-18 Outturn Cash receipts	2016-17 Outturn Income	2016-17 Outturn Cash receipts
Operating income outside the scope of the Estimate	213,503	203,162	277,571	34,001
Capital receipts outside the scope of the Estimate	-	10,029,012	-	10,315,462
Excess cash surrendered to the Consolidated Fund	16,058,071	16,058,071	7,253,118	7,253,118
Excess cash surrenderable to the Consolidated Fund	2,761	2,761	1,514	1,514
Total amounts paid and payable to the Consolidated Fund	**16,274,335**	**26,293,006**	**7,532,203**	**17,604,095**

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, excluding FSCS, had no special payments and one reportable loss totalling over £300,000 (2016-17: £nil). The loss reflected the impairment by IUK Investments Limited of £2,953,400 in respect of its PF2 investment in the Hospital Company (Sandwell) Limited, the project company delivering construction of the Midland Metropolitan Hospital. The impairment arose following the liquidation of Carillion plc, one of the partners in the project.

FSCS losses and overpayments (audited)

Total losses during the year amounted to £401,588. Of this, compensation overpayments amounted to £334,985 and realised foreign exchange losses amounted to £40,330. FSCS have written off £135,000 of the overpayments and are taking steps to recover the remaining £199,000.

Fees and charges (audited)

Fees and charges are not material for the Treasury Group, therefore no analysis of this is provided.

Payment of suppliers

In May 2010, the government introduced a 5-day target for all suppliers to receive payment. During 2017-18, the Treasury Group made 60.95% of all supplier payments within 5 days, against a target of 90% (2016-17: 68.69%).

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.

Central Funds

As detailed in the Governance Statement above, HM Treasury has oversight and administrative responsibility for the government's Central Funds, namely the Consolidated Fund, National Loans Fund, Contingencies Fund and Exchange Equalisation Account. These funds are accounted for outside of the Treasury departmental group, and disclosures within the Annual Report and Accounts of each of these funds should be viewed alongside those of the departmental group below.

Remote contingent liabilities (audited)

In addition to contingent liabilities reported under IAS 37 in Note 26 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.

In many cases, entering into arrangements that create a remote contingent liability has a distinct policy advantage; as they allow the government to 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.

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[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

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 started a two-year negotiation process between the UK and the EU, during which the UK remains a full member of the EU with all the rights and obligations arising from membership. The terms on which the UK will leave, including any financial settlement payable by the UK towards commitments and liabilities that the EU entered into when the UK was a member state, will be determined by the withdrawal agreement under Article 50 and become legally binding when ratified. The negotiations are ongoing and as such have not given rise to any legal or constructive obligation for HM Treasury.

The department may be required to settle any liabilities arising from changes in legislation, regulation and funding arrangements resulting from EU exit on behalf of the UK government where these are not covered by other government departments. This is disclosed as an unquantifiable remote contingent liability in accordance with the principles of *Managing Public Money*.

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 £572 billion at 31 March 2018. It has an increased maximum borrowing limit of £585 billion 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 BEAPFF 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 2018 the BEAPFF's assets exceeded its liabilities by £40.8 billion (2016-17: £51.2 billion), 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). Quarterly transfers of surplus cash between the BEAPFF and HM Treasury under the indemnity agreement impact the value of the BEAPFF's net assets and so also the value of the derivative. However, the derivative does not mature and become payable until the scheme is unwound, at which time the outstanding value of the derivative would be settled.

If 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 similarly not be payable until the scheme is unwound. However, in such market conditions and prior to wind-up, it may be unlikely that there would be a surplus of cash available in the BEAPFF if the interest payable at Bank Rate on the Bank of England Loan increased significantly above coupon income receivable on the BEAPFF's assets. If there were a shortfall of cash HM Treasury would fund this by way of the quarterly cash transfers, as set out in the deed of indemnity and in line with the current quarterly arrangement with the BEAPFF.

Therefore, although HM Treasury benefitted from the operations of the BEAPFF as at 31 March 2018 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: quarterly cash payments would be classified as non-budget, but any residual settlement of the derivative on wind-up would be AME.

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 27 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 £585 billion, the crystallisation of a potential loss on realising these assets is currently unquantifiable, as the quantum of any potential loss is driven by both the Bank's future policy decisions regarding when to wind up the scheme and by market prices at that time.

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 £5.9 billion of capital had been unlocked for reinvestment as a result of the Deeds.

As at 31 March 2018, 86 Deeds had been signed and were in force (2016-17: 83). 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 remaining amount of the claim has been reflected as a provision for £299 million; see Note 18 of the Accounts.

HM Treasury has not disclosed the financial effect of the Decommissioning Relief Deeds because it is unquantifiable, given the absence of comparable data to use in any calculation.

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 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 as there is no evidence to evaluate.

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 £40 billion of guarantees could be offered under the scheme.

As at 31 March 2018 six projects were guaranteed and no new guarantees were issued during the year. Note 27 to the Accounts gives more detail on each infrastructure project. On 5 February 2018 two guarantees in respect of the Hinkley Point C nuclear power plant were released following a cancellation notice issued by the respective borrower, EDF.

If a 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 £40 billion. As at 31 March 2018 the maximum potential liabilities under this scheme were estimated to be £1.0 billion. A breakdown of the exposure by each infrastructure project can be seen in Note 27 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 continued to be accepted into the scheme until 30 June 2017.

A portion of the liability would crystallise if the following events occurred: 1) a borrower defaults on their mortgage; 2) the sale proceeds from property are less than the outstanding principal and interest repayments owing; and 3) the lender makes a claim to HM Treasury for the difference. During the life of the scheme there have been seven approved claims totalling £73.2k, with a further three totalling circa £37k currently in progress. 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 £12 billion. As at 31 March 2018 the maximum potential liabilities under this scheme were estimated to be £1.4 billion.

For information on the related financial guarantee see Note 22 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.

A remote contingent liability arises in relation to the callable capital, which increases each time a new payment is due by US$489m (approximately £349m), to an eventual total of US$2.4 billion (approximately £1.7 billion) 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 was 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, the equity base of the bank is currently more than sufficient to meets its financial objectives by absorbing risk from its own resources, thus protecting member countries from a possible call on callable capital. Three major credit ratings agencies provided the bank with AAA ratings in 2017,[2]

[2] Standard & Poors, 18 July 2017 https://www.aiib.org/en/news-events/news/2017/_download/20170718_001.pdf; Fitch, 13 July 2017, https://www.fitchratings.com/site/pr/1026413; Moody's, 29 June 2017, https://www.aiib.org/en/news-events/news/2017/_download/research-document.pdf

and no such instance whereby payment has been called 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, the second and third by the Department for International Development (DfID) in February 2017 and January 2018.

Accordingly, HM Treasury has a remote contingent liability of US$0.5 billion (£0.3 billion) as at 31 March 2018 in respect of callable capital related to the first instalment paid to the AIIB, and DfID has a remote contingent liability for the second and third instalments. DfID's investment representing the second and third instalments will be transferred to HMT during the 2018-19 financial year, and the two remaining future payments will be made by HMT. Therefore, HMT 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 24 of the Accounts.

Deposit guarantees

At the time of the nationalisation of Bradford & Bingley plc (B&B) in 2008 and Northern Rock (Asset Management) plc (NRAM plc) in 2010, HM Treasury provided guarantees with regard to certain borrowings and derivative transactions of and certain wholesale deposits held in accounts with each entity. See further Note 22 of the Accounts.

B&B and NRAM (now NRAM Ltd, which was created to hold residual assets and liabilities after the sale of NRAM plc to Cerberus Capital Management Ltd in 2016) pay monthly guarantee fees to the Treasury for these guarantees. If B&B and 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 B&B and NRAM. Each year, the board of UK Asset Resolution Ltd (UKAR), which owns and manages B&B and NRAM on behalf of HM Treasury, assesses the long-term viability of the UKAR Group and refreshes its Ten-Year Plan. In the most recent review, UKAR management assessed that the Group will remain viable throughout the entire period of its anticipated wind down. No payments have been made by HM Treasury under these guarantees.

The maximum potential liabilities under the intervention for B&B are estimated to be £13.3 million as at 31 March 2018 (2016-17: £13.3 million), of which a financial guarantee liability of £1.8 million is carried at fair value on the Statement of Financial Position at the reporting date (2016-17: £2.2 million).

The maximum potential liabilities under the intervention for NRAM are estimated to be £0.2 billion as at 31 March 2018 (2016-17: £0.2 billion), of which a financial guarantee liability of £9.8 million is carried at fair value on the Statement of Financial Position at the reporting date (2016-17: £21.3 million).

There is no contingent liability at the group level for either guarantee.

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.

These remote contingent liabilities cover certain fundamental market-standard warranties. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their fundamental nature, such occurrence is considered remote.

The maximum potential liability is capped at the value of the sale proceeds: £11.4 billion. For information on the related contingent liabilities see Note 26 of the Accounts.

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 (March 2018) are £5.8 billion (2016-17: £5.7 billion) and £30m (2016-17: £29m) 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 as there is no past experience to use in forming an estimate, and the size and scale of a potential terrorist incident cannot be predicted. It is also considered remote that circumstances would arise requiring HM Treasury to provide such financial assistance. These arrangements are given statutory authority under the Reinsurance (Acts of Terrorism) Act 1993.

Royal Mint

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. This item was previously disclosed as a contingent liability but has been reclassified due to the likelihood of occurrence being considered remote.

HM Treasury has provided an indemnity to the Cabinet Office in respect of employer contributions payable to the Civil Service Pensions Scheme when the Royal Mint's pensions transferred under new fair deal. This liability would only materialise in the unlikely event that the Royal Mint failed to make payments to the PSCS. It is unquantifiable since the scheme is expected to run beyond the foreseeable future, and the timing and scale of any possible failure by the Royal Mint cannot be predicted.

Treasury core tables

Total resource and capital spending for the Treasury Group

The tables on the following pages provide a summary of the department's net expenditure outturn for 2017-18 and the four prior years, along with the planned expenditure for 2018-19. The outturn and planned expenditure is recorded on the same basis as the information on financial performance in the Statement of Parliamentary Supply beginning on page 86. They represent the spending incurred collectively across the departmental group in meeting its objectives detailed in the Performance Report beginning on page 4.

Resource

£m			Outturn			Budget
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Resource DEL						
Core Treasury	(282)	106	122	118	170	115
Debt Management Office	18	18	18	18	18	19
Government Internal Audit Agency	-	-	1	2	4	-
Office of Tax Simplification	-	-	-	1	1	1
UK Financial Investments	2	3	3	2	2	-
Office for Budget Responsibility	2	2	2	3	2	3
Infrastructure Finance Unit Ltd	(4)	(4)	(4)	(4)	(4)	-
Eurostar	-	-	(16)	-	-	-
UK Government Investments Ltd	-	-	-	11	12	13
National Infrastructure Commission	-	-	-	1	5	5
Business Finance Partnership	-	(11)	-	-	-	-
Asian Infrastructure Investment Bank	-	-	-	-	9	9
Non-voted: Banking & gilts registration	11	11	11	7	7	7
Total Resource DEL	**(253)**	**125**	**137**	**159**	**226**	**172**
Resource AME						
Provisions	107	448	298	244	141	-
Coinage manufacturing	33	41	35	31	43	3
Coinage metal costs	5	9	15	21	25	(9)
Investment in the Royal Mint	(4)	(4)	(4)	(4)	(4)	(4)
Investment in the Bank of England	(80)	(93)	(105)	(103)	(62)	(50)
Equitable Life administration	16	6	4	3	1	-
Financial stability	8,439	(48,570)	(12,500)	(24,832)	(217)	(84)
Credit easing	(68)	(64)	(63)	(61)	(3)	-
Sovereign Grant	36	36	40	42	47	82
MAS	-	1	(3)	(6)	9	-
FSCS	(736)	(393)	(333)	(301)	(75)	(50)
UKAR	(1,485)	(1,231)	(1,264)	(497)	(592)	(275)
Help to Buy	2	1	-	-	-	-
Help to Buy ISA	-	-	61	-	-	-
IUK Investments	-	-	-	-	3	-
UK Financial Investments	-	-	-	1	1	-
Non-voted: Royal Household pension	3	3	4	4	4	4
Non-voted: Civil List	-	-	-	-	-	-
Total resource AME	**6,268**	**(49,810)**	**(13,815)**	**(25,458)**	**(679)**	**(383)**
Total resource DEL and AME (net)	**6,015**	**(49,685)**	**(13,678)**	**(25,299)**	**(453)**	**(211)**
of which:						
DEL Depreciation	6	6	8	8	8	5

Note: data for future years beyond 2018-19 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 in 2017-18 primarily due to settlement of claims under the Decommissioning Relief Deeds. These amounts were previously provided for in Resource AME and reflect a reclassification of the expenditure when the provision was utilised. Separately, there was also an increase in staff numbers during the year to address the department's work in connection with the UK's withdrawal from the EU.

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

£m	Outturn					Budget
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Capital DEL						
Core Treasury	(3)	9	-	-	1	138
Debt Management Office	-	1	-	-	3	6
Infrastructure Finance Unit Ltd	(3)	(5)	(4)	(5)	(88)	-
IUK Investments Limited	-	-	-	2	6	-
Eurostar	-	-	(741)	-	-	-
Business Finance Partnership	284	31	-	-	-	-
Asian Infrastructure Investment Bank	-	-	85	-	-	80
Total Capital DEL	**278**	**36**	**(660)**	**(3)**	**(78)**	**224**
Capital AME						
Assistance to Financial Institutions	(4,937)	(3,030)	(11,314)	(3,515)	(942)	25
Sovereign Grant	-	2	2	2	5	3
MAS	1	-	-	-	-	
FSCS	-	(587)	(294)	(2)	(24)	
UKAR	(7,073)	(9,100)	(17,459)	(16,270)	(2,840)	(6,600)
Help to Buy ISA	-	-	-	53	104	138
Total Capital AME	**(12,009)**	**(12,715)**	**(29,065)**	**(19,732)**	**(3,697)**	**(6,434)**
Total Capital DEL and AME (net)	**(11,731)**	**(12,679)**	**(29,725)**	**(19,735)**	**(3,775)**	**(6,210)**
Total Departmental Spending	**(5,716)**	**(62,364)**	**(43,403)**	**(45,034)**	**(4,228)**	**(6,421)**

Capital DEL

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. The capital subscription in 2017-18 was similarly made by DfID and therefore the corresponding amount provided for in HM Treasury's 2017-18 budget was transferred to DfID accordingly. The capital subscription in 2018-19 will be made by HM Treasury and, consequently, is shown in the 2018-19 budget.

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.

£m	Outturn					Budget
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Core Treasury	109	123	136	125	123	109
Debt Management Office	14	14	14	15	15	15
Government Internal Audit Agency	-	-	1	2	4	-
Office of Tax Simplification	-	-	-	1	1	1
UK Financial Investments	2	3	4	2	2	-
Office for Budget Responsibility	2	2	2	3	3	3
UK Government Investments	-	-	-	11	12	13
National Infrastructure Commission	-	-	-	1	5	5
Eurostar	-	-	(16)	-	-	-
Total net administration costs	**127**	**142**	**141**	**160**	**165**	**146**
of which:						
Staff costs	79	80	102	129	140	
Other expenditure	95	91	101	85	85	
Income	(47)	(29)	(62)	(54)	(60)	

Staff costs

2017-18 saw an increase in Core Treasury staff due to a number of factors, including two graduate recruitment campaigns that brought in around 160 policy advisers in two tranches in April and September, but also due to a planned increase in headcount required to address the department's work in connection with the UK's withdrawal from the EU.

Other expenditure

Expenditure remained consistent with 2016-17.

Income

The main reason for the increase in income is the continued growth of the GIAA customer base over the year, which has seen their client income increase by around £4m.

Tom Scholar
Permanent Secretary

29 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the HM Treasury and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises 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 Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

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 2018 and of the Department's and Departmental Group's net income for the year then ended;
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 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 conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of HM Treasury in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Regularity Framework- HM Treasury	
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

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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 management override of controls and implementation of the new accounting system (Oracle Fusion), areas where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their statement on matters that they considered to be significant to the financial statements is set out in the Governance Statement.

In this year's report the following changes have been made compared to my prior year's report to the significant risks identified under ISA (UK) 315:

- I identified a new key audit matter in respect of the negotiations between the government and the EU on the terms of the UK's withdrawal from the EU;
- In the prior year I reported a key audit matter on the recoverability of loans issued to UK Asset Resolution (UKAR) and the associated mortgages. In the current year, I limited the scope of this risk and the key audit matter to cover the measurement of loan loss impairment provisions on the mortgages held

by UKAR. I do not consider the recoverability of loans to UKAR to represent a significant risk or a key audit matter this year due to the level of distributable equity held by UKAR and a significant reduction of the loan balance;

- I identified a new significant risk in respect of the implementation of the new accounting system (Oracle Fusion) though I do not consider it to be a key audit matter;
- In the prior year I reported a key audit matter and a significant risk on the recognition of the sale of Bradford and Bingley mortgages. This sale was completed in April 2017 therefore has not been identified as a key audit matter for the current year audit. During the year I considered whether the latest sale of Bradford and Bingley mortgages completed in May 2018 represented a significant risk or a key audit matter for this year and concluded it did not.

Key audit matter 1- Negotiations between the government and the EU on the terms of the UK's withdrawal from the EU

Description of risk

On 29 March 2017 the UK Government submitted notification to leave the European Union. The negotiation process was formally launched on 19 June 2017. Phase I of the negotiations was completed in December 2017 and a UK-EU joint report set out the principles underlying the financial settlement, i.e. what UK will pay towards the net commitments and liabilities that the EU entered into when the UK was a member state. The Chancellor wrote to the Treasury Select Committee in January 2018, stating that £35-£39 billion was a reasonable central estimate of the value of the settlement. The terms on which the UK will leave the EU, including the financial settlement, will not be enforceable until the UK and EU agree the final withdrawal agreement. The negotiations are ongoing and as such HM Treasury judged that these had not given rise to any legal or constructive obligation at the 31 March 2018. It has not therefore recognised any liability or disclosed any contingent liability with respect to the financial settlement in its 2017-18 accounts.

There is uncertainty and management judgment involved in assessing the impact of the financial settlement on the 2017-18 HM Treasury Annual Report and Accounts. Therefore, I have identified a significant risk and a key audit matter in this respect for the audit of the Department and the Departmental Group.

How the scope of my audit responded to the risk	I have assessed the design and implementation of controls operated by Treasury in assessing the impact of the withdrawal negotiations on its 2017-18 Annual Report and Accounts. I have considered the appropriateness of HM Treasury's judgment on the impact of the withdrawal negotiations on its 2017-18 Annual Report and Accounts. This included confirming that its assertion that there was no

legal or constructive obligation at 31 March 2018 was consistent with the joint report and draft withdrawal agreement published by the government and the EU.

Key observations

The results of my testing were satisfactory. I agree with HM Treasury's judgment that there was no legal or constructive obligation for HM Treasury at 31 March 2018 arising from the withdrawal negotiations and consider the relevant disclosures complete and accurate.

Key audit matter 2- Valuation of the BEAPFF derivative

Description of risk

HM Treasury provides an indemnity to the Bank of England (BoE) over its loan to the Bank of England Asset Purchase Facility Fund (BEAPFF). This indemnity is recognised as a derivative financial instrument in HM Treasury's accounts – a derivative asset of £40.8 billion as at 31 March 2018.

BEAPFF prepares its accounts to 28 February, one month before HM Treasury's reporting date. HM Treasury uses BEAPFF's management accounts to establish the value of the derivative at 31 March. Due to the significance of this figure and its volatility to market prices, I identified a significant risk per ISA 315 and a key audit matter in respect of the valuation of this financial asset for the audit of the Department and the Departmental Group.

How the scope of my audit responded to the risk

I have assessed the design and implementation of controls carried out by HM Treasury to ensure that the figures reported in the BEAPFF management accounts for March 2018 are sufficiently accurate to use for the valuation of the BEAPFF derivative asset in the HM Treasury's accounts.

I used the work of my team auditing the BEAPFF accounts to obtain assurance over the derivative value at 28 February 2018.

I performed additional procedures on the subsequent movements in assets and liabilities, in particular fair value of the financial assets held by BEAPFF, to obtain assurance over the value of the derivative asset as at 31 March 2018.

Key observations

Although I identified that Treasury's controls around the valuation of the BEAPFF derivative were not sufficiently detailed for my audit to rely on, I obtained sufficient assurance over this risk through my substantive testing. No material misstatements were found.

Key audit matter 3- Measurement of loan loss impairment provisions

Description of risk

Loans to banking customers held by Northern Rock Asset Management Ltd (NRAM) and Bradford and Bingley (B&B) are consolidated into UK Asset Resolution (UKAR) group and ultimately into the HM Treasury Group. The loan loss impairment provision in respect of these loans was valued at £0.3 billion at 31 March 2018. The relevant disclosures in the HM Treasury 2017-18 Annual Report and Accounts can be found in Note 12 to the financial statements, where the loan balances are shown net of the impairment provision and include balances in respect of equity release mortgages which are not covered by this risk.

UKAR's loan loss impairment model is a key element of mortgage book valuation, and the model is dependent upon a wide range of assumptions, key elements being the probability of customer default and the valuation of any underlying security. UKAR’s management also apply adjustments or overlays where they believe the data driven parameters and calculations are not appropriate. Loan loss provisioning is a highly subjective area due to the level of judgment applied by UKAR management in determining the level of provisions and as such remains a key area of focus and significant risk for the audit.

How the scope of my audit responded to the risk

I used the work of my team auditing the UKAR accounts to assess the design and implementation of key controls around this risk and obtain assurance over the measurement of the loan loss impairment provisions. Through my audit of UKAR:

- I understood and assessed management’s basis for assessing whether loans are impaired.
- I independently recreated management’s underlying impairment model.
- I conducted a sensitivity analysis over aspects of this model.
- I challenged management to provide explanations and objective evidence to support the key modelling assumptions and parameters used in the model, in particular the overlay adjustments.

- I obtained assurance over the accuracy and completeness of input data used in the model.

Key observations

Based on the evidence I obtained through my audit of UKAR I found that the impairment model assumptions and data used within the models were reasonable and were within the ranges determined by my independent model. I found that the impairment overlays were supported by appropriate historic evidence, and that changes made to the model were justified in terms of improving the relevance of the accounting estimate in the context of the underlying loan portfolio and past experience.

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 judgment of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgment, I determined overall materiality for the Department's financial statements at £407 million and for the Departmental group at £408 million, which is approximately 1% of the value of the BEAPFF derivative asset. I chose this benchmark because of the significance of this asset in terms of value and risk. At £40.8 billion, the BEAPFF derivative dominates the statement of financial position of HM Treasury.

The other assets held by HM Treasury have significantly decreased in recent years, primarily due to a sale of the remaining shares in the Lloyds Banking Group and sales of the mortgage assets held by UKAR. I have therefore determined that for financial statement components unconnected with the BEAPFF derivative asset, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given there is more interest in these figures. I have therefore determined that the threshold to be applied to these components is £260 million for the Department and £272 million for the Departmental Group, being approximately 0.5% of the remaining gross assets.

	Group materiality	Parent materiality
Overall materiality	£408 million	£407 million
Lower threshold	£272 million	£260 million

My approach to determining materiality for this audit has changed since the prior year. Previously I have determined the overall materiality based on 0.5% of gross assets of the Department and the Departmental Group. This change was a result of my assessment of the significance and volatility of BEAPFF derivative asset in the context of other financial statement components presented in the HM Treasury accounts.

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, errors in relation to the remuneration of Ministers or senior management reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and 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 and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee would have decreased net assets of the Department by £14.3 million and of the Departmental Group by £47 million.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's and Departmental Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's and Departmental Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Departmental Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

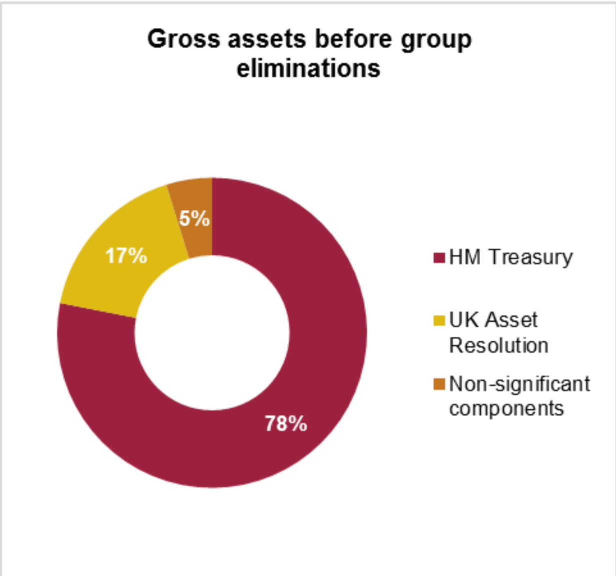
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

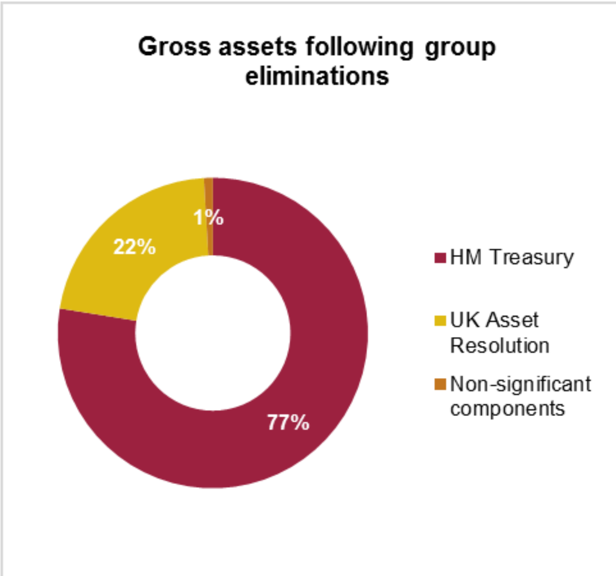
I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure 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.

Audit Scope

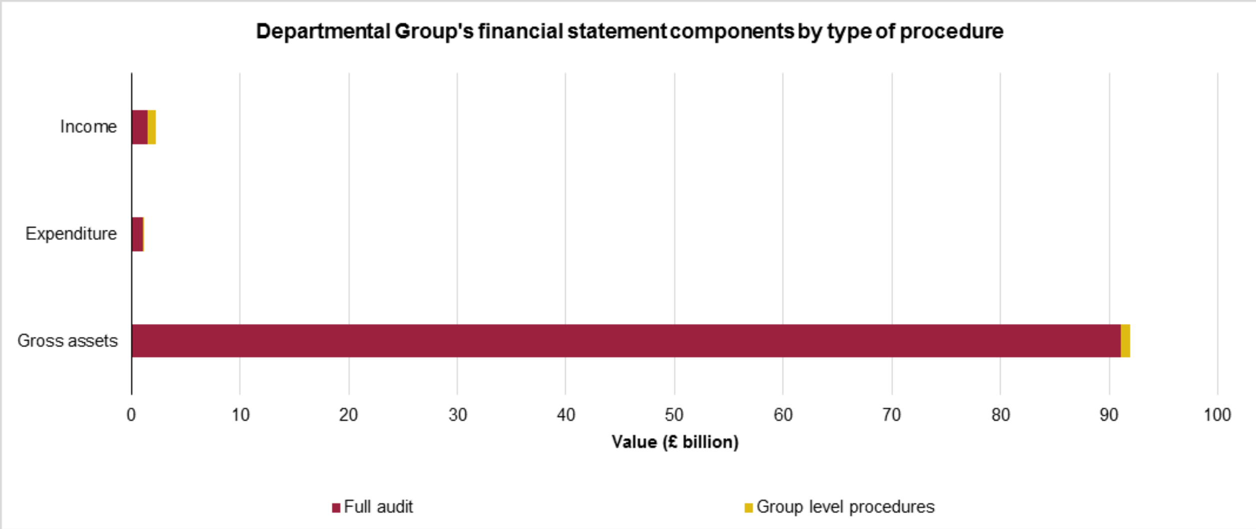
The scope of my audit of the Departmental Group was determined by obtaining an understanding of the Departmental Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

I identified two significant components for my audit of the Departmental Group: HM Treasury and UKAR. Together these represent 95% of the group's gross assets before group eliminations and 99% of the group's gross assets following the group eliminations (see graphs below).





I carried out a full audit of HM Treasury as part of the audit of the Departmental Group and had regular involvement in my statutory audit of UKAR, particularly in respect of the significant risk and key audit matter on the measurement of loan loss impairment provisions. This work covered substantially all of the group's assets and net income, and together with the procedures performed at the group level, gave me the evidence I needed for my opinion on the group financial statements as a whole (see graph below).



Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Department and the Departmental Group and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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;

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

9 July 2018

Chapter 3

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure

for the period ended 31 March 2018

		Core Treasury and Agencies		Group	
In £m	**Note**	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Income from sale of goods and services		(62)	(35)	(62)	(35)
Other operating income	1	(315)	(749)	(917)	(1,032)
Total operating income		**(377)**	**(784)**	**(979)**	**(1,067)**
Staff costs	2	128	116	198	187
Purchase of goods and services	3	167	123	466	411
Other operating expenditure	4	423	392	804	797
Total operating expenditure		718	631	1,468	1,395
Net operating expenditure before financing		**341**	**(153)**	**489**	**328**
Finance income	5	(442)	(1,031)	(891)	(1,693)
Finance expense	6	(178)	262	(148)	(49)
Revaluation of financial assets and liabilities	7	369	(23,097)	350	(23,085)
Net gain on disposal of assets	8	(427)	(1,399)	(458)	(1,085)
Net income before tax		**(337)**	**(25,418)**	**(658)**	**(25,584)**
Taxation		-	-	96	61
Net income after tax		**(337)**	**(25,418)**	**(562)**	**(25,523)**
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		(1,565)	(1,992)	(1,112)	(1,800)
Net transfer from reserves and recognised as income in year	8	414	1,581	414	1,581
Net (gain)/loss in hedging reserve		-	-	(1)	4
Total		**(1,151)**	**(411)**	**(699)**	**(215)**
Items that will not be reclassified to net operating expenditure					
Actuarial (gain)/loss on pension scheme liabilities		-	-	33	3
Total		**-**	-	**33**	3
Net comprehensive income for the year		**(1,488)**	**(25,829)**	**(1,228)**	**(25,735)**

The Notes on pages 121 to 172 form part of these accounts.

Consolidated Statement of Financial Position
as at 31 March 2018

		Core Treasury and Agencies		Group	
In £m	**Note**	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Non-current assets					
Property, plant and equipment		139	143	159	157
Intangible assets		5	5	8	10
Trade and other receivables	9	470	543	1,107	1,145
Available-for-sale financial assets	10	34,940	34,311	26,412	26,241
Loans and advances	11	8,235	15,376	3,267	3,647
Loans to banking customers	12	-	-	11,807	18,909
Loan hedging asset	13	-	-	406	442
Total non-current assets		**43,789**	**50,378**	**43,166**	**50,551**
Current assets					
Cash and cash equivalents	15	5	2	1,986	2,655
Trade and other receivables	9	527	855	578	12,418
Inventory		40	59	40	59
Loans and advances	11	5,174	12,592	-	-
Assets held for sale	16	-	-	4,992	-
Loans to banking customers	12	-	-	443	555
Loan hedging asset	13	-	-	15	13
Derivative financial assets	14	40,778	51,175	40,778	51,177
Total current assets		**46,524**	**64,683**	**48,832**	**66,877**
Total assets		**90,313**	**115,061**	**91,998**	**117,428**
Current liabilities					
Trade and other payables	17	(310)	(245)	(663)	(978)
Provisions	18	(592)	(422)	(699)	(548)
Debt securities in issue	20	-	-	(4)	(4)
Derivative financial liabilities	21	-	-	-	(3)
Financial guarantees	22	(36)	(43)	(26)	(31)
Total current liabilities		**(938)**	**(710)**	**(1,392)**	**(1,564)**
Non-current liabilities					
Trade and other payables	17	(377)	(436)	(713)	(743)
Provisions	18	(705)	(766)	(751)	(840)
Debt securities in issue	20	-	-	(200)	(200)
Derivative financial liabilities	21	-	-	(472)	(524)
Financial guarantees	22	(131)	(182)	(129)	(170)
Total non-current liabilities		**(1,213)**	**(1,384)**	**(2,265)**	**(2,477)**
Total assets less liabilities		**88,162**	**112,967**	**88,341**	**113,387**
Equity					
General fund	SoCTE	73,339	99,295	80,790	103,848
Available-for-sale reserve	SoCTE	14,776	13,625	6,244	5,546
Revaluation reserve	SoCTE	47	47	47	47
Hedging reserve	SoCTE	-	-	-	(1)
Pension reserve	SoCTE	-	-	118	151
Merger reserve	SoCTE	-	-	1,142	3,796
Total equity		**88,162**	**112,967**	**88,341**	**113,387**

The Notes on pages 121 to 172 form part of these accounts.

Tom Scholar
Permanent Secretary

29 June 2018

Statement of Changes in Taxpayers' Equity
for the period ended 31 March 2018

Group

In £m	General fund	Available -for-sale reserve	Re-valuation reserve	Hedging reserve	Pension reserve	Merger reserve	Total reserves
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)
Change in 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**
Net income after tax	562	-	-	-	-	-	562
Change in CFERs payable to the Consolidated Fund	(10)	-	-	-	-	-	(10)
CFERs paid to the Consolidated Fund	(10,232)	-	-	-	-	-	(10,232)
Change in excess cash payable to the Consolidated Fund	(3)	-	-	-	-	-	(3)
Excess cash paid to the Consolidated Fund	(16,058)	-	-	-	-	-	(16,058)
Consolidated Fund standing services	4	-	-	-	-	-	4
Other movements	25	-	-	-	-	-	25
Revaluation gains and losses	-	698	-	1	(33)	-	666
Transfers	2,654	-	-	-	-	(2,654)	-
Balance at 31 March 2018	**80,790**	**6,244**	**47**	**-**	**118**	**1,142**	**88,341**

The Notes on pages 121 to 172 form part of these accounts.

Statement of Changes in Taxpayers' Equity
for the period ended 31 March 2018

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 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)
Change in 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**
Net income after tax	337	-	-	-	-	-	337
Change in CFERs payable to the Consolidated Fund	(10)	-	-	-	-	-	(10)
CFERs paid to the Consolidated Fund	(10,232)	-	-	-	-	-	(10,232)
Change in excess cash payable to the Consolidated Fund	(3)	-	-	-	-	-	(3)
Excess cash paid to the Consolidated Fund	(16,058)	-	-	-	-	-	(16,058)
Consolidated Fund standing services	4	-	-	-	-	-	4
Other movements	6	-	-	-	-	-	6
Revaluation gains and losses	-	1,151	-	-	-	-	1,151
Balance at 31 March 2018	**73,339**	**14,776**	**47**	**-**	**-**	**-**	**88,162**

The Notes on pages 121 to 172 form part of these accounts.

Consolidated Statement of Cash Flows
for the period ended 31 March 2018

In £m	Note	Core Treasury and Agencies 2017-18	Core Treasury and Agencies 2016-17	Group 2017-18	Group 2016-17
Cash flows from operating activities					
Net operating income/(expenditure) before financing	SoCNE	(341)	153	(489)	(328)
Other non-cash transactions	23	305	319	498	533
Changes in working capital		46	(704)	106	(546)
Loans to banking customers		-	-	2,476	3,926
Proceeds: sale of loans to banking customers		-	-	11,417	411
Net movement: derivatives and other financial instruments attributable to loans to banking customers		-	-	(12)	(675)
Corporation tax paid		-	-	(143)	(130)
Use of provisions		(183)	(50)	(295)	(151)
Net cash flows from operating activities		**(173)**	**(282)**	**13,558**	**3,040**
Cash flows from investing activities					
Proceeds: derivative financial instruments		10,029	10,315	10,029	10,315
Proceeds: sale of shares UK listed entities		949	3,286	949	3,286
Proceeds: sale of investment securities and other assets		-	-	254	1,002
Net cash outflows from debt securities in issue		-	-	(13)	(5,196)
Proceeds: interest, dividend and other finance income		669	927	943	1,726
Purchases: financial assets		(12)	(2,977)	(11)	(2)
Proceeds: repayment of financial assets		14,842	6,342	124	110
Other investing activities		(12)	(9)	(213)	(94)
Net cash flow from investing activities		**26,465**	**17,884**	**12,062**	**11,147**
Cash flows from financing activities					
Cash from the Consolidated Fund (non-supply)		4	4	4	4
Advances from the Contingencies Fund		-	2,982	-	2,982
Repayments to the Contingencies Fund		-	(2,982)	-	(2,982)
Capital element of the PFI contract		(3)	(3)	(3)	(3)
Net cash flows from financing activities		**1**	**1**	**1**	**1**
Net increase in cash and cash equivalents before adjustments		**26,293**	**17,603**	**25,621**	**14,188**
Payments of amounts due to the Consolidated Fund	SoCTE	(10,232)	(10,349)	(10,232)	(10,349)
Excess cash paid to the Consolidated Fund	SoCTE	(16,056)	(7,252)	(16,056)	(7,252)
Payment of prior year balance to the Consolidated Fund	SoCTE	(2)	(1)	(2)	(1)
Net increase/(decrease) in cash and cash equivalents after adjustments	15	**3**	**1**	**(669)**	**(3,414)**
Cash and cash equivalents at the beginning of the period	15	2	1	2,655	6,069
Cash and cash equivalents at the end of the period	15	**5**	**2**	**1,986**	**2,655**

The Notes on pages 121 to 172 form part of these accounts.

Notes to the Resource Accounts

1. Other operating income

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Fees, levies and charges	(74)	(446)	(573)	(521)
Insurance premiums	(214)	(277)	(214)	(277)
Recoveries and recharges	(7)	(7)	(52)	(148)
Other operating income	(20)	(19)	(78)	(86)
Total	**(315)**	**(749)**	**(917)**	**(1,032)**

At Core and Agencies level, in 2016-17 a large part of the deposit guarantee liability to UKAR was released, allowing recognition of the fees as income. This exercise has not been repeated in 2017-18. This variance eliminates at group level.

Insurance premiums have reduced by £63m, as part of the premium received from Pool Re takes the form of a profit share, and this element is influenced by the performance of the company's investments which was higher in 2016-17 than 2017-18.

2. Staff costs and numbers

Total Staff costs for the Group at 31 March 2018 were £198m (2016-17: £187m), comprising £167m salaries and wages, £17m social security and £14m staff pension costs. For more information and for staff numbers refer to the Remuneration and Staff Report (from page 66).

3. Purchase of goods and services

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
UK coinage: metal and manufacturing costs	94	55	94	55
Professional & office services	43	38	231	225
Other purchase of goods and services	30	30	141	131
Total	**167**	**123**	**466**	**411**

UK coinage: metal and manufacturing costs rose significantly in 2017-18 due to the introduction of the new £1 coin.

4. Other operating expenditure

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
FSCS compensation costs	-	-	397	357
Movement in provisions	290	302	357	388
Other operating expenditure	133	90	50	52
Total	**423**	**392**	**804**	**797**

Movement in provisions is detailed in Note 18.

5. Finance income

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Interest and fee income from loans	(263)	(649)	(795)	(1,401)
Dividend income	(96)	(292)	(96)	(292)
Amortisation of loans	(83)	(90)	-	-
Total	**(442)**	**(1,031)**	**(891)**	**(1,693)**

Interest and fee income from loans decreased by £606m mainly due to the sale of a portfolio of UKAR's mortgage assets during 2016-17.

Dividend income reduced by £196m mainly due to the sale of Lloyds Bank shares during 2016-17 and 2017-18.

6. Finance expense

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Impairments/(impairment reversals) of financial assets	(187)	253	(174)	(83)
Interest expense	-	-	17	25
Interest element of the PFI contract	9	9	9	9
Total	**(178)**	**262**	**(148)**	**(49)**

At Core and Agencies level, in 2016-17 the Statutory Debt to FSCS was impaired by £260m, offsetting smaller impairment reversals. No similar impairment has happened in 2017-18. Also in 2017-18 the impairment on statutory debt to Bradford and Bingley was reversed through the SoCNE by £148m. Both these differences eliminate at group level.

At Group level, in 2017-18 impairments of on loans to banking customers of £177m were reversed through the SoCNE.

7. Revaluation of financial assets and liabilities in the SoCNE

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Fair value (gain)/loss on derivatives	368	(23,096)	368	(23,096)
Fair value (gain)/loss on financial assets	1	(1)	(1)	3
Hedge ineffectiveness	-	-	(17)	8
Total	**369**	**(23,097)**	**350**	**(23,085)**

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

8. Gain on disposal of assets in the SoCNE

	Core Treasury and Agencies		Group	
In £m	2017-18	2016-17	2017-18	2016-17
Net transfer from reserves and recognised as income in year	(414)	(1,581)	(414)	(1,581)
Net (gains) and losses recognised in year	(13)	182	(44)	496
Total (gains)/losses on disposal of assets	**(427)**	**(1,399)**	**(458)**	**(1,085)**

Net transfer from reserves and recognised as income in year of £0.4 billion represents the gain which crystallised following the sale of Lloyds shares (Note 10 – Available-for-sale assets).

Net (gains) recognised in year are made up of an in-year gain on disposal of Lloyds shares and on disposal of UKAR investment Securities (Note 10 – Available-for-sale assets).

9. Trade and other receivables

	Core Treasury and Agencies		Group	
In £m	2017-18	2016-17	2017-18	2016-17
Current receivables				
Trade receivables	9	10	13	17
Accrued interest and dividend income	194	505	91	132
Accrued insurance income	264	199	264	199
Levies receivable	-	-	95	295
Guarantee fees receivable	23	37	13	25
Sale of loans	-	-	-	11,417
Other	37	104	102	333
Total current	**527**	**855**	**578**	**12,418**
Non-current receivables				
Accrued insurance income	264	320	264	320
Guarantee fees receivable	82	103	81	92
Pension asset	-	-	544	479
Deposit with the National Loans Fund	-	-	200	200
Other	124	120	18	54
Total non-current	**470**	**543**	**1,107**	**1,145**
Total receivables	**997**	**1,398**	**1,685**	**13,563**

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

Sale of loans in 2016-17 relates to UKAR's £11.4 billion receivable for the sale of UKAR's B&B mortgage assets. This amount was received by UKAR in April 2017.

The reduction in value of other current receivables is due to decreases in many lower value items, most of which are immaterial. However, there was a significant reduction in FSCS' other recoveries, down from £126m in 2016-17 to £5m in 2017-18. This was due to a drop in the number of failed firms, leading to a reduction in the funds recovered from administrators of those firms' estates.

10. Available-for-sale assets

10.1 Current year

In £m	At 1 April 2017	Additions, disposals & transfers	Fair value adjustment	Impairments	At 31 March 2018
Listed entities					
RBS ordinary shares	20,420	-	1,408	-	21,828
Lloyds Banking Group ordinary shares	935	(935)	-	-	-
Unlisted investments					
Bank of England share capital	4,756	-	(274)	-	4,482
Asian Infrastructure Investment Bank	98	-	(11)	-	87
Other shareholdings	9	-	-	-	9
Group entities					
UKAR	8,093	-	440	-	8,533
IUK share capital	-	3	1	(3)	1
Total Core Treasury and Agencies	**34,311**	**(932)**	**1,564**	**(3)**	**34,940**
Intra-group eliminations	(8,093)	(3)	(441)	3	(8,534)
UKAR investment securities	23	(59)	(18)	54	-
Other group shareholdings	-	8	1	(3)	6
Total Group	**26,241**	**(986)**	**1,106**	**51**	**26,412**

On 17 May 2017, HM Treasury sold its remaining Lloyds Banking Group ordinary shares, fully returning Lloyds Bank to the private sector. The increase in value in the RBS shareholding is due to favourable market moves, which saw the share price increase from 242.1p on 31 March 2017 to 258.8p on 31 March 2018.

10.2 Prior 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	85	-	13	-	98
Other shareholdings	9	-	-	-	9
Group entities					
UK Asset Resolution share capital (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**

Group shareholdings

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

In £m	2017-18 Stake %	2017-18 Total net assets	2017-18 Entity's reported profit/(loss) for the year	2016-17 Stake %	2016-17 Total net assets	2016-17 Entity's reported profit/(loss) for the year
Bank of England	100	4,482	129	100	4,756	202
RBS ordinary shares	70	49,093	(1,415)	71	49,404	(5,248)
Lloyds Banking Group ordinary shares	-	-	-	2	48,815	2,514

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 end of December for RBS.

11. Loans and advances

11.1 Group

Current year

In £m	At 1 April 2017	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2018
Loans	3,376	3	(118)	-	3,261
Statutory debt	11	-	(5)	-	6
Investment securities held as loans	260	-	(425)	165	-
Total	**3,647**	**3**	**(548)**	**165**	**3,267**

All Group loans and advances are non-current assets.

Statutory debt includes amounts claimed from the Dunfermline Building Society (DBS) estate, which are expected to be recovered in full by the end of July 2018. See further detail in Note 27 and Note 33.3 below.

Prior year

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**

All Group loans and advances are non-current assets.

11.2 Core Treasury and Agencies

Current year

In £m	At 1 April 2017	Advances	Redemptions, repayments & transfers	Impairments, reversals, amortisation & FX adjustments	At 31 March 2018
Working capital facility	2,011	-	(1,891)	-	120
Loans	23,566	9	(12,944)	-	10,631
Statutory debt	2,391	-	(6)	273	2,658
Total	**27,968**	**9**	**(14,841)**	**273**	**13,409**
Current	12,592				5,174
Non-current	15,376				8,235

Following the 2016-17 sale of a portfolio of B&B mortgage assets, which completed in April 2017, B&B repaid £11 billion of loans to the FSCS, which repaid a corresponding £11 billion of loans to HM Treasury.

Scheduled loan repayments to HM Treasury of £1.9 billion were also received from NRAM, and B&B further repaid £1.9 billion of its working capital facility, of which £0.4 billion came from the asset sale proceeds.

Prior year

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

12. Loans to banking customers

12.1 Group

Current year

In £m	At 1 April 2017	Advances	Redemptions, repayments & transfers	Impairments, reversals & other movements	At 31 March 2018
Residential mortgages	18,888	8	(7,328)	179	11,747
Commercial loans	258	-	(18)	7	247
Unsecured loans	318	-	(51)	(11)	256
Total	**19,464**	**8**	**(7,397)**	**175**	**12,250**
Current	555				443
Non-current	18,909				11,807

Residential mortgages decreased by £7 billion due primarily to the transfer of £5.4 billion of the B&B mortgage assets to 'Assets Held for Sale' (see Note 16), with the balance of the movement consisting of mortgage redemptions and repayments. This is part of an on-going programme of sales aimed at returning UKAR's B&B mortgage book to the private sector.

Prior year

In £m	At 1 April 2016	Advances	Redemptions & repayments	Impairments, reversals & other movements	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

12.2 Allowance for impairment

£m	At 1 April 2017	Sale of assets	Impairments & reversals	Write-offs	At 31 March 2018
Residential mortgages	561	(11)	(150)	(50)	350
Commercial loans	12	-	-	-	12
Unsecured loans	75	-	(6)	(13)	56
Total	**648**	**(11)**	**(156)**	**(63)**	**418**

Prior year

£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**

13. Loan hedging asset

	Group	
In £m	**2017-18**	**2016-17**
Current	15	13
Non-current	406	442
Total	**421**	**455**

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

14. Derivative financial assets

	Core Treasury and Agencies		**Group**	
£m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Balance at 1 April	51,175	38,394	51,177	39,175
Cash movements	(10,029)	(10,315)	(10,030)	(11,250)
Fair value adjustment	(368)	23,096	(369)	23,252
Balance at 31 March	**40,778**	**51,175**	**40,778**	**51,177**

All derivative financial assets are current.

Derivative financial assets decreased by £10.4 billion due to HM Treasury's BEAPFF derivative asset.

The cash transfers of £10.0 billion were surrendered to the Consolidated Fund. The transfers have the effect of partially settling the derivative and therefore explain its decrease in value this year. Although the transfers remained broadly consistent year on year, they were not offset by material fair-value gains during the period as in the prior year.

For more information refer to Note 7 – Revaluation of financial assets and liabilities in the SoCNE and Note 27 – Financial risk.

15. Cash and cash equivalents

	Core Treasury and Agencies		Group	
£m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Balance at 1 April	2	1	2,655	6,069
Net change in cash balances	3	1	(669)	(3,414)
Total	**5**	**2**	**1,986**	**2,655**
The following balances were held at 31 March				
Government Banking Service	5	2	836	1,340
Bank of England	-	-	571	714
Commercial banks and cash in hand	-	-	579	601
Total	**5**	**2**	**1,986**	**2,655**

Detail on the cash movements can be found in the Statement of Cash Flows on page 120.

16. Assets held for sale

	Group	
In £m	**2017-18**	**2016-17**
Current	4,992	-
Non-current	-	-
Total	**4,992**	-

Assets held for sale comprise a portfolio of B&B mortgage assets which were reclassified from 'Loans to banking customers' (see note 12.1). The portfolio is the second of a programme of sales designed to raise sufficient proceeds for B&B to repay its debt to the FSCS, enabling the FSCS in turn to repay its corresponding loan from HM Treasury.

The reclassification reflects the advanced stage of the sale process at the reporting date ahead of completion shortly thereafter. See further detail in Note 33 below.

A previous sale of B&B mortgage assets in 2016-17 raised proceeds of £11.4 billion from the disposal of assets with a carrying value of £11.8 billion. This sale was recognised during 2016-17 so there were no assets held for sale at the reporting date.

17. Trade and other payables

	Core Treasury and Agencies		Group	
£m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Current payables				
Trade payables	5	2	11	8
Accrued expenditure	25	34	134	163
Pool Re payable to Consolidated Fund	264	199	264	199
Amounts due to levy payers	-	-	167	477
Corporation tax payable	-	-	4	63
PFI contract	3	3	3	3
Other	13	7	80	65
Total current	**310**	**245**	**663**	**978**

Non-current payables				
Pool Re payable to Consolidated Fund	264	320	264	320
Amounts due to levy payers	-	-	40	10
Sukuk certificates	-	-	200	200
PFI contract	113	116	113	116
Deferred tax	-	-	84	84
Other	-	-	12	13
Total non-current	**377**	**436**	**713**	**743**
Total payables	**687**	**681**	**1,376**	**1,721**

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).

18. Provisions

18.1 Group

£m	Equitable Life	Oil & gas	Customer redress	HTB ISA	Other	Total
Balance at 1 April	**514**	**327**	**160**	**346**	**41**	**1,388**
Provided during the year	-	26	44	235	53	358
Provisions not required	(2)	-	-	-	(3)	(5)
Unwinding of discount and changes in the discount rate	13	(9)	-	-	-	4
Provisions utilised in year	(33)	(45)	(80)	(103)	(34)	(295)
Balance at 31 March	**492**	**299**	**124**	**478**	**57**	**1,450**
Within one year	37	67	79	478	38	699
Between one and five	149	224	45	-	19	437
Later than five years	306	8	-	-	-	314

18.2 Core Treasury and Agencies

£m	Equitable Life	Oil & gas	Customer redress	HTB ISA	Other	Total
Balance at 1 April	**514**	**327**	-	**346**	**1**	**1,188**
Provided during the year	-	26	-	235	28	289
Provisions not required	(2)	-	-	-	(1)	(3)
Unwinding of discount and changes in the discount rate	13	(9)	-	-	-	4
Provisions utilised in year	(33)	(45)	-	(103)	-	(181)
Balance at 31 March	**492**	**299**	-	**478**	**28**	**1,297**
Within one year	37	68	-	478	9	592
Between one and five	149	223	-	-	19	391
Later than five years	306	8	-	-		314

Movement in provisions of £0.3 billion 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 £1.5 billion to policy holders in the scheme; as at the reporting date £1.1 billion has been paid. The scheme was closed to new entrants from 31 December 2015. Equitable Life continue to make payments to 'with annuities' policyholders.
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. HM Treasury recognises a provision when a claim is notified and the amount can be measured reliably. The value of the provision of £0.3 billion represents the best estimate of the outstanding costs to settle. During the year, HM Treasury received a claim for a further tranche of payment from the existing claim for one company, totalling £45m and paid this amount over to the claimant. For more information on the scheme and potential other claims, refer to remote contingent liabilities from page 94.
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 £235m. At 31 March 2018, there were 470,936 scheme participants, similar to 462,744 in the prior year. The increase in the amount provided is due to the increase in the value of the eligible deposits held (from £3.2k per person to £4.5k per person). There is significant variability over the timing of when the provided funds would be drawn on by homebuyers, dependant on factors including the housing market and the level of savings accrued prior to joining the scheme, so although homebuyers have the ability to draw on the bonus at any point, this is likely to be spread over the lifetime of the scheme.
Other	Includes provisions for funding of the Asian Infrastructure Investment Bank's Special Fund, UKAR restructuring, and FSCS compensation.

19. Cash collateral

UKAR has provided collateral pledges of £465m (2016-17: £522m). The cash collateral pledged is carried on the balance sheet within cash at bank and in hand.

20. Debt securities in issue

£m	At 1 April 2017	Repayments	Repurchases	Other movements	At 31 March 2018
Debt Securities	204	-	-	-	204
Total	**204**	**-**	**-**	**-**	**204**
Current	4				4
Non-current	200				200

Prior year

£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

21. Derivative financial liabilities

	Group	
£m	**2017-18**	**2016-17**
Balance at 1 April	527	528
Movements in year	(55)	(1)
Total	**472**	**527**
Current	-	3
Non-current	472	524

Derivative financial liabilities are used by UKAR as hedging instruments to reduce the risk arising from interest rate and exchange rate risk.

22. Financial guarantees

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
UK guarantees	92	110	92	109
National Loan Guarantee Scheme	-	3	-	3
Help to Buy guarantees	63	89	63	89
Deposit guarantees	12	23	-	-
Total	**167**	**225**	**155**	**201**
Current	36	43	26	31
Non-current	131	182	129	170

The financial risks and management policies associated with financial guarantees are detailed in Note 27 – 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 2018, six projects were guaranteed with no new projects entering the scheme during the reporting period.
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 guarantee scheme	The Help to Buy: mortgage guarantee scheme was launched on 8 October 2013. The scheme is designed to address the shortage of high loan-to-value mortgages, by offering lenders the option to purchase a guarantee on mortgages where a borrower has a deposit of between 5% and 20%. The Scheme closed to new loan applications on 31 December 2016. Loans with an application date on or before 31 December 2016 continued 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 (now NRAM Ltd) with effect from 2010.

For more information see the remote contingent liabilities section from page 94.

23. Non-cash transactions

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Adjustment for non-cash transactions				
Net provisions provided in year	290	302	357	388
Depreciation and amortisation	8	8	13	17
Non-voted – banking and gilts registration services	7	7	7	7
Other non-cash adjustments relating to UKAR	-	-	121	119
Other non-cash adjustments	-	2	-	2
Total	**305**	**319**	**498**	**533**

24. Commitments

	Core Treasury and Agencies		Group	
In £m	**2017-18**	**2016-17 restated**	**2017-18**	**2016-17**
Capital commitments				
Multilateral development banks	174	340	174	340
Other capital commitments	397	-	399	1
Total	**571**	**340**	**573**	**341**
Financial commitments				
Loan commitments	14,294	12,414	1,055	1,190
Other financial commitments	-	-	60	21
Total	**14,294**	**12,414**	**1,115**	**1,211**

HM Treasury has entered into the following commitments.

AIIB	The multilateral development banks commitment of £174m relates to future capital commitments to the Asian Infrastructure Investment Bank (AIIB). The government is committed to honouring the investment in AIIB announced by the Chancellor in March 2015. The AIIB was set up in December 2015 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. The second was paid by DfID in February 2017 and the third, also by DfID in January 2018. The final two annual instalments of US$122m each will again be made by HM Treasury and so are future capital commitments of the core department (a total of US$244m, or £174m as at 31 March 2018). In 2016-17 it had been intended that all future payments be made by DfID but, following the enactment of a transfer of functions order, HM Treasury will recognise the UK's full investment in the AIIB from 2018-19. See also remote contingent liabilities from page 94.
DIIF	Other capital commitments comprise £395m relating to The Digital Infrastructure Investment Fund (DIIF). The DIIF is committed to provide a total of £400m worth of investment to the relevant fund managers over a four-year period spanning five financial years from 2017-18 to 2021-22. As at 31 March 2018, £395m is undrawn. The drawn amounts as at 31 March are recognised as Available-for-Sale investments in Note 10.
GLA	HM Treasury has provided a £0.8 billion (2016-17: £0.8 billion) standby refinancing facility to Transport for London – Greater London Authority for the Northern Line extension as part of the UK Guarantees scheme.
Consumer credit	Additionally, at Group level, loan commitments represent contractual amounts of £0.4 billion (2016-17: £0.4 billion) to which UKAR is committed for extension of credit to its banking customers.
Intra-group	HM Treasury also provides a working capital facility to B&B and facility commitment to NRAM. As at 31 March 2018, the total facility available for B&B was £11.5 billion (2016-17: £11.5 billion) and for NRAM £2.1 billion (2016-17: £2.1 billion). The current drawn amounts are £0.1 billion (2016-17: £2.0 billion) and £nil (2016-17: £nil) respectively. HM Treasury provides a further facility to the FSCS of £30m (2016-17: £30m). These facilities are intra-group, so eliminated at group level. The balance in Core Treasury and Agencies for 2016-17 has been restated to reflect inclusion of these B&B, NRAM and FSCS loan facilities.

25. 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	**2017-18**	**2016-17**
Within one year	11	11
Between one and five years	45	45
Later than five years	162	173
Gross present value of future obligations	218	229
Finance charges allocated to future periods	(102)	(111)
Total	**116**	**118**

Minimum service charges

	Core Treasury and Agencies	
In £m	**2017-18**	**2016-17**
Within one year	15	14
Between one and five years	67	64
Later than five years	370	389
Total	**452**	**467**

HM Treasury is committed to pay minimum service charges in future years as shown above. The total amount charged in the SoCNE for the service element (including contingent rent) was £14m (2016-17: £13m).

26. 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 94.

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	The group holds a number of contingent liabilities in relation to NRAM's operations: 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 CCA customers. 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	The group holds a number of contingent liabilities in relation to B&B's operations: 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 at Group level. 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 2018 there is no contingent liability to report (2016-17: £nil). The B&B Pension Scheme is showing an accounting surplus but a funding deficit when measured on the Trustees' actuarial basis; however, this deficit is currently covered by UKAR'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 2016-17 HM Treasury took on a contingent liability as a result of the sale of a portfolio of UKAR's B&B mortgage assets in March 2017. 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 from the sale is approximately £0.79 billion. For more information on the related remote contingent liabilities arising from the sale of these mortgage assets refer to page 100.
FSCS	As at 31 March 2018 and 31 March 2017, compensation payments may become due as a result of claims made to the FSCS by customers of authorised financial services firms which have failed. To qualify for compensation customers must be eligible under FSCS rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook on Depositor Protection and Policyholder Protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims FSCS will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation FSCS will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims FSCS may receive or claims FSCS have received but not yet decided. FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost effective to pursue which will offset some of the compensation it will pay out.
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.

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

27.1 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
- 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 for UKAR financial instruments. 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 team of the bank to build shareholder value
- Ensure that analytical frameworks used to assess value for money and wider policy, operational and legal implications remain robust
- 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 (Asset Management) plc) 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.[1]

The remainder of this note covers the following:

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

27.2 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 and includes the types of mortgages stated in the above table. UKAR is the holding company for both businesses.

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

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 and prepayment 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	Fair value hedges	Economic hedges	At 31 March 2018	At 31 March 2017
Total derivative financial assets held by UKAR	-	-	-	2
Total derivative financial liabilities held by UKAR	469	3	472	527
Fair value of hedging instruments	(469)	(3)	(472)	(525)

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 2018	At 31 March 2017
2% increase	5	(1)
2% decrease	(16)	(9)

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 2018	At 31 March 2017
2% increase	203	282
2% decrease	(82)	(44)

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 use of derivatives. Consequently, at 31 March 2018 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 2018. At 31 March 2018 UKAR did not hold any foreign currency and was, therefore, not exposed to any risks.

Only a table for the position at 31 March 2017 is shown below, summarising UKAR's exposure to foreign exchange rates at that 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	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

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 2018
Total financial assets	1,826	5,063	93	12,257	19,239
Total financial liabilities	(10,274)	(84)	(4)	(672)	(11,034)
Net liquidity gap	(8,448)	4,987	113	11,553	8,205
Net liquidity gap excluding HMT loans	1,826	4,979	89	11,585	18,484

Prior year

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

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 2017	25,441	143	13	227	2	25,826
Derivatives: at 31 March 2017	-	12	31	157	537	737
Non-derivatives: at 31 March 2018	10,575	84	5	201	1	10,866
Derivatives: at 31 March 2018	-	10	29	148	476	663

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 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 31% (2016-17: 33%) 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 £11.7 billion (2016-17: £18.9 billion) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 34% (2016-17: 37%) of the book.

The residential loan book includes £870.4m (2016-17: £887.8m) 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 £123.1m (2016-17: £130.3m) is carried against these balances (see Note 18 – Impairment on loans to customers of UKAR's 2017-18 Annual Accounts).

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

Within the commercial mortgage portfolio there are 41 loans (2016-17: 52) totalling £247.5m (2016-17: £257.3m), with the largest 10 loans accounting for 94% (2016-17: 89%) of the portfolio. All these loans are secured on commercial and housing association properties.

In £m	Residential mortgages	Commercial loans	Unsecured loans	Total	Total
	At 31 March 2018				At 31 March 2017
Neither past due nor impaired	11,002	235	254	11,491	18,719
Past due, but not impaired					
- less than 3 months	543	-	10	553	582
- 3 to 6 months	212	-	3	215	259
- over 6 months	127	-	39	166	216
Impaired	213	24	6	243	336
Total loans to customers	**12,097**	**259**	**312**	**12,668**	**20,112**
Impairment allowances	(350)	(12)	(56)	(418)	(648)
Total loans to customers net of impairment allowances	**11,747**	**247**	**256**	**12,250**	**19,464**

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 2018	At 31 March 2017	At 31 March 2016
Neither past due nor impaired	18,551	29,947	54,998
Past due, but not impaired	1,368	1,497	2,296
Impaired	269	377	434
Total collateral held in respect of residential mortgages	**20,188**	**31,821**	**57,728**

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 2018	At 31 March 2017	At 31 March 2016
Neither past due nor impaired	10,941	18,072	33,274
Past due, but not impaired	878	988	1,581
Impaired	198	280	336
Total collateral held in respect of residential mortgages	**12,017**	**19,340**	**35,191**

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

%	At 31 March 2018	At 31 March 2017	At 31 March 2016
To 50% loan to value	13	13	13
50% to 75% loan to value	52	46	44
75% to 100% loan to value	32	37	39
Over 100% loan to value	3	4	4
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 2018 Residential mortgages	Unsecured Loans	At 31 March 2017 Residential mortgages	Unsecured Loans
Arrears 3 months and over					
- Number of cases (proportion of total cases)	No.	3,174 (3.48%)	2,782 (9.39%)	4,132 (2.6%)	3,281 (9.3%)
- Asset value (proportion of book value)	£m	481 (4.32%)	45 (17.36%)	622 (3.2%)	56 (17.50%)
- Total value of payments overdue (portion of book)	£m	22.6 (0.20%)	12.6 (4.92%)	29 (0.15%)	16 (5.0%)
Possessions					
- Number of cases (proportion of total cases)	No.	406 (0.44%)	-	485 (0.3%)	-
- Asset value (proportion of book value)	£m	55 (0.49%)	-	71 (0.4%)	-
- Total value of payments overdue (portion of book)	£m	3 (0.03%)	-	3 (<0.1%)	-
Arrears 3 months and over and possessions					
- Number of cases (proportion of total cases)	No.	3,580 (3.92%)	2,782 (9.39%)	4,617 (2.9%)	3,281 (9.3%)
- Asset value (proportion of book value)	£m	536 (4.81%)	45 (17.36%)	692 (3.7%)	56 (17.5%)
- Total value of payments overdue (portion of book)	£m	26 (0.23%)	13 (4.92%)	32 (0.2%)	16 (5.0%)
Payments overdue in respect of all arrears and possessions	£m	31 (0.28%)	13 (5.20%)	38 (0.2%)	17 (5.3%)
Loan impairment provision: as % of total balances	%.	2.0	17.8	3	19
Loan impairment provision: new possessions	No.	1,004	-	1,242	-

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").

In £m by counterparty	2017-18 Carrying Value	2017-18 Discounted Value*	2016-17 Carrying Value	2016-17 Discounted Value*
Loans to Ireland	3,227	3,394	3,227	3,424
Loans from Infrastructure Unit Finance Ltd	-	-	94	111
FSCS recoverables: financial institutions	28	28	53	54
UKAR investment securities held as loans	-	-	260	258
Other loans	6	17	2	4
Loans sub-total	**3,261**	**3,439**	**3,636**	**3,851**
Statutory debt: Dunfermline	3	3	2	2
Statutory debt: other institutions	3	3	9	9
Statutory debt sub-total	**6**	**6**	**11**	**11**
Total	**3,267**	**3,445**	**3,647**	**3,862**

*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 2017, the Ireland Loan Governance Board made a positive assessment, forecasting 100% recovery with repayment expected to take place in 2019-20 and 2020-21.
FSCS recoverables	FSCS recoverables: financial institutions includes the amounts that FSCS considers recoverable from the administration of failed institutions. In 2017-18 this relates to Heritable 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 and impairment reviews are performed during the year and at reporting date.

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

	At 31 March 2018			At 31 March 2017	
	Total amount lent £m	**Current (forecast) recovery %**	**Impact on Net comprehensive (income)/ expenditure for the year 2017-18 +/- 5% £m**	**Current (forecast) recovery %**	**Impact on Net comprehensive (income)/ expenditure for the year 2016-17 +/- 5% £m**
Stat Debt: Dunfermline*	1,540	100/(100)	-/-	100/(100)	-/-
Stat Debt: KSF	494	86/(87)	(30)/-	85/(87)	(24)/8
Stat Debt: Heritable	92	98/(98)	(2)/-	98/(98)	(2)/-
Total	**2,126**		(32)/-		(26)/8

*HM Treasury expects to recover 100% of the principal claim in Dunfermline by the end of July 2018 following final receipts from the administrators of the estate. Recovery of gross amounts including interest and costs has also been partly achieved through a capped levy on the financial services industry. See further in Note 33 below.

27.3 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 £200 billion. The £200 billion 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 2018 the loan from the Bank of England had increased to £572 billion, from an authorised total of £585 billion.

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 £585 billion, as summarised in the table below:

In £ billion	
Government bond purchases	435
Corporate bond purchases	10
Term funding scheme (up to)	140
Total quantitative easing package	**585**

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

The drawdown window for the TFS closed on 28 February 2018 and no further drawings could be made after that date. At that time the drawdown from the scheme had reached £127 billion. The loans from the TFS are repaid over a four-year period, in accordance with the terms agreed for each loan stream, and so the last will have four-year terms from February 2018. Commercial banks can repay their loans earlier than scheduled should they wish to do so. Subsequent to the reporting period, it has been agreed between the Bank and HM Treasury that TFS will transfer from the BEAPFF to the Bank as part of the Bank's new capital and income framework. See further Note 33 below.

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 2018, the BEAPFF's assets exceeded its liabilities by £40.8 billion, 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 the scheme is unwound.

Should the fair value of the BEAPFF's assets fall 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 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 can 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 due to 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 2018 is £0.5 billion (2016-17: £0.5 billion).

Credit risk for the BEAPFF is smaller in comparison to market risk, as most BEAPFF assets are high quality gilts with a low default risk. Additionally, 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 2018 is £9.4 billion (2016-17: £11.8 billion).

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.

HM Treasury purchased shares in RBS as part of the financial stability interventions. The shares in RBS 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 the entity and to avoid a collapse of the UK banking sector.

The fair value of the UK listed shares fluctuates due to 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 investment in RBS 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 investment in RBS.

	Net Operating Income		Reserves	
In £m	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Increase +10%	-	-	2,183	2,136
Increase +25%	-	-	5,457	5,339
Decrease -10%	-	(406)	(2,183)	(1,730)
Decrease -25%	(2,412)	(3,469)	(3,045)	(1,870)
Investments – listed entities			21,828	21,355

See further Note 33 on events after the reporting period, which saw the crystallisation of price risk in the sale of a further tranche of RBS shares.

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 considered remote and therefore the credit risk exposure is deemed to be immaterial.

Maximum exposure for financial guarantees is disclosed under remote contingent liabilities from page 94.

Project	Description	Maximum exposure in £m March 2018	March 2017	Projected end date
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.	259	245*	Jul-2019
Deposit guarantees**	Wholesale borrowings and deposits with B&B and borrowings, derivative transactions, and wholesale deposits in respect of NRAM plc.	213	213	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.	48	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 2016 continued to be accepted into the scheme until 30 June 2017.	1,434	1,443	Dec-2030
Countesswells	Countesswells is an £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.	308	300	Mar-2056

*	The amount guaranteed is €285m. This is converted to GBP at the reporting date using the exchange rate per www.xe.com
**	Eliminated on consolidation
***	Per the May 2018 service review board papers compiled using March 2018 data

28. Group financial instruments - fair value hierarchy

	2017-18			2016-17		
In £m	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale financial assets						
Investments – listed entities	21,828	-	-	21,355	-	-
Investments – unlisted entities	-	4,578	-	-	4,863	-
Investment securities	-	-	-	-	23	-
Derivative financial assets and liabilities						
Derivative financial assets	-	40,778	-	-	51,177	-
Derivative financial liabilities	-	(472)	-	-	(527)	-
Financial assets: amortised cost						
Loans and advances	-	3,445	-	-	3,865	-
Loans to banking customers	-	-	12,056	-	-	18,720
Financial liabilities and guarantees: amortised cost						
Debt securities in issue	-	(219)	-	-	(231)	-

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. Loans and advances are estimated by discounting expected future cash flows using market interest rates. Debt securities in issue are based on quoted prices or lead manager prices where available, or by using discounted cash flows , applying independently sourced market parameters, including interest rates and currency rates.
Level 3	Values are not based on observable market data, or have significant unobservable inputs. Fair value is estimated by discounting expected future cash flows using market interest rates. The fair value at 31 March 2018 has been calculated using models which the Group has developed in order to implement IFRS

	9 with effect from 2018-19. These models incorporate the experience gained of market structures and pricing from recent sales transactions that represent a more accurate assessment of fair value than previous methods.
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, 2017-18: £6m (2016-17: £6m).

29. 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.

29.1 Group

In £m	2017-18 Fair Value	2017-18 Carrying Value	2016-17 Fair Value	2016-17 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	1,986	-	2,655
Trade and other receivables*	-	1,663	-	13,547
Loan hedging asset**	-	421	-	455
Loans and advances	3,445	3,267	3,865	3,647
Assets held for sale	-	4,992	-	-
Loans to banking customers***	12,056	11,503	18,720	19,464
Financial assets: available-for-sale assets				
Available-for-sale assets	-	26,412	-	26,241
Financial assets: fair value through SoCNE				
Derivative financial assets	-	40,778	-	51,177
Financial liabilities and guarantees: amortised cost				
Trade and other payables****	-	(1,239)	-	(1,525)
Debt securities in issue	(219)	(204)	(231)	(204)
Financial guarantees	-	(155)	-	(201)
Financial liabilities: fair value through SoCNE				
Derivative financial liabilities	-	(472)	-	(527)

* Trade and other receivables are shown net of non-financial assets
** The fair value of the loan hedging asset is £nil
*** Excludes equity release mortgages accunted for under IFRS 4. For further details see UKAR's Annual Report and Accounts 2017-18.
**** 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.

29.2 Core Treasury and Agencies

In £m	2017-18 Fair Value	2017-18 Carrying Value	2016-17 Fair Value	2016-17 Carrying Value
Financial assets: at amortised cost				
Cash and cash equivalents	-	5	-	2
Trade and other receivables*	-	988	-	1,377
Loans and advances	15,990	13,409	28,640	27,968
Financial assets: available-for-sale assets				
Available-for-sale assets	-	34,940	-	34,311
Financial assets: fair value through SoCNE				
Derivative financial assets	-	40,778	-	51,175
Financial liabilities and guarantees: amortised cost				
Trade and other payables**	-	(682)	-	(672)
Financial guarantees	-	(167)	-	(225)

* Trade and other receivables are shown net of non-financial assets

** Trade and other payables are shown net of non-financial liabilities

30. Related party transactions

The entities listed in Note 32.3 – 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 and RBS 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.

RBS participates in the Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme and pays 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.

31. Auditor's remuneration

Remuneration for the audit of the Treasury Group accounts was a notional cost of £360k (2016-17: £360k). In addition, £1,141k (2016-17: £1,160k) was charged by the NAO for other audit services, of which £122k (2016-17: £124k) was notional. £94k (2016-17: £103k) was paid to the NAO in respect of non-audit services.

32. Statement of accounting policies

These financial statements have been prepared in accordance with the 2017-18 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.

32.1 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2017. The Group has not early-adopted any new or amended standards in preparing these consolidated financial statements.

The following standard is expected to have a material impact on the Groups financial statements in the period of initial application.

IFRS 9 Financial Instruments (July 2014)

IFRS 9 was issued in July 2014, and applies to annual reporting periods beginning on or after 1 January 2018. IFRS 9 does not require prior period comparative information to be restated. The Group, in line with the Financial Reporting Advisory Board (FRAB) guidance for the public sector, will apply retrospective application without restatement of comparatives, from 1 April 2018. Financial impacts at the point of transition to IFRS 9 will be taken to retained earnings or an appropriate equity reserve.

IFRS 9 Financial Instruments sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement except for the elements of IAS 39 relating to macro-hedging.

Implementation will require significant judgements in respect of the Group's business model, and changes to the Group's established fair value and provisioning models, methods and management judgements.

The Group summarises below: the most significant impacts, the known estimable transitional differences, and its expected approach to classification and measurement, impairment and hedge accounting.

The estimated impact of adopting IFRS 9 for the 'Group (excl. UKAR)' and for the 'UKAR Group' is summarised separately within the relevant sections below.

(i) Classification and measurement

Under IFRS 9, classification of financial assets is determined by the objectives of the business model under which the assets are managed and the contractual cash flow characteristics of these assets.

The business model may be considered to be one of holding the asset to collect the cash flows arising; holding the asset to collect the cash flows arising or to sell it; or holding the asset to sell it. IFRS 9 requires the business model to be assessed on the date of first application of IFRS 9, i.e. 1 April 2018.

The contractual cash flow characteristics of an asset may be considered to be 'solely payments of principal and interest' (SPPI) on the principal amount outstanding or not to be SPPI.

Key changes include:

- the Held to Maturity (HTM) and Available for Sale (AFS) asset categories will cease to exist
- financial assets may be measured at:
    - Amortised cost
    - Fair value through profit and loss (FVP&L), or
    - Fair value through other comprehensive income (FVOCI)
- almost all the accounting requirements for financial liabilities were carried forward from IAS 39 to IFRS 9. 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

The measurement classifications of financial assets are as follows:

	SPPI	Not SPPI
Hold to collect	Amortised cost	FVP&L
Hold to collect and sell	FVOCI	FVP&L
Hold to sell	FVP&L	FVP&L

UKAR Group

The UKAR Group's business model for its loans to customers is expected to be one of hold to collect and sell, as these assets are managed in order to maximise taxpayer value with strategic asset sales undertaken where suitable market opportunities are identified. The cash flows on the loans are considered to satisfy the definition of SPPI. Therefore, it is expected that the UKAR Group's loans to customers will be carried at FVOCI.

The accounting treatment of the UKAR Group's equity release mortgages will not be affected by the adoption of IFRS 9 as they are accounted for in accordance with IFRS 4 Insurance Contracts.

The accounting treatment of the loans classified as held for sale will not be affected by the adoption of IFRS 9 as they are accounted for in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The UKAR Group expects to continue to hold most of its non-lending financial assets at amortised cost as they are used in the normal day to day operation of the business and the cash flows satisfy the definition of SPPI. Derivative financial assets will continue to be classified as FVP&L as the cash flows do not satisfy the definition of SPPI.

The accounting treatment of the UKAR Group's financial liabilities will not be affected by the implementation of IFRS 9.

Group (excl. UKAR)

No significant impacts are expected for the Group (excl. UKAR) in respect of its financial assets. It is expected that the Group will take the irrevocable election to measure its AFS equity instruments at FVOCI; fair value changes will be presented in 'other comprehensive income', with only dividend income recognised in profit or loss.

No significant impacts are expected for the Group (excl. UKAR) in respect of its financial liabilities.

(ii) Impairment of financial assets

IFRS 9 replaces the IAS 39 'incurred loss' model for impairment provisioning with a forward looking 'expected credit loss' (ECL) model. IFRS 9 requires that expected losses are calculated using a range of forward looking economic scenarios, weighted by the estimated probability of each scenario.

The Group will generally be required to recognise either a 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to debt instruments accounted for at amortised cost or at FVOCI.

Each financial asset is categorised as 'stage 1', 'stage 2' or 'stage 3':

- stage 1 assets are those for which there has been no significant increase in credit risk since the asset's origination
- stage 2 assets are those for which there has been a significant increase in credit risk since the asset's origination
- stage 3 assets are those which are in default

In respect of stage 1 assets, the impairment provision reflects the next 12 months' expected losses. In respect of stage 2 and 3 assets, the impairment provision reflects full lifetime expected losses. In respect of stage 3 assets, interest income is recognised only in respect of the balance net of impairment.

UKAR Group

The UKAR IFRS 9 Implementation Team reports to the UKAR Audit Committee at regular intervals. The fair value and impairment models have been developed in accordance with the UKAR Group's modelling policies and standards. The models will be subject to ongoing review and refinement in line with UKAR Group policy.

Economic assumptions are sourced from specialist economic analysts based on an initial management view provided by UKAR and approved by the UKAR Board. In respect of impairment provisioning, the UKAR Group has utilised four macroeconomic scenarios:

- a base scenario
- a downside scenario
- a severe downside scenario, and
- an upside scenario

The relative weighting of these four scenarios is a key area of UKAR management judgement. In making this judgement, UKAR management take into consideration the guidance provided by the independent source who prepared the economic scenarios as well as that of a forum of subject matter experts from across the business. UKAR have contracted with an experienced third party to deliver IFRS 9 services to them. This organisation was responsible for the build and will host the ECL model and provide reporting on a monthly basis to agreed service levels.

Based on the age of the loan books and the UKAR Group's business model, the view has been taken to categorise all loans to customers as stage 2 or 3; this approach is permitted by IFRS 9.

Other than in respect of loans to customers, expected losses on the UKAR Group's financial assets are not considered to be material.

Group (excl. UKAR)

No significant impacts are expected for the Group (excl. UKAR) in respect of its impairment of financial assets under IFRS 9.

(iii) Hedge accounting

When applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group, in line with the Financial Reporting Advisory Board (FRAB) guidance for the public sector, will apply the IFRS 9 hedge accounting rules.

IFRS 9 does not deal with macro-hedging, the Group therefore intends to continue to apply the existing IAS 39 macro-hedge accounting rules.

UKAR Group

As of 31 March 2018, the UKAR Group has no hedge accounting other than the fair value macro-hedging of the equity release mortgages. As IFRS 9 does not deal with macro-hedging, the UKAR Group will continue to apply the existing IAS 39 macro-hedge accounting rules.

Group (excl. UKAR)

No significant impacts are expected for the Group (excl. UKAR) in respect of its hedge accounting under IFRS 9.

(iv) Estimated initial financial impact of adopting IFRS 9

UKAR Group

On adoption, IFRS 9 impairment provisions in respect of loans to customers are expected to be higher than impairment provisions calculated in accordance with IAS 39. Work continues to refine the impairment models; it is estimated that provisions at 1 April 2018 will be increased by approximately £40m, increasing the provision coverage by approximately 0.3%. This increase will be charged to retained earnings. As impairment provisions are calculated using a range of forward looking economic scenarios, it is expected that impairment charges will be more volatile under IFRS 9 than under IAS 39, reflecting the impact of changes in future economic assumptions.

It is expected that the IFRS 9 accounting treatment of loans to customers will be FVOCI. The fair value of the UKAR Group's loans to customers, excluding equity release mortgages, at 31 March 2018 is £12,057m compared to a carrying value of £11,503m. On adoption of IFRS 9 it is expected that the carrying amount of loans to customers will increase by £553m. Of this movement, the element which is due to the change in impairment provisions will be charged to retained earnings, as detailed above, and the remainder of the movement will be credited to a 'fair value reserve' component of equity.

HMRC has confirmed that for tax purposes, the impact on impairment provisions due to the transition to IFRS 9 will be allowed for tax over a 10-year period. Deferred tax will be provided in respect of the change to impairment provisions, and credited to retained earnings. Deferred tax will also be provided in respect of the change to fair value, and charged to the fair value reserve. Whilst fair value movements taken to reserves are not taxed they will be recycled to the Income Statement when the asset is sold or matures.

No other material initial financial impacts are expected on adoption of IFRS 9.

Group (excl. UKAR)

The Group (excl. UKAR) does not expect the application of IFRS 9 to have a material impact on its consolidated financial statements.

It should be separately noted, however, that in accordance with the FReM, HM Treasury classifies its interest in the Bank of England as an available-for-sale asset, with fair value established by reference to the net assets of the Bank (see also Note 28). As a result of the Bank of England adopting IFRS 9 we expect the net assets in the Bank of England to reduce, and therefore so too the value at which the Bank of England is recognised in HM Treasury's Statement of Financial Position.[2]

The above transitional estimates, for both the HM Treasury Group (excl. UKAR) and for the UKAR Group, in respect of adoption of IFRS 9, are based on accounting

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2 Further details of the estimated impact of the adoption of IFRS 9 by the Bank of England are provided in its 2017-18 Annual Report and Accounts, available at: https://www.bankofengland.co.uk/annual-report/2018

policies, assumptions, judgements and estimation techniques as at 31 March 2018. These remain subject to change until the Group finalises its Financial Statements for the year ending 31 March 2019.

The information provided in this note is focused upon material items; it does not represent a complete list of expected adjustments.

The following standards are not expected to have a material impact on the Groups financial statements in the period of initial application.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014, and applies to annual reporting periods beginning on or after 1 January 2018. IFRS 15 does not require prior period comparative information to be restated. The Group, in line with the Financial Reporting Advisory Board (FRAB) guidance for the public sector, will apply retrospective application without restatement of comparatives, from 1 April 2018.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The standard provides a single principles-based five-step model to be applied to all contracts with customers.

The Group does not expect the application of IFRS 15 to have a material impact on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016, and applies to annual reporting periods beginning on or after 1 January 2019. The Group does not intend to early adopt IFRS 16.

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The financial impact of adopting this standard is still being assessed. The Group's expectation is that the adoption of IFRS 16 will result in an increase in reported assets (in the form of right-of-use assets) and reported liabilities (representing the obligation to make future lease payments). It is expected that for leases where the underlying asset has a low value, or a lease term of 12 months or less, that payments will be expensed as they are made.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement). The Group does not intend to early adopt IFRS 17.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts.

The financial impact of adopting this standard is still being assessed.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the Group.

32.2 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.

32.3 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 2017-18 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 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, in addition to Core Treasury and Agencies:

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.[3]

3 http://www.ukar.co.uk/media-centre/press-releases/2018

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

32.4 Significant judgements and estimates

Impairment losses on loans and advances

The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred at the reporting date.

For those loans where recovery is being sought from an administrator, the impairment charge is dependent on the best estimate of the timing and amount of repayment. A sensitivity analysis of capital recoveries for these loans is included in Note 27 – Financial risk, on 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 monthly 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 £18m lower (2016-17: £29m) or £23m higher (2016-17: £35m) respectively.

Impairment of available-for-sale financial assets

In determining whether an impairment loss has been incurred in respect of RBS 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. A provision is recognised where the likelihood of a liability crystallising is probable and where such provision can be measured with reasonable certainty. 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.

32.5 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.

32.6 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.

32.7 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.

32.8 Assets held for sale

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition, they are being actively marketed for sale at a reasonable price and sale is considered to be 'highly probable'. There is ambiguity in IFRS 5 as to whether the measurement principles apply to a disposal group of financial assets. The Group has adopted a policy of applying the measurement principles of IFRS 5 to disposal groups of financial assets. Assets held for sale are carried at the lower of their previous carrying amount and their fair value less costs to sell, other than assets for which the IFRS 5 measurement principles do not apply.

32.9 Financial instruments: financial assets

Classification

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The classification of financial assets depends on the purpose for which the financial assets were acquired. Financial assets are classified on initial recognition into the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

Financial assets at fair value through profit and loss	Financial assets and liabilities at fair value through profit or loss are financial assets held for trading or designated as at fair value through profit 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 32.4
Disclosures of fair value measurement hierarchy	Note 28
Financial Instruments	Note 29

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 recognised 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.

32.10 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 remote contingent liabilities which have been reported to Parliament in accordance with the requirements of Managing Public Money.

32.11 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.

32.12 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.

32.13 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.

32.14 Pensions

The Group operates several 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 75 in 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.

32.15 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.

32.16 Hedging activities

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

32.17 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.

32.18 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 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.

32.19 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.

32.20 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.

32.21 Off-Balance Sheet loan commitments

Off-Balance sheet loan commitments are disclosed in Note 24 - Commitments. They comprise commitments to advance cash sums, and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

32.22 Operating segment reporting

In accordance with the relevant reporting requirements, including IFRS 8, the 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.

33. Events after the reporting period

33.1 Sale of UKAR mortgage assets and settlement of intra-group debt

On 26 April 2018 B&B announced that following an open and competitive process it had agreed to sell two separate asset portfolios comprising performing buy-to-let and other residential loans for a total of £5.3 billion to an investor group led by Barclays Bank plc. The buyer assumed the position that it would have been in had it acquired the portfolios at the end of September 2017. The portfolios were sold via a competitive sales process which saw a high level of interest resulting in a sale price in excess of par and an accounting profit before tax of c. £70m. On 24 May 2018, the proceeds were used to repay the remaining £4,677.9m of the Statutory Debt owed to the FSCS, which in turn enabled the repayment by the FSCS of corresponding intra-group debt to HM Treasury. B&B provided certain warranties and indemnities in respect of this sale. The sale agreements set various time limits for bringing claims under the warranties. The time limit to bring warranty claims varies from 12 to 18 months from the date on which legal title is transferred to the purchasing entities; legal title is expected to transfer no later than 28 February 2019. UKAR provided a guarantee that should B&B fail to make payment under a valid claim made under the warranties and indemnities that B&B provided to them then UKAR will make payment in satisfaction of the claim. Through commitments made by HM Treasury, UKAR is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee.

Also, subsequent to the reporting date, on 4 April 2018 UKAR launched a process that, subject to successful completion, is expected to result in the sale of substantially all of UKAR's equity release mortgages. The sale will result in the write-off of the fair value adjustments on portfolio hedging. Disclosure of any estimate of the total financial impact of the sale is considered to be commercially sensitive due to the ongoing sales process.

In May 2018 B&B also repaid the outstanding balance owing under its working capital facility from HM Treasury. See Note 11.2 above.

33.2 Bank of England capital and income framework

On 21 June 2018 HM Treasury and the Bank of England announced reforms to the Bank's financial framework to boost transparency, reinforce Bank resilience and independence and strengthen the financial system.

The new arrangements include a more transparent capital and income framework for the Bank, requiring an upfront injection of £1.2 billion to bring the Bank's capital base up to a new target level. Alongside the injection, the Bank will take the £127 billion Term Funding Scheme (TFS) onto its own balance sheet from the £572 billion Bank of England Asset Purchase Facility Fund (BEAPFF). This will reduce HM Treasury's indemnity for the BEAPFF and the associated remote contingent liability. However, the formal agreement that HM Treasury recapitalise the Bank in the event of a capital loss results in a new, smaller remote contingent liability for HM Treasury. This is currently unquantifiable as the occurrence of the conditions required for the contingent liability to crystallise in full cannot be accurately calculated, given the unprecedented nature of the economic conditions required, and as the new framework is not for a finite term. Accordingly, following the upfront injection, the risk of a subsequent capital loss to the Bank requiring further injection by HM Treasury is currently considered remote.

33.3 Statutory debt resolution: Dunfermline

Since the reporting date the administrators of the Dunfermline Building Society (DBS) estate have confirmed the imminent closure of the administration, expected in July 2018. A final distribution will shortly be made to HM Treasury, completing full recovery of the principal claim on the estate.

Recovery of gross amounts including interest and costs has also been partly achieved through a capped levy on the financial sector collected by the FSCS, the final balance of which was paid to HM Treasury in March 2018. These funds were also used to reimburse the Bank of England for its administrative costs in connection with Dunfermline.

33.4 RBS share sale

On 7 June 2018 HM Treasury completed the sale of £2.5 billion RBS shares as part of the government's policy to return the bank to private ownership. The sale was effected by way of a placing of ordinary shares through an accelerated bookbuilding process to institutional investors. A total of 925m shares were sold at a price of 271p per share, reducing the government's shareholding, which is recognised on HM Treasury's SoFP, by 7.7% to 62.4%.

33.5 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.

Chapter 4
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) and issued by the Office of Financial Sanctions Implementation (OFSI) for the financial year 2017-18. The costs of running HM Treasury are reported in the Core Treasury and Agencies' balances in the financial statements.

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.[1]

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.[2]

The Policing and Crime Act 2017 empowered the Treasury to impose penalties for serious sanctions breaches on individuals and bodies. The penalty powers apply to offences committed after 1 April 2017. This process is led and managed by OFSI, which is part of HM Treasury.

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

1 https://www.fca.org.uk/

2 https://www.bankofengland.co.uk/prudential-regulation

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 the FCA and PRA (now part of the Bank of England and so included within its accounts) to gain assurance that the penalty receipts and enforcement costs are accurate and accounted for correctly.

The governance statement and statement of Accounting Officer responsibilities applicable to both the Trust Statement and the Treasury's financial statements is included within the main body of the report from page 48.

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 £24m in fine income from the FCA (2016-17: £150m) and nil from the PRA (2016-17: £27m). There has been no penalty income from OFSI (2016-17: nil) in the year ended 31 March 2018.

HM Treasury Trust Statement

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

Opinion on financial statements

I have audited the financial statements of HM Treasury Trust Statement for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the HM Treasury Trust Statement gives a true and fair view of the state of affairs of the collection of fines and penalties net of enforcement costs paid to HM Treasury by the Financial Conduct Authority, Prudential Regulatory Authority and Office of Financial Sanctions Implementation as at 31 March 2018 and of the net revenue 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 regularity

In my opinion, in all material respects the income and expenditure 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 conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the HM Treasury Trust Statement in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the audit of the financial statements

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.

Auditor’s responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HM Treasury’s internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the HM Treasury’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Performance Report, Accountability Report and the Foreword to the Trust Statement. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the Performance Report, 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

9 July 2018

Statement of Revenue and Expenditure
for the period ended 31 March 2018

In £m	Note	2017-18	2016-17
Net fine income	2	24	177
Net revenue for the Consolidated Fund		**24**	**177**

The notes on pages 181 and 182 form part of this statement.

Statement of Financial Position
as at 31 March 2018

In £m	Note	2017-18	2016-17
Current assets			
Receivable from the FCA/PRA		7	3
Cash and cash equivalents		-	-
Total assets		**7**	**3**
Balance on Consolidated Fund account	3	**7**	**3**

The notes on pages 181 and 182 form part of this statement.

Tom Scholar
Permanent Secretary

29 June 2018

Statement of Cash Flows
for the period ended 31 March 2018

In £m	Note	2017-18	2016-17
Net cash flow from operating activities	A	20	176
Cash paid to the Consolidated Fund		(20)	(176)
Increase in cash in this period		-	-

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

In £m	2017-18	2016-17
Net revenue for the Consolidated Fund	24	177
(Increase)/Decrease in non-cash assets	(4)	(1)
Net cash flow from operating activities	**20**	**176**

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 2017-18 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 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2017.

The financial impact of adopting the following standards is still being assessed; however, their application is not expected to have a material impact on the Trust Statement financial statements in the period of their initial application. The Trust Statement does not intend to early-adopt any of the following standards.

IFRS 9 Financial Instruments (July 2014)

IFRS 9 was issued in July 2014 and applies to annual reporting periods beginning on, or after, 1 January 2018.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on, or after, 1 January 2018.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on, or after, 1 January 2019.

IFRS 17 Insurance contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on, or after, 1 January 2021 (subject to EU endorsement).

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the Trust Statement.

1.3 Accounting convention

The Trust Statement has been prepared on an accruals basis under the historical cost convention.

1.4 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.

1.5 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	2017-18	2016-17
Fine income from Financial Conduct Authority	24	150
Fine income from Prudential Regulation Authority	-	27
Net fine income	**24**	**177**

Detailed information on fines collected can be found in the audited accounts of the FCA and the Bank of England (of which the PRA is now part).

There was no income (2016-17: nil) in relation to penalties issued by OFSI.

3. Balance on the Consolidated Fund Account

In £m	2017-18	2016-17
Balance on Consolidated Fund Account as at 1 April	3	2
Net revenue for the Consolidated Fund	24	177
Less amount paid to the Consolidated Fund	(20)	(176)
Balance on Consolidated Fund Account as at 31 March	**7**	**3**

4. Events after reporting date

There were no events after the reporting date.

Chapter 5

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 government has now published the final report on the progress made against the Business Impact Target during the 2015-2017 Parliament, during which departments and ministerial and listed regulators delivered £6,615.7 million net savings to business. Work is now underway to produce the report for the first year of the current Parliament.

Deregulatory measures from the previous fiscal year

The Treasury has delivered the following deregulatory measures in the previous fiscal period (April 2017 and March 2018):

- Amending the definition of financial advice: a significant deregulatory measure saving business £415 million per year. It allows firms to provide more useful information to support customer decision-making, such as the merits and risks associated with buying and selling particular investments.

- 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.

- 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.

Future deregulatory measures

In addition, the Treasury has laid legislation for a further deregulatory measure that is expected to come into force in July 2018: 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.

In June, the Treasury will also lay the Prospectus Regulations in Parliament. The measure will come into force in July 2018, and will implement a discretionary change that will reduce the administrative burden on issuers of prospectuses for public offer of securities and facilitate capital raising for UK business. This change is projected to save businesses £9m a year.

Chapter 6
Sustainability Report

The Treasury is committed to sustainable policies, whether they relate to its economics 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; and
- implement the department's plan to deliver on the Greening Government Commitments (GGC).

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 BEIS 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 and rural proofing in policy appraisal.

In March, we updated the Green Book to include a broad range of guidance on policy impacts on the environment and natural capital, land values, energy efficiency and greenhouse gasses. This will improve the way in which government departments evaluate the environmental impacts of their policies, giving a more nuanced picture of the environmental costs and benefits.

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.

Commitment	Sustainable Development Goal (SDG)
Continue with the fiscal rules which will guide the UK to a balanced budget by the middle of the next decade The near-term rules are to get cyclically-adjusted public sector net borrowing below 2% GDP, and get debt as a share of GDP falling, by 2020-21	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Adopt a "Breathing Space" scheme, with the right safeguards to prevent abuse, so that someone in serious problem debt may apply for legal protection from further interest, charges and enforcement action for a period of up to six weeks	Contributes to SDG 1: End poverty in all its forms
Make longer-term reforms to the business rates system to address concerns about the way it currently works, conducting a full review of the system to make sure it is up to date	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Support small businesses through business rate relief and low taxation, and by reducing the bureaucracy and regulation that prevents small businesses from flourishing	Contributes to SDG 5: Achieve gender equality and empower all women and girls Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
The National Productivity Investment Fund will take total spending on housing, economic infrastructure and R&D to £170 billion during the next Parliament	Contributes to SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Treasury Green Champions Network

The Treasury Green Champions Network brings together staff from across HMT to identify ways of making the HMT estate greener, including a focus on reducing waste, water usage and electricity usage. The network organises regular seminars on a range of energy and environmental issues. Speakers come from a range of backgrounds – business, academia and international organisations, and cover a variety of topics.

Biodiversity and the Treasury estate

During 2017-18 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. We have replaced chemical controls with biological pest controls, reducing 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:

- using 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 2017-18 the Treasury, continued its strong performance against its greening government commitment targets.

[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%.

The table below shows how the Treasury performed against the 2009-15 Greening Government commitments and includes the updated GGC targets for the period 2016-2020.

Target	2009-10 Baseline	2015 Target	Performance in 2015	2020 Target
Greenhouse Gas Emissions	4,216	25%	62%	66%
Domestic Flights	411	20%	5%	30%
Waste	485	25%	74%	New target yet to be agreed
Paper usage	27,030	10%	42%	50%

The Treasury significantly exceeded government wide targets, on everything but domestic flights, during the period 2009-15. In 2017-18 the Treasury has continued to perform well against its targets, and indeed exceeding the new targets well ahead of the 2020 deadline. In particular, we have reduced greenhouse gas emissions by 76% and domestic flights by 47% from our 2009-10 baseline.

In March of 2017 Treasury introduced a discount to customers that use a recycle cup when purchasing hot drinks. Since implementation this has seen 19% of all customers receiving the discount where in previous years this was less than 6%.

Looking ahead to 2018 – 19 the Treasury are working on a wider programme of activity to look at reducing the use of single use items and where alternatives can be used.

Summary of performance against GGC targets in 2017-18

Target 1: Reduce greenhouse gas emissions by 66%[2]

Cut carbon emissions from central government offices

The Treasury has reduced greenhouse gas emissions by 76% from its 2009-10 baseline figure of 4,216 tCO_2e, exceeding the updated target of reducing greenhouse gas emissions by 66% by 2020. This has produced substantial savings in Treasury energy costs over the 8-year period.

Energy and CO_2 emissions

	2013-14	2014-15	2015-16	2016-17	2017-18
Electricity (mWh)	2,844	2,750	2,642	2,988	2,544
Gas (mWh)	87	35	31	29	25

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.

Whitehall District Heating System (mWh)	1,082	1,005	710	768	122
Total CO_2 emissions (tCO_2e)[3]	**1,679**	**1,751**	**1,517**	**1,245**	**1,015**

Energy costs (£000s)

	2013-14	2014-15	2015-16	2016-17	2017-18
Electricity	302	268	271	591	638
Gas	2	1	1	2	3
Whitehall District Heating System	155	148	180	214	222
Total	**459**	**417**	**452**	**807**	**863**

Cut domestic business travel flights by 30%

We have significantly reduced the number of domestic flights. These are down 47% from the 2009/10 baseline, and exceed the updated target of reducing domestic flights by 30%. This is, in part, down to the department 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. However, despite this decrease, in 2017-18 there has been a slight increase in total CO_2 emissions compared to our performance in 2016-17.

Travel and CO_2 emissions

	2013-14	2014-15	2015-16	2016-17	2017-18
Fleet[4] (km)	21,119	35,156	34,813	43,428	29,796
Domestic rail (km)	536,316	731,257	636,084	601,652	628,612
Domestic flights (km)	204,640	314,809	255,425	142,095	147,049
Standard taxis[5] (km)	5,147	10,266	19,745	10,441	11,558
Hybrid taxis (km)	9,773	10,275	12,401	12,261	14,411
No. of domestic flights	314	372	389	229	201
Total CO_2 emissions (tCO_2e)	**67**	**92**	**79**	**50**	**53**

Travel Costs £000

	2013-14	2014-15	2015-16	2016-17	2017-18
Fleet (including Government Car Service)	235	274	309	252	221
Rail	351	410	339	310	327
Domestic flights	52	56	63	63	23
Taxis	57	47	74	57	75
Total	**695**	**787**	**785**	**682**	**646**

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.

4 Fleet emissions relate to private individuals' cars used for business purposes. Emissions do not include the government car service. In 2016-17 the $C0_2$ conversion factor changed and there was 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 the amount of waste going to landfill to less than 10%

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 140 tonnes in 2017-18. This has been achieved with no waste being sent to landfill.

Waste (tonnes)

	2013-14	2014-15	2015-16	2016-17	2017-18
Waste incinerated with energy recovery	57	78	72	78	57
Waste recycled	84	69	51	75	73
Waste sent for anaerobic digestion	5	6	5	6	10
ICT waste recycled	-	-	-	-	-
ICT waste reused	-	-	-	-	-
Total	146	153	128	159	140

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.

Reduce paper use by 50%

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 The reduction in paper consumption has been as a result of a bulk order at the end of 2016-17.

Paper consumption (reams)

Reams	2013-14	2014-15	2015-16	2016-17	2017-18
A4	11,225	14,052	15,358	15,794	12,696
A3	237	139	218	560	110
Total (A4 Equivalent)	11,699	14,330	15,794	16,914	12,806

Target 3: Reduce water consumption

In 2017-18 the Treasury's water consumption in 1HGR, calculated per FTE equivalent, was 9m^3/FTE. The department installed further water meters across the estate as part of a review of water consumption and these have allowed the introduction of focused improvement measures.

Water consumption (m^3)

	2013-14	2014-15	2015-16	2016-17	2017-18
Total consumption	11,465	11,327	9,498	11,577	11,541
Per FTE	11	10	8	10	9

Water cost (£000s)

	2013-14	2014-15	2015-16	2016-17	2017-18
Total cost	23	23	36	44	76

Chapter 7
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 (GIAA)	Established as an Executive Agency of the Treasury 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, develop the national infrastructure assessment as well as specific studies and engage with the public and private sectors to consult 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. 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.	Charles Counsell 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, originally incorporated in October 2008, became a wholly owned subsidiary of UKGI and was so until 31 March 2018. It was responsible for managing the government's shareholdings in RBS, Lloyds and UKAR as part of the UK government's response to the financial crisis. On 1 April 2018 its remit was transferred to UKGI prior to wind-up of the company.	James Leigh-Pemberton is the Accounting Officer and Chairman.
UK Asset Resolution Ltd (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 and subsequently also the Help to Buy ISA scheme on behalf of the Treasury.	Ian Hares is the Accounting Officer and Chief Executive.

UKGI Financing plc	Currently dormant	James Neilson is the Accounting Officer and a director
Infrastructure Finance Unit Ltd	Incorporated in February 2009, the principal activity of the company was to provide loan finance to PFI projects. In 2017-18 outstanding PFI loans were repaid and it has since been used as the vehicle for operating the Digital Infrastructure Investment Fund.	Charles Roxburgh is the Accounting Officer. The company's directors are directors of the Infrastructure Project Authority (IPA).
IUK Investments Holdings Ltd	The IUK Investments group, comprising IUK Investments Holdings Ltd and its subsidiary IUK Investments Ltd, was established in March 2013 to hold PF2 investments in major infrastructure projects.	Charles Roxburgh is the Accounting Officer. The company's directors are directors of the IPA.
Help to Buy (HMT) Ltd	Incorporated in September 2013, the company's sole activity is to operate the Help to Buy: Mortgage Guarantee Scheme.	Sophie Dean is the Accounting Officer and a director
HM Treasury UK Sovereign Sukuk plc	Incorporated in May 2014, the company's sole activity has been to issue in July 2014 and service £200 million Sukuk certificates.	Mario Pisani is the Accounting Officer and a director

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 three 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 Michael Stevens KCVO who is also the accounting officer for the Sovereign Grant.
The Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations. (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 Chief Executive of the Royal Mint, Anne Jessop 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, Personal Tax, Welfare and Pensions in the Treasury, Lindsey

		Whyte 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.

HM Treasury contacts

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