HM Treasury

Whole of Government Accounts:
year ended 31 March 2020

HC 246 June 2022

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Contents

Chapter 1

Performance Report

The Performance Report chapter of the Whole of Government Accounts (WGA) covers the following subjects:

Overview

1.1 The Whole of Government Accounts (WGA) is a unique view of the government's financial position and performance. It consolidates the UK public sector, in line with International Financial Reporting Standards.

1.2 The requirement to produce WGA is set out in legislation (the Government Resources and Accounts Act 2000), and every year the Treasury must prepare a set of accounts, have them audited and lay them in Parliament.

1.3 The headlines for WGA 2019-20 show:

	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn	2015-16 £bn
Income	(813.3)	(795.6)	(764.5)	(720.8)	(693.9)
Expenditure	918.7	851.8	808.8	760.7	742.2
Total assets	2,138.5	2,098.8	2,013.8	1,903.0	1,742.4
Total liabilities	(4,972.7)	(4,554.6)	(4,579.4)	(4,323.7)	(2,872.3)

1.4 The accounts report income, expenditure, assets and liabilities but also commitments and contingent liabilities that are disclosed. These contingent liabilities are currently not sufficiently likely to occur to warrant recognition on the Statement of Financial Position.

	2019-20 £bn	2018-19 £bn	2017-18 £bn	2016-17 £bn	2015-16 £bn
Commitments	196.8	183.7	168.7	159.4	148.3
Contingent liabilities	84.6	80.1	83.7	84.0	104.3

1.5 Two major events significantly affected 2019-20: EU exit and the outbreak of COVID-19. The financial settlement under the EU Withdrawal Agreement sets out the UK's rights and obligations as a departing Member State. The estimated financial impact of the EU Withdrawal Agreement is recognised in WGA 2019-20, with further details provided in the EU Exit section on page 35. Shortly after COVID-19 was declared a pandemic on 11 March 2020 the government began to make a series of announcements to support public services, workers and businesses. The costs incurred up to 31 March 2020 are recognised in WGA 2019-20. The COVID-19 section below from page 27 provides further detail, including the estimated cost of the pandemic to date.

What is WGA?

Whole of Government Accounts is a unique publication, that puts the UK at the global forefront of fiscal transparency and government financial reporting.

WGA is made up of over 10,000 bodies, across the whole public sector including central government departments, local authorities, devolved administrations, the NHS, academy schools and public corporations.

Why do we prepare WGA?

Providing a comprehensive picture of the UK's public sector finances is important, and supports government transparency. Having a picture of long term liabilities helps inform more effective management of fiscal risks.

WGA is independently audited, providing assurance that the figures are prepared in line with International Financial Reporting Standards, as interpreted for the public sector context.

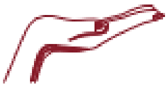
WGA and National Accounts

Day to day management of the public finances uses the National Accounts measures. These measures are less comprehensive than WGA, but are far faster to prepare, and follow international standards that allow comparisons between countries. Using WGA and the National Accounts together allows for robust monitoring of the fiscal position and periodic assessments of the overall state of the public finances, both through WGA itself and through the additional analysis that it supports such as the Office for Budget Responsibility's Fiscal Risks Report and Fiscal Sustainability Report. Further details on the National Accounts are included in **Annex A**.

Year at a glance

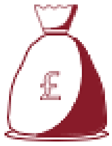
Highlights of cross government financial statistics

£36.9bn additional tax generated by tackling avoidance, evasion and non-compliance. Source HMRC



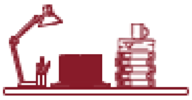
£2.5bn spent on food, farming and biosecurity. Source: DEFRA

£4.9bn received from the sale of NRAM mortgages (formerly part of Northern Rock). Source: HMT



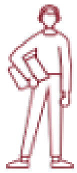
£40.7bn core funding for schools and high needs. Source: DfE

£7.5bn investment in capital with 6 new large hospital schemes under way. Source: DHSC



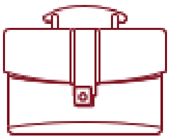
£1.8bn provided to Scotland's colleges and universities. Source: Scottish Government

£7.0bn spent on the NHS in Wales. Source: Welsh Government



9.3% fall in GDP in 2020. Source: ONS

£2.0bn for public services and infrastructure investment in Northern Ireland. Source: NI Office



£191.0bn paid out in benefit, pension and Social Fund payments. Source: DWP

£1.7bn in legal aid funding provided. Source: MoJ

Income

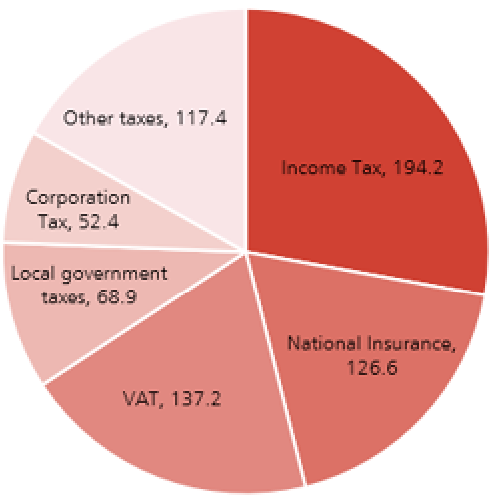
Most government expenditure is financed through tax income.

Income type (£bn)	2019-20	2018-19	2017-18	2016-17	2015-16
Income Tax	194.2	194.0	186.0	173.8	169.5
National Insurance	126.6	120.4	118.4	108.6	102.1
VAT	137.2	135.6	128.6	124.4	116.1
Other central government tax	169.8	168.9	166.4	162.3	148.0
Local government tax	68.9	66.8	62.2	59.0	56.9
Other revenue	116.6	109.9	102.9	92.7	101.3
Total income	813.3	795.6	764.5	720.8	693.9

Tax income

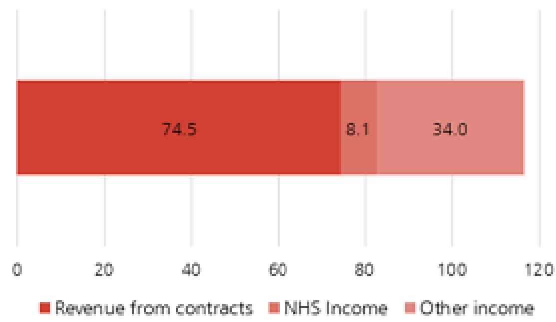
Most tax income is from individuals, with income tax and National Insurance levied on salaries and wages, and VAT and certain duties levied on consumption. Local government taxes comprise council tax and business rates.

Taxation revenue 2019-20 - £bn



Other revenue

Other revenue 2019-20 - £bn



WGA income

In addition to tax income, government generates income from a wide variety of sources. Revenue from contracts is largely made up of services provided by Local Authorities (£20.2 billion) with TfL accounting for £4.4 billion. Most EU income (£8.4 billion) is spent by Defra on payments under the Common Agricultural Policy. NHS income is made up of a variety of sources, including income from private patients (£0.7 billion)

Expenditure

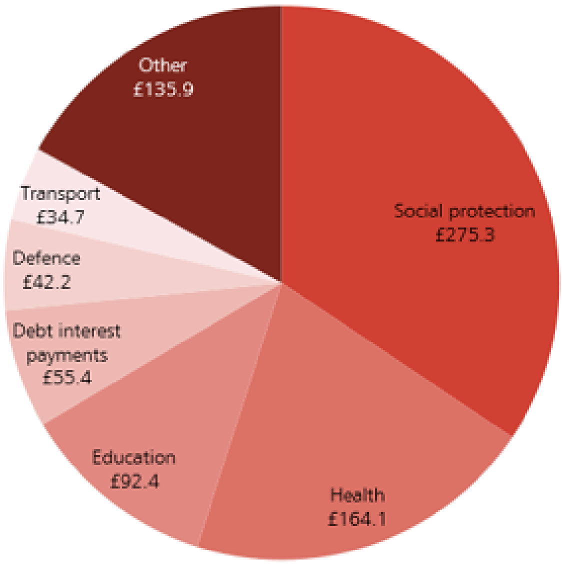
The most significant types of government expenditure are social security, staff costs and the purchase of goods and services.

Expenditure type (£bn)	2019-20	2018-19	2017-18	2016-17	2015-16
Social security	240.0	230.3	225.9	223.7	222.5
Staff costs	235.3	255.7	215.8	191.1	193.3
Purchases of goods and services	223.6	206.5	207.4	194.8	192.1
Grants and subsidies	62.2	58.8	51.2	53.6	54.1
Debt interest	31.8	31.6	36.8	31.8	28.3
Other	125.8	68.9	71.7	65.7	51.9
Total expenditure on public services	918.7	851.8	808.8	760.7	742.2

Social security benefits

Social security benefits make up 26% of government expenditure. A significant proportion (42% of total benefits) is made up of the State Pension, with 9% made up of Housing Benefit,13% paid in disability and carers' benefits and 16% paid as working age benefits.

Main areas of functional spending 2019-20 £bn



Source: Public Expenditure Statistical Analysis

Staff costs

Staff costs also account for a large proportion of expenditure (26%). This includes salaries and wages of £168.2 billion and pension scheme costs of £67.1 billion. Permanent staff make up 92.7% of all staff costs. WGA shows 4.5 million full time equivalent persons employed, with 1.6 million employed by the NHS.

Alternative views of expenditure

WGA breaks down expenditure by aggregating entities' spend into functional categories, e.g. staff costs, grants, purchase of goods and services.

Drilling down into further analysis has been challenging but the Treasury also publishes Public Expenditure Statistical Analysis (PESA) and Country and Regional Analysis, which provides an alternative functional insight and regional breakdown of public spending. This chart reports the PESA functional analysis for 2019-20. This can be reconciled to WGA total spend (see expenditure section for more detail).

Assets

The most significant assets owned by government are property plant and equipment, other financial assets and trade and other receivables.

Asset type (£bn)	2019-20	2018-19	2017-18	2016-17	2015-16
Property, plant and equipment	1,313.3	1,268.0	1,208.4	1,167.6	1,120.2
Other financial assets	516.2	514.9	507.6	458.9	373.0
Trade and other receivables	182.0	190.3	179.9	173.2	154.7
Other assets	127.0	125.6	117.9	103.3	94.5
Total assets	2,138.5	2,098.8	2,013.8	1,903.0	1,742.4

Property, plant and equipment

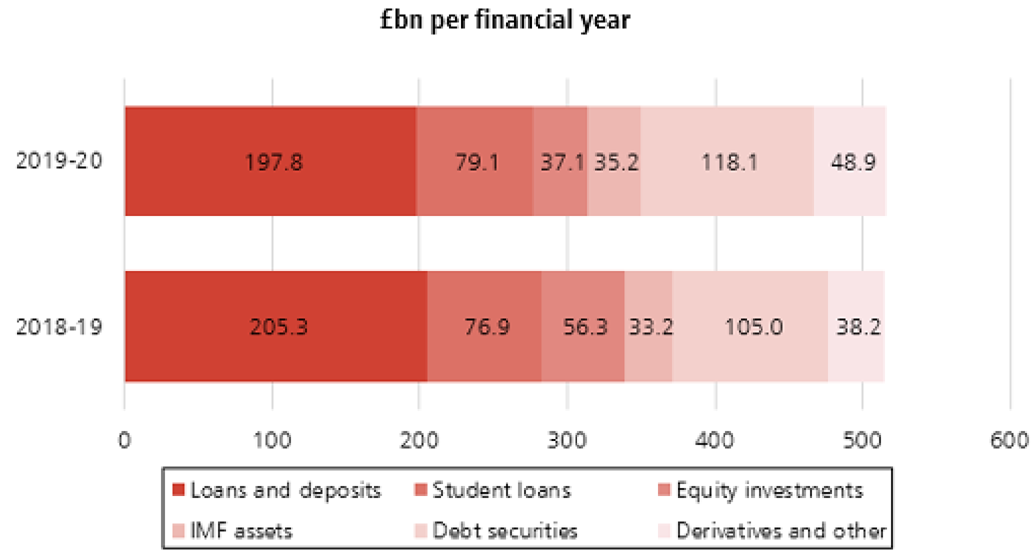
Property, plant and equipment (PPE comprises 61% of assets in WGA. The largest components of PPE are land and buildings, and infrastructure assets – which includes the road and rail network.

Trade and other receivables

The most significant government receivable is taxation income due of £142.6 billion. This includes amounts of tax and duties where the taxable event has occurred but the return has not been received from the taxpayer by the year end.

Other financial assets

Other financial assets include loans and deposits, the student loan book, equity investments and debt securities. Some are held for cash management purposes and others to support specific policy objectives. The largest increase is debt securities, driven by purchases and exchange rate related gains. Equity investments includes shares in RBS.



Liabilities

Key government liabilities are the net public sector pension liability, government borrowings, other financial liabilities and provisions.

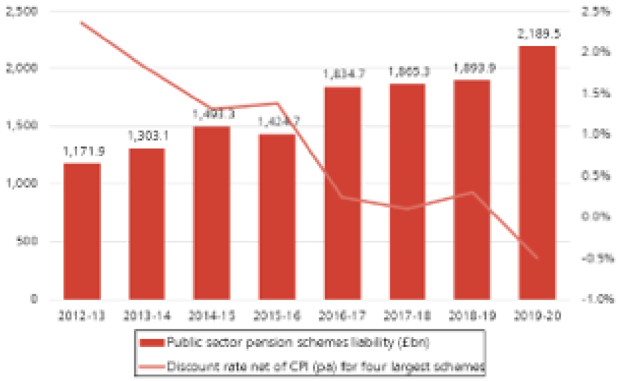
Liability type (£bn)	2019-20	2018-19	2017-18	2016-17	2015-16
Public sector pensions	2,189.5	1,893.9	1,865.3	1,834.7	1,424.7
Government borrowings	1,445.4	1,407.2	1,347.4	1,289.0	1,260.6
Other financial liabilities	761.9	750.2	752.8	692.2	557.4
Provisions	374.8	311.4	422.5	322.2	305.5
Trade and other payables	201.1	191.9	191.2	185.6	180.2
Total liabilities	**4,972.7**	**4,554.6**	**4,579.2**	**4,323.7**	**3,728.4**

Government borrowings

The primary form of government debt is gilts. Total gilts stand at £1,182.5 billion. Other components include Treasury Bills and NS&I products.

Public sector pension liability

Public sector pensions are the largest liability within WGA at £2,189.5 billion. Pension valuations are impacted by changes in the discount rate used to calculate the present value and changes to actuarial assumptions such as on inflation and salary growth, life expectancy and workforce size.



Provisions

Provisions are liabilities of uncertain timing or amount. Key provisions in WGA are those for nuclear decommissioning and clinical negligence. Changes this year in total provisions have been driven by new provisions and increases in expected future pay-outs.

Commitments and contingent liabilities

Types of liability in WGA

The WGA balance sheet shows £5.0 trillion of liabilities. In addition to these, there are commitments which are not recognised on the balance sheet.

Some of these (such as contingent liabilities) are not recognised because they are not seen as probable to occur. Others are commitments, where there is a contractual obligation but the triggering event to recognise a liability has yet to occur.

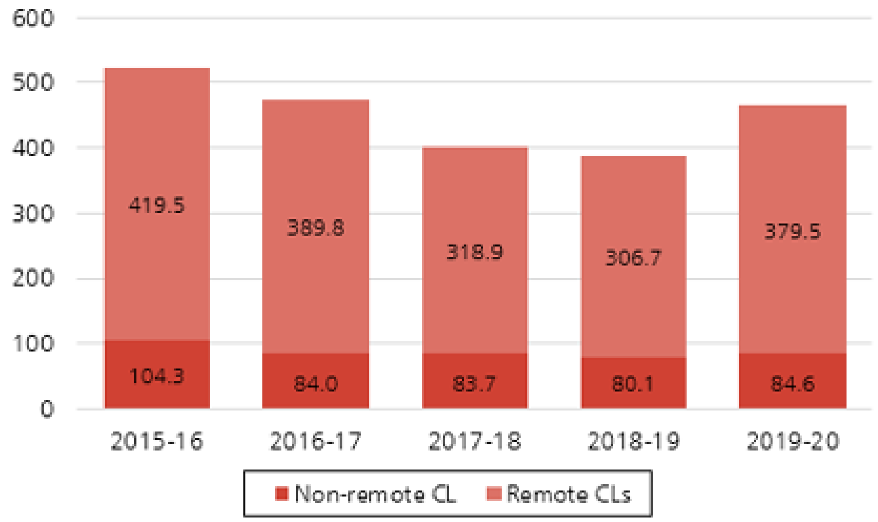
Commitments

Commitments captured in WGA total £196.8 billion. These include £57.7 billion in capital commitments, £23.0 billion in commitments under operating leases, £8.1 billion in finance leases, £37.1 billion in PFI finance lease commitments and £70.9 billion in other financial commitments.

Contingent liabilities

Contingent liabilities are liabilities that are unlikely, and will not crystallise unless a specific event occurs. These include indemnities, guarantees, or clinical negligence liabilities that are not already recognised on the balance sheet.

The chart below shows government's remote and non-remote contingent liabilities.



Box 1.A: What is not included in WGA

Although WGA is a highly comprehensive product, there are some items that are not included, either because they are outside the accounting standards, would lead to lengthy disclosures that added limited value, or due to limitations in the data collection:

a) WGA does not include a liability for future state pension payments. This is because the expenditure is reported to match the period of entitlement. Future expenditure on public services is also not recognised unless contractually committed.

b) WGA does not recognise an asset for future tax revenue, as these figure taxable events (like firms making profits) have not yet occurred.

c) WGA does not include individual remuneration disclosures of public sector employees, including senior employees. This information can be found in the published accounts of individual organisations.

d) WGA follows the IFRS definition of Intangible assets. This means that there are strict rules over what can and cannot be recognised on the Statement of Financial Position. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. These are known as knowledge assets, however they are not captured in WGA.

e) WGA does not include full forecasts of the financial effects of COVID-19 or EU exit. The estimated financial impact of the EU Withdrawal Agreement is recognised in WGA 2019-20 and information on this included in paragraphs 1.80 to 1.100. WGA 2019-20 includes the COVID-19 commitments and costs incurred up to 31 March 2020. Information on all COVID-19 commitments and costs to date, including costs after 31 March 2020, are in paragraphs 1.63 to 1.79. However, WGA does not include estimates or forecasts of the wider effects of COVID-19 or EU exit on the UK's public sector finances.

Fiscal risk management framework

Economic and fiscal context

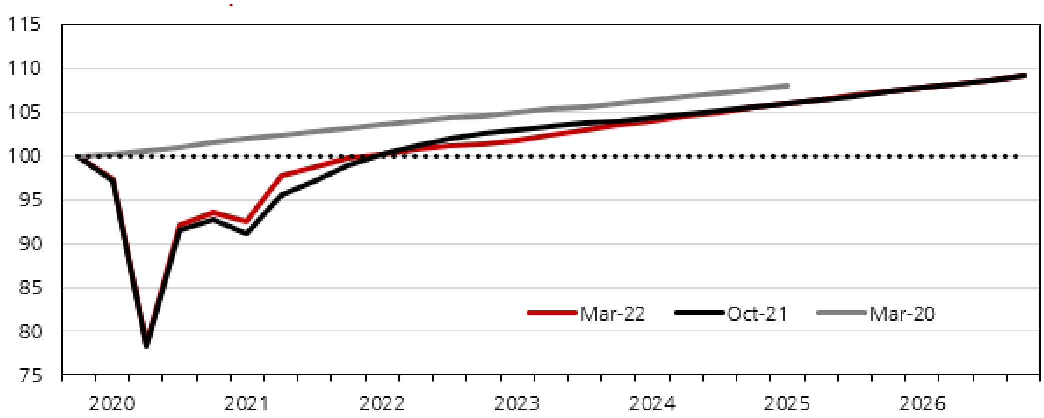
1.6 This section provides a forward-looking commentary on the Treasury's overall approach to managing the financial position and fiscal risk, including information on the economic and fiscal outlook as published by the OBR.

Latest economic and fiscal forecasts

1.7 After a 9.3% fall in Gross Domestic Product (GDP) in 2020, the economic recovery over the past year has surpassed expectations, with GDP growth of 7.4% in 2021, the fastest in the G7. As the vaccine rollout allowed restrictions to be eased, there was a particularly strong recovery in sectors affected by the pandemic, with half of the total GDP growth in Q2 2021 coming from those consumer-facing sectors that re-opened as the government followed the roadmap published in February 2021 with all restrictions on firms removed by 19 July. The rebound in economic activity also drove a strong recovery in the labour market, supported by the government's Plan for Jobs. GDP returned to pre-pandemic (February 2020) levels in November 2021, sooner than expected. Following the emergence of the Omicron variant in December 2021, the government implemented Plan B in England. This weighed on output, although by less than expected, with GDP falling by 0.2% in December 2021 before growing by 0.8% in January and 0.1% in February 2022.

1.8 At the Autumn Budget 2021 the strength of the recovery and the effectiveness of government policy meant the Office for Budget Responsibility (OBR) judged that the pandemic would have a smaller long-term effect on the economy and public finances than previously expected. The OBR reduced its previous scarring estimate on GDP of 3% to 2% relative to its pre-COVID forecast, noting that 'the Government's pandemic support policies appear to have been largely effective in preserving viable jobs and businesses' and that this support, alongside the vaccine rollout 'has significantly reduced the collateral economic damage that could have resulted from the pandemic'.[1] Less scarring means a larger economy in the medium term with higher tax revenues, lower unemployment and higher wages. The total scarring estimate was unchanged in the March 2022 forecast.

Chart 1.A: Real GDP, index 2019 = 100



[1] Economic and Fiscal Outlook, OBR, October 2021

1.9 As the Prime Minister announced in February 2022, the UK is moving into a new phase of managing COVID-19. The success of the vaccination programme has allowed society and the economy to open up more quickly than many comparable countries and for the government to remove the remaining domestic restrictions in England.

1.10 Putin's invasion of Ukraine has increased uncertainty and put further pressure on the cost of living not only in the UK but around the world. The OBR expects the invasion to reduce global economic growth by 0.5 percentage points this year, but state that "given the evolving situation in the war in Ukraine and global response, there is significant uncertainty around the outlook for global Gross Domestic Product (GDP)".[2] The OECD have revised down global economic growth by more than one percentage point this year than was projected before the conflict.

1.11 In its latest forecast the OBR expects the UK economy to grow in real terms by 3.8% in 2022, followed by growth of 1.8% and 2.1% in 2023 and 2024, respectively. The unemployment rate fell below pre-pandemic levels in the three months to February 2022, to 3.8%. The OBR expects the unemployment rate to rise slightly, averaging 4.2% across 2023, before falling to 4.1% in 2024 and remaining there for the remainder of the forecast period.

1.12 Elevated global energy and goods prices, following the uneven effect of the recovery from the pandemic on global supply and demand, have already led to an increase in inflation in the UK and some other advanced economies. The Consumer Prices Index (CPI) inflation increased to 7.0% in the twelve months to March 2022, which represents a 30-year high.[3]

1.13 Higher global energy, metals and food prices, which have been volatile since the invasion of Ukraine, pose risks to the outlook for inflation, consumer spending and production. The OBR expects inflation to remain elevated across 2022 and 2023, averaging 7.4% and 4.0% respectively. However, as the OBR sets out in the Economic and Fiscal Outlook (EFO), there is significant uncertainty around the outlook for oil and gas prices and therefore the path of inflation over the forecast period.

1.14 While Public Sector Net Borrowing (PSNB) reached a peacetime record of £317.6 billion (14.8% of GDP) in 2020-21, it fell to £151.8 billion (6.4% of GDP)in 2021-22.[4] This reflects stronger than expected receipts outturn this year, thanks in part to the government's Plan for Jobs which has protected jobs and businesses. The OBR expects PSNB to fall to £99.1 billion in 2022-23 before declining more gradually to reach £31.6 billion in 2026-27.

1.15 While debt is lower than forecast in October 2021, it remains historically high. Public Sector Net Debt (PSND) increased from 82.8% of GDP in 2019-20 to96.2% of GDP in 2021-22, the highest level as a percent of GDP since the 1960s. PSND is expected to fall over the forecast horizon, declining to 83.1% of GDP by 2026-27.

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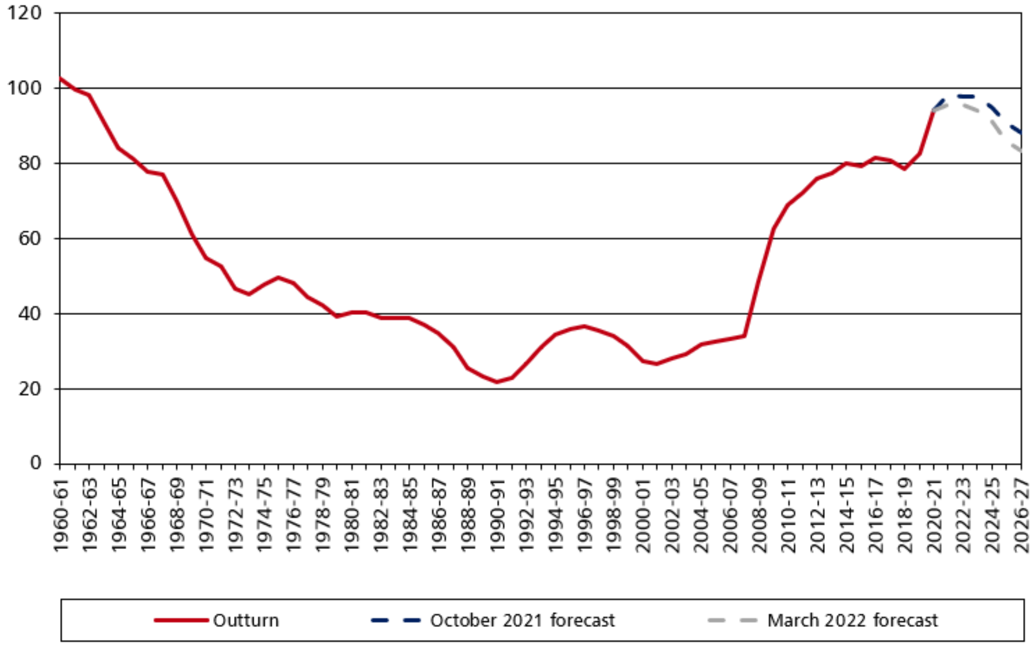
2 Economic and Fiscal Outlook, OBR, March 2022

3 Consumer price inflation, UK: March 2022, ONS

4 Public sector finances, UK: March 2022, ONS

1.16 Responsible management of the public finances is even more important at the current time given the increasing risks and uncertainty created by Putin's invasion of Ukraine. Over the past year, the government has taken decisions to strengthen the public finances, including the introduction of the Health and Social Care Levy. This has allowed it to go further in supporting households in the Spring Statement, while still preserving fiscal space to tackle the challenges ahead.

Chart 1.B: Chart: Public sector net debt (as % of GDP)



The outturn data for 2021-22 is not reflected for consistency with the OBR's March 2022 forecast. The data used for the October 2021 forecast are those originally published by the OBR in October 2021, not the amended data published in their March 2022 forecast where the GDP denominator in forecast years has been increased to align with upward revisions to nominal GDP for 2020-21 since the data for the October forecast.

Source: Office for National Statistics and Office for Budget Responsibility

Fiscal sustainability and risks

1.17 Although lower than previously forecast, borrowing and debt remain at historically high levels. The significant risks outlined by the OBR in its 2021 Fiscal Risks Report (FRR) remain, alongside the increasing risks to and uncertainty around the economic and fiscal outlook created by Putin's invasion of Ukraine. The risks set out by the OBR in the FRR included:

- Vulnerability to fluctuations in debt servicing costs. Increases in the stock of debt and the shortening of its effective maturity resulting from quantitative easing have increased the sensitivity of the public finances to changes in interest rates. The UK's relatively large stock of inflation-linked debt means that our debt servicing costs are also sensitive to changes in inflation. Debt interest spending is forecast to reach £83.0 billion[5] next year – the highest nominal spending ever and the highest relative to GDP in over two decades.[6]
- The epidemiological outlook. As set out above, the UK is moving into a new phase of managing COVID-19. GDP has now returned to pre-pandemic levels, sooner than expected and faster than any other OECD county. The

[5] This is central government debt interest, net of the Asset Purchase Facility

[6] Economic and Fiscal Outlook, OBR, March 2022.

IMF highlighted this in February, stating that "strong policy measures and rapid vaccination campaign that helped contain the health, economic, and financial impact of the pandemic, which supported a faster than expected recovery".[7]

- Climate change. The FRR highlighted that unmitigated climate change is a significant fiscal risk and sustainability issue. The Net Zero Review sets out action to address the threat of climate change while driving growth and supporting the creation of green jobs across the country.

1.18 In the context of these risks, keeping debt under control is important to ensure the government can continue to deliver excellent public services and support UK growth. The OBR highlight in its recent FRR, "in the absence of perfect foresight, fiscal space may be the single most valuable risk management tool".[8] The government announced new fiscal rules at the Autumn Budget 2021, which will ensure the public finances remain on a sustainable path over the medium term, while allowing fiscal space to manage uncertainty. These rules include targets to have PSND excluding the Bank of England (underlying debt) as a percentage of GDP falling and to balance the current budget by the third year of the rolling forecast period.

1.19 The OBR's March 2022 forecast shows that fiscal rules are met with a margin of safety of £27.8 billion (1.0% of GDP) against debt falling and the current budget is in surplus by £31.6 billion (1.2% of GDP). At present there is elevated uncertainty surrounding the economic and fiscal outlook. As the OBR has said, this headroom "could be wiped out by relatively small changes to the economic outlook, including a 1.3 percentage point shortfall in GDP growth in 2024-25 or a 1.3 percentage point increase in the effective interest rate in 2024-25".[9]

1.20 The Charter for Budget Responsibility, published in October 2021, presents the government's approach to operating fiscal policy and managing sustainable public finances in the long-term interests of the UK. The Charter sets out the government's commitment to managing fiscal policy in accordance with clear objectives and its fiscal mandate. Alongside this, HMT will also consider wider data, analysis and evidence on the affordability of public debt and the strength of the public sector balance sheet, with the aim of supporting the achievement of the fiscal objectives.[10]

1.21 Beyond the fiscal rules, the government remains committed to active management of fiscal risks. HMT surveys these centrally, including risks and actions being taken to manage them. More broadly, HMT provides oversight and management of risks to the economy, tax, and spending. HMT works directly with other government departments to assess risks to the public finances, in line with the principles set out in HMT's Orange Book.

1.22 The Charter commits the OBR to the production of an annual sustainability report, which will analyse the sustainability of and risks to the public finances. HMT

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7 'United Kingdom: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the United Kingdom', IMF, February 2022.

8 Fiscal Risks Report, OBR, 2021.

9 Economic and Fiscal Outlook, OBR, March 2022.

10 Charter for Budget Responsibility, HM Government, January 2022.

will respond to the report at a subsequent fiscal event. The International Monetary Fund has recognised the UK's use of independent commentary in managing fiscal risks as advanced, as measured against the IMF's Fiscal Transparency Code.[11] The government responded to the FRR alongside the Spring Statement 2022.[12]

Local government accountability and oversight

1.23 The Department for Levelling up, Housing and Communities (DLUHC) has the responsibility for ensuring that local government acts properly in the management of its resources. The way the department receives assurance in the delivery of this oversight role is set out in the department's *Accounting Officer System Statement*[13] and specifically at Annex A of that document, which covers local government accountability. This describes how local government, through elected councillors (and, where applicable, directly-elected mayors) is accountable to its local communities for the proper stewardship of all its resources. There is a role for DLUHC and other central government departments to maintain a statutory framework of legal duties and financial controls on local authorities, to ensure proper democratic accountability, transparency, public scrutiny and audit.

1.24 DLUHC is responsible for the core local government accountability framework for local authorities and for ensuring that it is effective as a national system within which local authorities take their own decisions. In addition to the core accountability system, other departments which oversee services run by local government publish statements that explain the grants they make to local authorities, and the legislation and regulations that relate to those services. These departments include the Department for Education, Department of Health & Social Care, Department for Transport and Department for Business, Energy and Industrial Strategy. DLUHC's Accounting Officer is regularly provided with comprehensive assurance advice on how the local government accountability system is working and whether the system needs amending.

Oversight

1.25 The department adopts a broad approach in discharging this responsibility. It looks carefully at the financial health of authorities, as well as at local authority governance and service delivery. It works with a range of partners in doing so, both at national level to consider the health of the system overall and locally. For example, the department engages directly with local authorities over financial sustainability and encourages any local authorities with concerns to speak to the department. DLUHC has worked closely with organisations including the Chartered Institute of Public Finance and Accountancy (CIPFA) to ensure their guidance on this matter is consistent with its approach.

1.26 The department collects and analyses information from a wide range of sources. This includes financial data, information on outcomes, information relating to specific services as well as soft intelligence. All financial data is taken from one or a combination of:

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11 Public Financial Management blog: Stressing the Public Finances – the UK Raises the Bar. IMF

12 Government Response to the 2021 Fiscal Risks Report, March 2022.

13 https://www.gov.uk/government/publications/mhclg-accounting-officer-system-statement-2020

- Office for National Statistics data,
- the publicly available statistical returns provided by local authorities to the department

1.27 Other information is gained from DLUHC's interactions with authorities and from other government departments. This data and intelligence are considered and analysed to provide indications of which local authorities or groups of authorities are facing risks of financial distress, service failure or other inability to meet statutory duties.

1.28 The department has taken a number of steps to improve its oversight of the local government sector that includes establishing a Local Authority Governance and Accountability Framework Review Panel in September 2019, to review the governance and accountability Framework. Its membership is drawn from the National Audit Office, Local Government and Social Care Ombudsman, Local Government Association, Society of Local Authority Chief Executives, Centre for Public Scrutiny, Chartered Institute of Public Finance and Accountancy, and Lawyers in Local Government and the Association of Local Authority Treasurers.

1.29 The department has policy responsibility for the Prudential Framework comprising the legislation and statutory guidance under which local authorities borrow and invest. Authorities must restrict borrowing to what is affordable and have regard to the statutory codes issued by CIPFA and the department. In response to changes in patterns in local authority behaviour where a minority of authorities are taking excessive risk through excessive debt, over-reliance on commercial income or the pursuit of novel and risky investments, the government has committed to strengthening the capital system. Details of the actions the government is taking are set out in the policy document *Local authority capital finance framework: planned improvements*[14] (July 2021).

1.30 HM Treasury supports the department's oversight of this system by providing spending team challenge and assurance on local authority spending proposals and any support DLUHC is considering extending to a local authority. In addition, HMT considers local authority sustainability at spending reviews to ensure that the local authority sector as a whole has the resources it needs to carry out its functions.

Local audit

1.31 A robust local audit system and transparent local authority financial reporting are key to delivering value for money for taxpayers, and for sustaining public confidence in our systems of local democracy. The Redmond Review made a number of recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. DLUHC is taking a range of actions as part of its response to the Redmond Review including establishing arrangements for stronger system leadership and ensuring a smooth procurement for local audit.

1.32 In light of the deterioration in the timeliness of local audit (just 9% of 2020-21 audits were complete by the 30 September 2021 deadline), DLUHC published a

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14 https://www.gov.uk/government/publications/local-authority-capital-finance-framework-planned-improvements/local-authority-capital-finance-framework-planned-improvements

package of measures[15] in December to improve delays to local audit and support capacity in the market. The measures go beyond Redmond's recommendations and represent commitments from key partners across the local audit system. Key measures include:

- providing councils with £45m additional funding over the course of the Spending Review period;
- strengthening training and qualifications options for local auditors and audit committee members;
- reviewing whether certain accounting and audit requirements could be reduced on a temporary basis; and
- extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021-22 accounts, then 30 September for 6 years, beginning with the 2022-23 accounts.

1.33 DLUHC have also made new regulations, which came in force on 16 February 2022. These regulations provide the Appointing Person, currently Public Sector Audit Appointments Ltd (PSAA), with greater flexibility to set fee scales for local audit and to set standardised fee variations where auditors are required to undertake additional work for large numbers of authorities.

1.34 HM Treasury supports DLUHC in delivering these changes to the local authority audit system.

Local government in WGA

1.35 WGA 2019-20 consolidates the results of 516 local authorities, of which 464 provided final returns and 33 submitted draft data. No returns were received from 20 local authorities. A further 6 local authorities were not required to submit returns and excluded from the consolidation on the basis that, as minor bodies, they are too small to have any material impact on WGA. See Note 2.1 for more details on the impact of excluding minor bodies. A full list of minor bodies is provided in Annex 3.

1.36 Delays to the audit of local authority accounts mean that fewer local authorities will be able to submit their final WGA returns based on those accounts on a timely basis. This is likely to impact WGA for 2020-21 and subsequent years.

Local government finances

1.37 Note 3 to WGA presents segmental reporting which shows the local government contribution to key figures in WGA. Further detail on expenditure by local authorities in England during 2019-20 and the sources of financing for that expenditure can be found in the DLUHC statistical release Local Authority Revenue Expenditure and Financing: 2019-20 Final Outturn, England[16], which shows Total Service Expenditure of £94.6 billion in 2019-20. This is prepared on a statistical basis and shown net of related income, so is not directly comparable with WGA.

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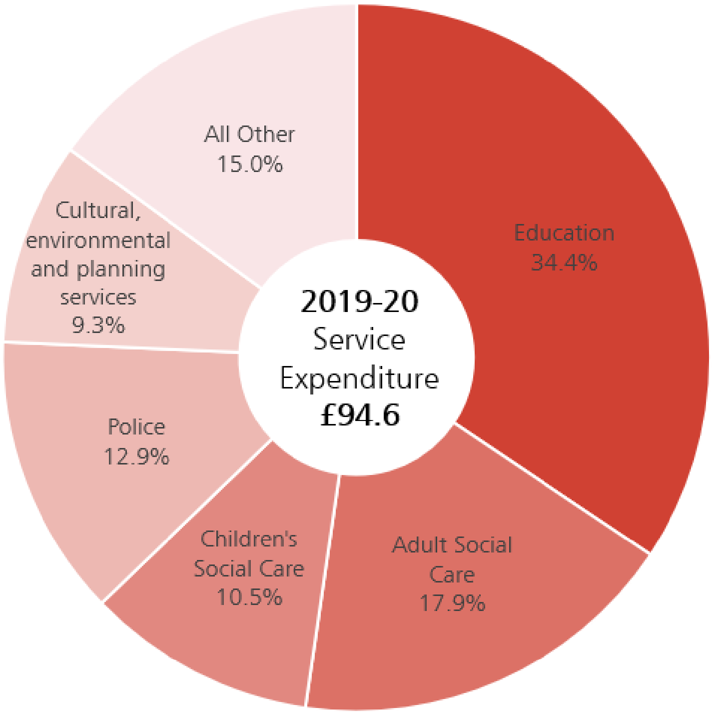
15 Measures to improve local audit delays - GOV.UK (www.gov.uk)

16 Local authority revenue expenditure and financing England: 2019 to 2020 final outturn (publishing.service.gov.uk)

Chart 1.C: Proportion of budgeted service expenditure by service, England 2019-20 (£ billion)



Source: DLUHC

1.38 The category ‘Other’ includes Highways and Transport, Public Health, Fire and Rescue, Central services and Other services.

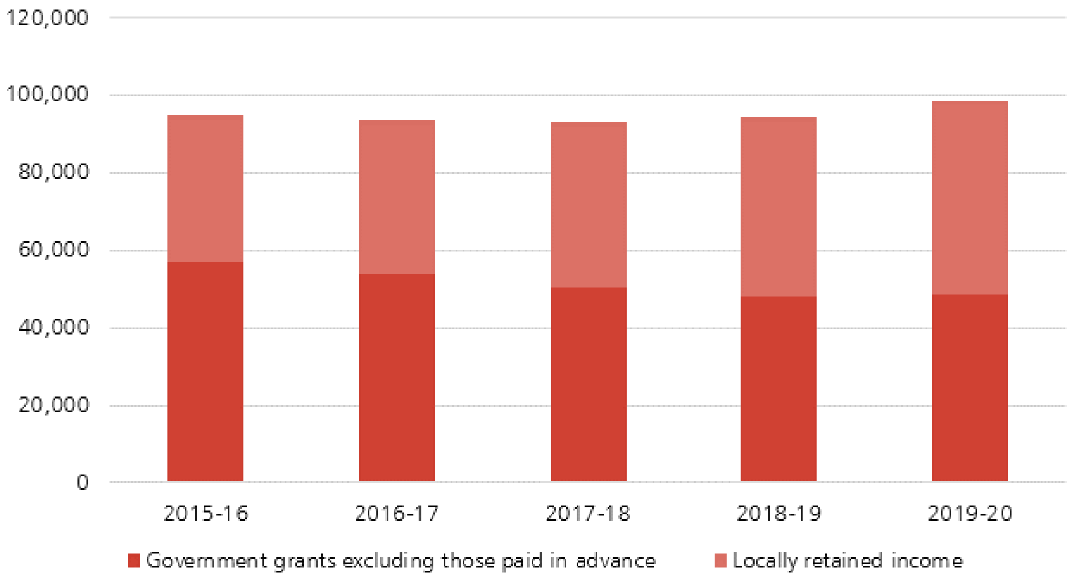
1.39 The Total Service Expenditure excluding Education Services shown in the statistical release was £62.0 billion in 2019-20. This was 2.4% higher than in 2018-19 when adjusted for inflation, or 4.8% higher in cash terms.

1.40 The categories of service with the largest increases (not adjusted for inflation) in expenditure were:

- Police Services, up by £778 million (+6.8%) from 2018-19 to £12.2 billion in 2019-20,
- Adult Social Care, up by £829 million (+5.2%) from 2018-19 to £16.9 billion in 2019-20, and
- Children’s Social Care, up by £545 million (+5.8%) from 2018-19 to £9.9 billion in 2019-20.

1.41 The broader measure of local authority Revenue Expenditure (other current expenditure in addition to service expenditure and non-current expenditure) calculated by DLUHC totalled £98.2 billion across all local authorities in England in 2019-20. This was 4.2% higher in cash terms than in 2018-19, and 1.9% higher than 2018-19 when adjusted for inflation. Chart 1.D shows how revenue expenditure was financed over the five years to 2019-20, with the share financed by central government grants reducing over this period:

Chart 1.D: Financing of revenue expenditure, England, since 2015-16

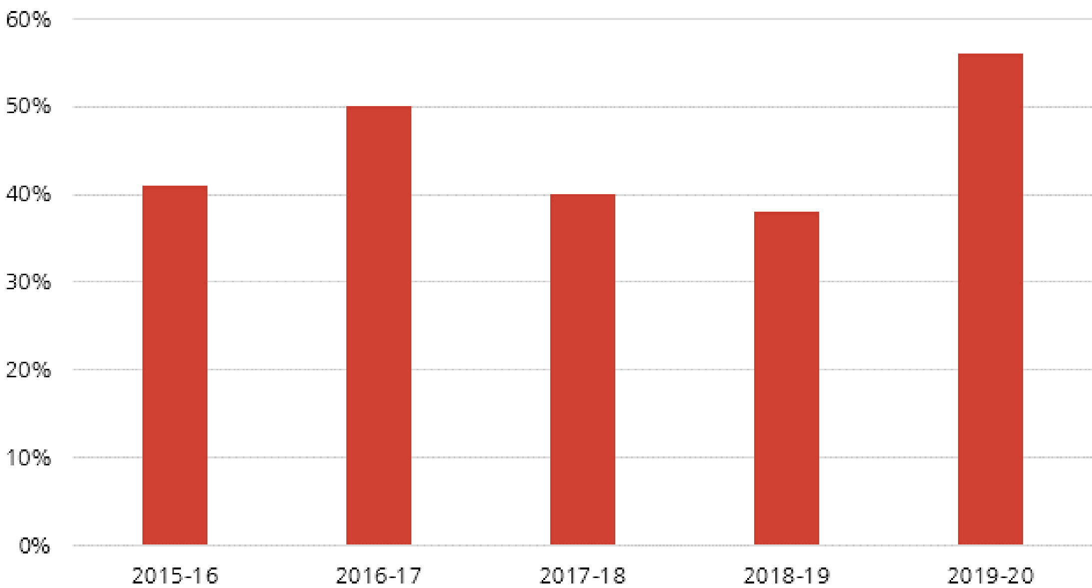


Source: DLUHC Revenue Outturn returns from England local authorities

1.42 Reserves are funds set aside to finance future revenue fund spend. Increases in reserves may be due to a delay or cancellation of a project, or an authority saving for future projects. Decreases in reserves indicate when authorities use funds that have been set aside in previous years.

1.43 The statistical release shows that local authorities' total revenue account reserves decreased during 2019-20. On a like-for-like basis (adjusted for COVID-19 grants paid at the end of March 2020), total reserves decreased by £766 million during 2019-20. This contrasted with a net addition of £1.8 billion (£1.1 billion excluding the Greater London Authority) in 2018-19. Chart 1.E shows that more than half of authorities made net use of reserves during 2019-20.

Chart 1.E: Net use of reserves by authorities, England, 2015-16 to 2019-20



Source: DLUHC Revenue Outturn returns from England local authorities

The role of WGA in financial reporting and management

1.44 WGA is part of a broader framework of financial reporting and management. The key elements of this framework are discussed below:

Annual planning

OBR publications

The Office for Budget Responsibility (OBR) produces independent forecasts of the medium-term outlook for the economy and public finances twice a year. They also publish, in alternating years, a Fiscal Risks Report (FRR) and a Fiscal Sustainability Report (FSR). The government is required to respond to the FRR within a year of publication. This helps to ensure that fiscal risks and their management are properly considered and scrutinised. The FSR analyses the public sector's balance sheet, using both National Accounts measures and WGA.

Supply Estimates

Public spending is subject to Parliamentary approval. Public bodies request the funding they need for the year via the budgeting and Estimates process. These budgets are then voted on by Parliament. Once budget has been provided, the central government department is responsible for ensuring that it does not overspend. Spending against budgets must be disclosed as part of department's financial accounts, and this information is audited.

In-year reporting

Internal management accounts

Individual entities are responsible for remaining within budget. Therefore, the Accounting Officer (and equivalent) of each organisation is required to put in place appropriate financial controls. Many organisations will have their own internal forecasting and management account processes, that produce management data on a monthly basis. This data is then used by management to allocate resources and manage in-year over or underspends

Public Sector Finances release

This monthly national statistics publication is a joint release between the Office for National Statistics (ONS) and HM Treasury. It records the official UK government positions for spending, receipts, borrowing and debt. Central government data is supplied by HM Treasury, based on data provided by each government department.

Outturn reporting	
Individual entity accounts	Individual entity's Accounting Officers (or equivalent) are responsible for the public funds spent within their entity. As part of this framework of accountability, each entity produces an annual report and accounts. These are prepared in line with International Financial Reporting Standards, as adapted for the public sector, and are then independently audited. Detailed information about the underlying activities and governance arrangements of the public sector can be obtained from the individual accounts consolidated into WGA.
Public Expenditure Statistical Analysis (PESA)	This provides a range of information about public spending for both outturn and plan years. It contains a range of presentations including departmental budgetary information and spending on services (a functional look at spending which is more stable over time). It also includes statistical information split by Country and Region that is originally published in the Country and Regional Statistical release. In addition to PESA, outturn updates are published on a quarterly basis to ensure updated public spending information is readily available.
Whole of Government Accounts	This is the only place that shows the financial performance and position of the entire public sector, and publishing WGA is another way the government fulfils its promise to make more data available to the public. There are over 10,000 organisations consolidated in WGA (including 9,000 academy schools). WGA data is then drawn on by future OBR reports and used by HM Treasury to monitor balance sheet risks.

The Balance Sheet Review

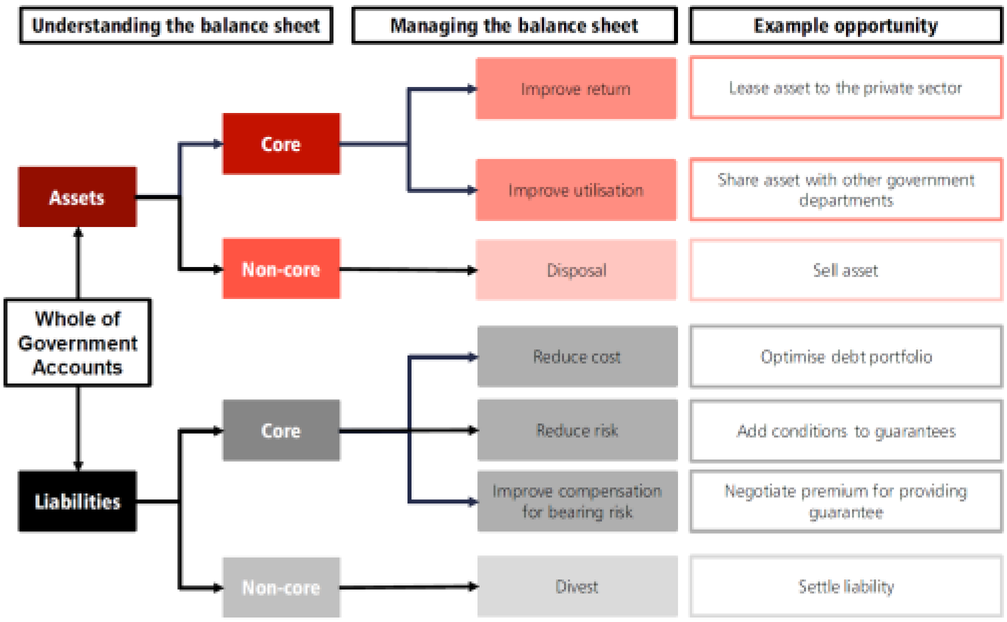
1.45 The Balance Sheet Review (BSR) was launched in 2017 to deliver better value for money from assets, to reduce the cost and risk of liabilities, and to strengthen risk management, and used WGA data to inform its work. The WGA has been a key part of HM Treasury's work to improve management of the public sector balance sheet. This journey reached an important milestone with the publication of the 'Balance Sheet Review Report: improving public sector balance sheet management'[17] in November 2020 and is continuing with the implementation of next steps identified in the report.

1.46 The Review identified opportunities to make more effective use of the UK's assets and liabilities by applying the methodology shown in Chart 1.F. It first distinguished between core assets and liabilities (those that are vital to policy or in the public interest to hold) and non-core assets and liabilities (those that no longer serve a policy purpose). Any disposal of non-core assets or divestment of non-core

[17] The_Balance_Sheet_Review_report____.pdf (publishing.service.gov.uk

liabilities must still demonstrate value for money and comply with asset sales disclosure requirements[18].

Chart 1.F: A systematic approach to reviewing the balance sheet



Enabling better management of risk

Contingent Liability Central Capability

1.47 WGA data shows that government has a total maximum exposure of £464.1 billion disclosed as contingent liabilities. See paragraph 1.200 below for further details.

1.48 In March 2020, HM Treasury published 'Government as insurer of last resort', outlining 10 proposals for improving contingent liability management across government. These proposals included to strengthen capability, identify opportunities to increase compensation for risk where appropriate, and monitor the risk government is exposed to from its portfolio of contingent liabilities.

1.49 In April 2021, the Contingent Liability Central Capability (CLCC) was launched as an analytical and advisory unit within UK Government Investments (UKGI). The remit of the CLCC is to provide analysis on the design of new contingent liability proposals; review existing contingent liabilities on an individual and portfolio basis to inform risk management and contingency planning; and to provide guidance and promote best practice across government.

1.50 An area of work the CLCC will focus on is improving the management of government's existing contingent liability portfolio. Their work in this area will range from improving centrally held data to analysing the portfolio to determine the economic conditions to which the government is especially vulnerable. This will help to identify areas across government where stronger risk management and improved contingent liability design is required.

18 Guidance overview: Asset sale disclosures: guidance for government

1.51 HM Treasury's internationally recognised Contingent Liability Approval Framework was also updated in the last year. The changes included the addition of guidance on best practice when designing guarantees and indemnities, an enhanced checklist to assess contingent liability proposals, and signposts to the support available from the CLCC, all of which contribute towards better management of contingent liability risk in government.

Improving asset management

Digitalising the public sector asset register

1.52 The WGA shows property of £459.2 billion as at 31 March 2020. The Review recommended developing a central Digital National Asset Register (DNAR) to collect strategic information about the entire public sector estate in one place. Similar recommendations were made in the 2021 Declaration on Government Reform[19]. The government has been conducting a project to create such a register – now called the InSite asset register – with a trial concluding in March 2020 and the first release expected to be in 2022-23.

1.53 Creating a central digital register of the public sector estate will allow the estate to be better optimised and managed. It will allow surplus estate to be identified and released, reduce cost and risk, ensure that the estate is sustainable and is able to help improve and deliver public services.

Knowledge assets

1.54 The WGA shows intangible assets of £40.2 billion as at 31 March 2020. Intangible assets are measured in accordance with the accounting standards. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. Sometimes these are referred to as knowledge assets. It is recognised that these form a substantial portion of the value of many organisations, especially in fast emerging technology sectors. As they do not meet the recognition requirements of the accounting standards they are not captured in WGA.

1.55 At budget 2018 HM Treasury published a report that highlighted the scale of knowledge assets held by the public sector[20]. This showed that the value of intangible assets, using a broader definition than current accounting standards, was £104 billion. It included a number of policy recommendations with a view to unlocking and maximising the full social, economic and financial value of knowledge assets in the public sector.

1.56 The government has since published and begun to implement a strategy to deliver on these recommendations[21]. This includes the establishment of two new funds to invest in the development of early-stage, innovative, public sector knowledge asset opportunities, and a new unit, the Government Office for Technology Transfer, which will provide central support for public sector organisations to improve the management and development of these assets. In

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[19] Policy paper overview: Declaration on Government Reform - GOV.UK (www.gov.uk)

[20] Getting smart about intellectual property and intangible assets - GOV.UK (www.gov.uk)

[21] https://www.gov.uk/government/publications/getting-smarter-a-strategy-for-knowledge-innovation-assets-in-the-public-sector-the-mackintosh-report

December 2020, 'The Rose Book: guidance on knowledge asset management' was published to help public sector organisations understand best practice in identifying, protecting, and maximising the value of knowledge assets.

Increasing transparency

Introducing broader measures of the public sector balance sheet

1.57 The creation of WGA has highlighted the benefits of considering broader measures of the public sector balance sheet as part of assessing fiscal sustainability. The Balance Sheet Review recommended increasing transparency over the impacts of policies on a broader range of measures of the public finances.

1.58 As part of the government's commitment to the broadest view of fiscal sustainability, the October 2021 update to the Charter for Budget Responsibility[22] sets out an aim to:

> *"Strengthen over time a range of measures of the public sector balance sheet such as public sector net debt, public sector net financial liabilities and public sector net worth through effective management of assets, liabilities and risks."*

1.59 Public Sector Net Financial Liabilities (PSNFL) is a broader measure than Public Sector Net Debt (PSND) as it includes a wider range of financial assets and liabilities, like the government's holdings of equity investments and the student loan book. Public Sector Net Worth (PSNW) is the most comprehensive of the above measures as it summarises the total value of the public sector's financial and non-financial assets and liabilities, everything the government owns and owes, and is closer to how the balance sheet is measured in the WGA. Chart 1.G below shows the historical and forecast evolution of these measures of the balance sheet.

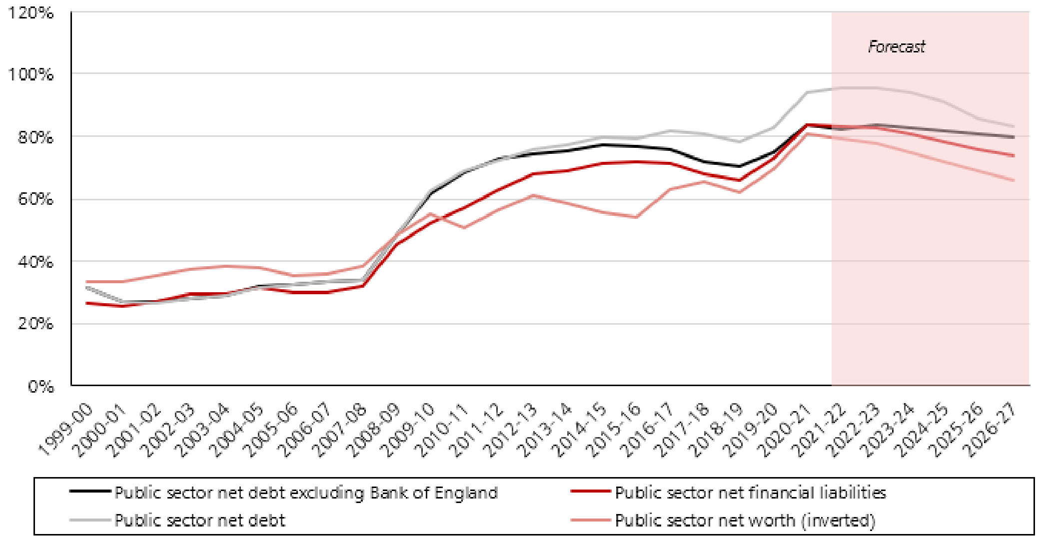
1.60 Whilst there is no specific target the government must achieve in relation to these balance sheet metrics, their inclusion increases the credibility of the fiscal framework. They complement the debt-based fiscal mandate by revealing the full value of public assets and non-debt liabilities and improve the identification and management of risk by measuring a wider range of government activity.

1.61 The OBR also produced its first forecast of PSNW alongside Autumn Budget 2021[23], providing the most complete forward look of the public finances to date. The OBR's forecasts of PSNW and PSNFL enable a fuller impact of government policies to be reflected as policy decisions are made.

[22] Charter for Budget Responsibility: autumn 2021 update

[23] https://obr.uk/efo/economic-and-fiscal-outlook-october-2021

Chart 1.G: Measures of the public sector balance sheet (% of GDP)



Source: OBR

1.62 HM Treasury will continue to promote the importance of assessing the impact of policies and fiscal risks on broader measures of the public finances across government departments. Increased focus on measures that capture the wider public sector balance sheet will help the government make better informed policy decisions and create stronger incentives to manage its assets and liabilities effectively.

Significant matters of interest

COVID-19

1.63 This has been an unprecedented period in the history of the United Kingdom. The challenges of the COVID-19 outbreak have required a national effort and have had a huge impact on society, the economy and public services. Throughout its response to COVID-19, the government has sought to protect people's jobs and livelihoods while also supporting businesses and public services across the UK.

COVID-19 Expenditure

1.64 Shortly after COVID-19 was declared a pandemic on 11 March 2020 the government began to make a series of announcements to support public services, workers and businesses. The government's package of economic support has been unlike anything in the UK's peacetime history. The significant support for individuals, businesses and public services set out at Spending Review 2020 (SR20) and at Budget 2021 totals £352 billion across 2020-21 and 2021-22. Taking into account the measures announced at Budget 2020, which included significant capital investment, total support for the economy amounts to £407 billion across these two years – the largest peacetime support package for the economy on record.

Box 1.B: COVID-19 costs recognised in WGA 2019-20

The first COVID-19 measures were announced by the Chancellor during March 2020. Under accounting standards the costs of these measures are recognised by departments when the schemes are implemented, which in most cases was after 1 April 2020, so most of the costs included in the NAO's COVID-19 cost tracker are not reflected in WGA 2019-20.

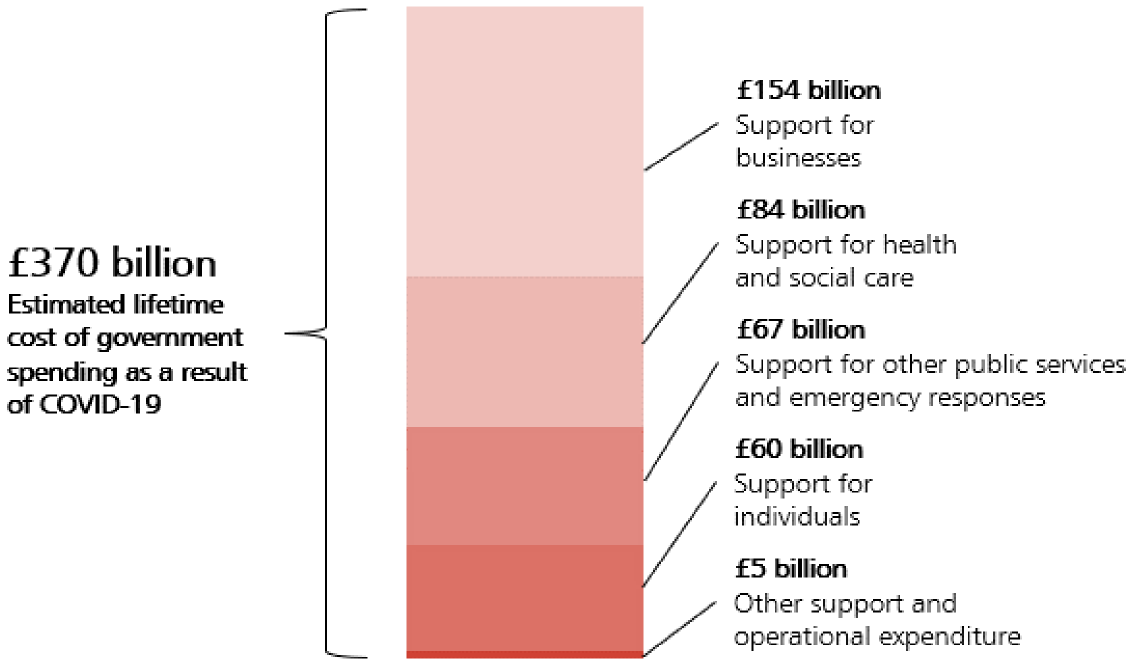
The key exception is two business support grants managed by the Department for Business, Energy & Industrial Strategy (BEIS). Due to the impact of COVID-19, local authorities were encouraged to make early payments to eligible grant recipients from their own funds before the end of March 2020. BEIS would reimburse local authorities for grants made, so recognised a grant accrual of £151 million. BEIS also recognised a provision of £10.8 billion in relation to further grants.

The Department for Health and Social Care recognised expenditure of £22.1 million relating to the purchase of personal protective equipment and the provision of COVID-19 testing services before 31 March 2020.

COVID-19 Cost Tracker

1.65 The NAO has produced a COVID-19 cost tracker which brings together data from across the UK government. It provides estimates of the cost of measures announced in response to the COVID-19 pandemic and allows the user to explore the full dataset in several different ways. The latest release of this cost tracker was published in September 2021 and includes measures announced since February 2020 and up to 31 July 2021.

1.66 The NAO's COVID-19 cost tracker shows a total estimated lifetime cost of £370 billion as at September 2021:



Approximately **£261 billion** of this total had been spent by September 2021

Approximately **£129 billion** of this total has been loaned or guaranteed by the Bank of England

Source: NAO COVID-19 cost tracker

1.67 Where the Bank of England has loaned amounts, the loans would normally be expected to be repaid and will appear on the WGA balance sheet. This will then be subject to impairment assessments going forward.

1.68 The NAO notes that these cost commitments do include central government's allocation of funding to local and devolved governments but do not include further spending decisions taken by local authorities and devolved administrations. It also notes that some of these commitments are for a given period of support, which may be extended and therefore lead to increased costs.

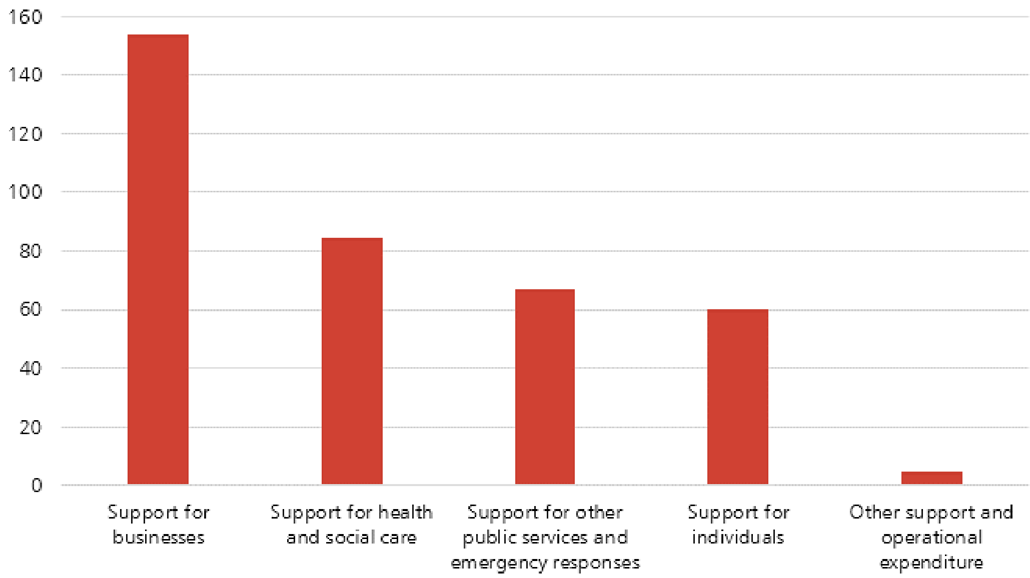
HM Treasury: £352 billion
Total additional fiscal support provided to the economy, including public services, individuals and businesses.

NAO: £370 billion
Estimate of the gross costs of COVID-19 policy interventions. Includes measures funded from department's own resources by reprioritising from existing budgets.

1.69 This £370 billion figure for total estimated lifetime cost published by the NAO is higher than the £352 billion figure for the cumulative total of government support calculated by HM Treasury. The difference is due to:

- timing differences of producing the cost estimates, and
- the different ways of measuring the cost of COVID-19 support.

Chart 1.H: Estimated cost per category of support (£ billion)

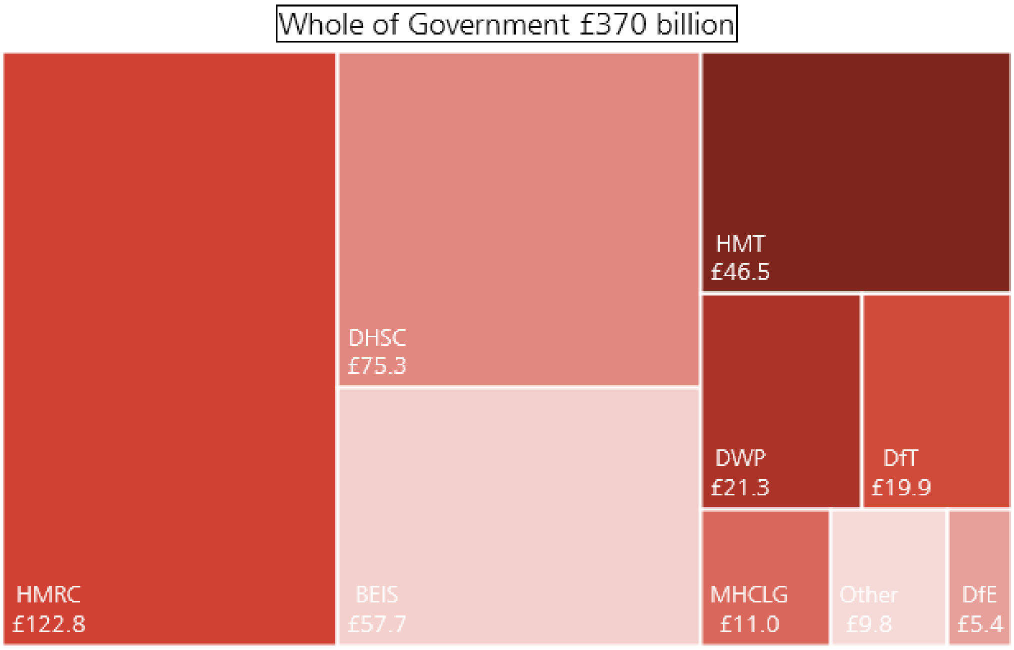


Source: NAO COVID-19 cost tracker

1.70 The chart above shows the most recent estimated cost (as at September 2021) for each category of support. Within the tracker interactive charts are also available showing original estimated cost, current spend, or support by lead department[24].

[24] https://www.nao.org.uk/covid-19/cost-tracker/

Chart 1.I: Whole of government estimated lifetime cost (£ billion)



Source: NAO COVID-19 cost tracker

1.71 The chart above presents the estimated lifetime cost of COVID-19 measures across government. Further departmental breakdowns showing the largest support measures implemented by each department are available within the tracker itself. Additional information drawn from the 2020-21 Annual Reports and Accounts of key departments is shown below.

Box 1.C: Limitations of the NAO COVID-19 cost tracker

The NAO note that the COVID-19 cost tracker data has limitations which include:

Completeness: Not all departments were able to provide all the information requested. In some cases where data were missing, the NAO used cost and spend estimates. For some measures where there has been spend, these data may not yet be available. In addition, spend against some announced measures is yet to start.

Certainty: Costs and spend depend on a range of uncertain factors, including the impact of the pandemic on the wider economy and the level of take-up for each scheme.

Gross costs: The cost tracker shows the estimated gross costs of policy interventions, not the estimated additional funding required. In some cases, interventions will involve reprioritising existing funding and resources.

Technicalities: The estimated costs of government-backed loans and finance schemes represent estimates of write-off costs (for example, if businesses default on their loans), which have a consequent cost to the government.

Comparisons with government publications: It is not always possible to reconcile the NAO's data with government cost estimates published by HM Treasury or the OBR. In particular, the total cost in the NAO's cost tracker will differ from the amount government reported spending on COVID-19 support in Budget 2021 for three main reasons:

- The cost tracker includes measures funded through departments' own resources;
- The cost tracker excludes funds set aside for the COVID-19 response in the COVID-19 reserve; and
- Timing differences of producing the cost estimates for each publication.

COVID-19 spotlight on: Department for Business, Energy and Industrial Strategy

1.72 The Department's strategic priorities during 2020-21 which related to COVID-19 were:

- support a safe return to the workplace restoring jobs and livelihoods and rebuilding consumer confidence
- support businesses through the pandemic and recovery, engaging closely to understand needs and delivering vital support schemes
- ensure the continued development and manufacture of vaccines for deployment in the UK and overseas to protect lives
- manage Economic Shocks, helping protect businesses and jobs where possible

1.73 Key COVID-19 performance metrics:

	Expenditure £bn	Facilities approved
Business and value of loans supported by British Bank COVID-19 debt schemes:		
Coronavirus Business Interruption Loan Scheme (CBILS)	23.3	98,344
Coronavirus Large Business Interruption Loan Scheme (CLBILS)	5.3	716
Bounce Back Loan Scheme (BBLS)	46.5	1,531,095
Future Fund (21 Feb 2021)	1.1	1,140
Total	**76.2**	**1,631,295**

1.74 The Core Department's spend has more than doubled since 2019-20. This was primarily caused through the Department's spending on fighting coronavirus: supporting business through the pandemic and recovery.

	Expenditure £bn
Support to businesses through:	
Support grants	18.7
CBILS/CLBILS and BBLS loan guarantee schemes	1.5
Future Fund	1.1
Vaccines deployment and sourcing	1.3
Total revenue expenditure	**22.6**

COVID-19 spotlight on: Department for Health and Social Care

1.75 The Department's programme of work has aimed to suppress the COVID-19 virus and protect the NHS in order to save lives and provide a route back to normality. This programme of work has included:

- vaccine and therapeutics development and deployment,
- protecting the UK from global threats and new variants
- ensuring the resilience of the NHS and adult social care sectors
- maintaining the supply of critical equipment and goods
- reducing transmission through non-pharmaceutical interventions
- delivery of effective mass testing, contact tracing, and isolation support services through local partnerships, with tailored support for the most vulnerable

1.76 The Department's 2020-21 achievements include:

99% of GP practices offering video consultations	**£13bn** Investment in capital
26.7m Vaccinations administered by 31 March 2021	**27.7%** Spending growth in real terms over 2019-20

1.77 As part of Government's response to the Coronavirus pandemic the Department received funding for an additional £42.9 billion of expenditure in 2020-21.

	Expenditure £bn
NHS business as usual activities	126.1
NHS COVID-19	15.7
NHS Test & Trace	11.1
Personal Protective Equipment	13.0
Vaccines deployment	0.9
Infection Control and other grants	1.3
COVID-19 medicines, treatments and R&D	0.3
Other COVID-19	0.6
Non-NHS Business as usual activities	11.2
Total revenue expenditure	**180.2**

COVID-19 spotlight on: HMRC

1.78 In 2020-21, alongside all HMRC's work on delivering coronavirus support schemes, the department successfully completed these specific commitments relating to COVID-19:

- administer the government's Coronavirus Job Retention Scheme
- allow businesses affected by COVID-19 to defer VAT payments due between 20 March and 30 June 2020 and to defer certain Self Assessment payments due in July 2020
- implement the temporary reduced rate of VAT (5%) that businesses in the hospitality and tourism sectors paid on some of their supplies
- provide a Statutory Sick Pay Rebate, which fully covered the cost of two weeks of COVID-19 Statutory Sick Pay per employee, for businesses with fewer than 250 employees
- automatically increase payments for Working Tax Credit by up to £20 per week
- implement Stamp Duty Land Tax temporary rates, reducing the rates payable on purchases of residential property.

1.79 Delivering COVID-19 support schemes:

7.2m

payments to the self-employed

600,000

VAT payments deferred by businesses

80+

tax policy changes and clarifications to support customers and the economy during the pandemic

£60.7bn

paid in grants through the Coronavirus Job Retention Scheme supporting 11.5 million jobs

1.80 HMRC was responsible for delivering the new financial support schemes to protect jobs and businesses during the COVID-19 pandemic, and launched the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme from scratch within 7 weeks. The department provided £81 billion of support payments to individuals and businesses affected by the pandemic.

	Expenditure £bn
Coronavirus Job Retention Scheme	60.7
Self-Employment Income Support Scheme	19.7
Eat Out to Help Out	0.8
Total	**81.2**

Transactions and balances with the EU

1.81 The UK left the European Union on 31 January 2020. This section explains how the financial relationship between the UK and EU is treated in WGA and provides an estimate of the financial liability arising from EU exit.

1.82 A fuller explanation of the relationship is set out in Annex E of the European Union Finances: statement on the EU Budget and measures to counter fraud and financial mismanagement.[25]

1.83 Transactions, balances and commitments between the UK public sector and the EU are recognised in a number of places in WGA 2019-20:

Nature of balance	Note	Value (£bn)	Consists of
Grant expense	9	12.9	UK's contribution to the EU budget
Grant expense	9	3.4	EU grants and subsidies paid by the UK on behalf of the EU
Income	5	8.4	Income from the EU to reimburse grants and subsidies
Trade and other receivables	15	2.3	UK's interest in the European Investment Bank (EIB)
Trade and other receivables	15	1.6	Receivable relating to the EU Financial Settlement
Contingent liabilities	29 & 30	32.6	Commitments to the EIB, and loans to EU member states and third countries that are ultimately backed by the EU budget

1.84 The income from the EU is largely made up of income received by DEFRA to reimburse them for grants and subsidies paid. The grants and subsidies paid by the UK on behalf of the EU are largely made up of £3.2 billion of grant payments made by the Department for Environment, Food and Rural Affairs (DEFRA). The grants and reimbursement are reported separately to ensure transparency of the flow of funds.

1.85 Under the Withdrawal Agreement the UK's paid in capital in the EIB of €3.5 billion is being repaid to the UK. For further details see paragraph 1.93.

1.86 The contingent liabilities represent a commitment of the UK government should it be needed; no money has changed hands. Therefore, no liability is recognised on the balance sheet, and these amounts do not contribute to the WGA net liabilities figure. In addition, these are considered remote contingent liabilities, meaning they are considered to have a very low chance of crystallising. The government's commitment for callable capital under the EIB is £31.6 billion (£31.6 billion in 2018-19), and the UK's maximum liability under loans backed by the EU budget is £10.6 billion (£9.9 billion in 2018-19). More information on these can be found in the accounts of the Consolidated Fund and HM Treasury.

[25] Https://www.gov.uk/government/collections/eu-annual-statement

The financial settlement

1.87 The UK left the European Union on 31 January 2020, with a transition period in effect to the end of 2020 during which previous rules on trade, travel and business for the UK and EU continued to apply.

1.88 The Withdrawal Agreement[26] sets out the financial settlement that was reached on the UK's financial rights and obligations as a departing Member State.

Scope of the financial settlement

1.89 The financial settlement addresses mutual obligations that arose primarily due to the UK's participation in the EU budget, and commitments related to the UK's broader membership of the EU. It does not cover the costs of facilitating withdrawal or new administrative arrangements that may result from the UK's exit.

1.90 The financial settlement does not cover costs that might be associated with the UK's future relationship with the EU, if there are some specific European programmes in which the UK may want to participate.

1.91 The financial settlement has three main components:

- First, the UK continued to participate in EU annual budgets to 31 December 2020. This means that the UK continued to make its contribution and get receipts from EU budget programmes under the normal rules. The financial impact of this was reflected as an in-year cost in the 2019-20 and 2020-21 accounts of the Consolidated Fund, in accounts of departments administering certain EU programme receipts and WGA, and is not reflected in the figures in the table below.

- Second, the UK then paid its share of the EU's outstanding commitments at the end of 2020 (the so-called RAL- 'reste à liquider') and again benefited from some of these commitments.

- Third, the UK paid a share of the EU's liabilities as at the end of 2020, and any materialising contingent liabilities, and in return benefited from a share of relevant EU assets. This included eligible pension liabilities. These are shown in the 'pensions', 'EIB paid in capital' and 'other' lines in the table below.

Valuation of the financial settlement

1.92 An estimate of the assets and liabilities that were recognised in the accounts of HM Treasury and also of those disclosed in the Consolidated Fund in respect of the EIB as a result of the financial settlement, as at 31 March 2021, is provided in the table below. This only includes those elements of the financial settlement that are recognised under applicable accounting standards and therefore, for example, the first element (contributions and receipts from the 2021 EU Budget) are not included. A fuller presentation of all elements of the financial settlement can be found in European Union Finances, published by HM Treasury.[6]

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26 https://www.gov.uk/government/publications/agreement-on-the-withdrawal-of-the-united-kingdom-of-great-britain-and-northern-ireland-from-the-european-union-and-the-european-atomic-energy-communi

Valuation of the financial settlement as at 31 March 2021

Element	Asset (£bn)	Liability (£bn)	Maturity profile
RAL	-	(27.9)	To 2027-28
Pensions	-	(8.4)	Various
EIB paid in capital	2.3	-	To 2031-32
Other	1.9	(0.4)	To 2022-23
Total (net)		(32.6)	
Contingent assets	1.5	-	
Contingent liabilities	-	(0.3)	

Source: HM Treasury

1.93 The UK's shareholding in the EIB is recognised as a financial asset with a value of £2.5 billion in WGA 2019-20, which represents the return of the UK's paid-in capital in the EIB (€3.5 billion undiscounted). 2019-20 values in WGA have not been restated.

1.94 Remote contingent liabilities relating to the UK's callable capital commitment from membership of the European Investment Bank (EIB) are valued at £31.6 billion (as at 31st March 2020). This commitment was previously disclosed in 2018-19 WGA. In addition, the UK will maintain a contingent liability in respect of the returned paid in capital, which will wind down in relation to the amortisation of EIB operations approved before withdrawal. Remote contingent liabilities to the EU Budget in Note 30 of WGA are treated in combination with the UK's share of the associated pre-paid guarantee funds in accordance with the terms of the Withdrawal Agreement, which in some cases gives rise to contingent assets.

1.95 The financial provisions of the Withdrawal Agreement also include other elements that will be recognised as expenditure and income in WGA in future reporting periods. For example, UK participation in EU annual budgets to 2020 does not give rise to material assets or liabilities. UK contributions and public sector receipts from EU programmes accrue in the year to which they relate. Further information on the financial effects arising from the financial provisions of the Withdrawal Agreement can be found in the European Union Finances statement published by HM Treasury.[27]

Factors affecting the size of the settlement

1.96 These assets and liabilities represent payments and receipts to be recognised several years into the future. There are a number of key individual variables which may affect the overall settlement value.

1.97 The final value of the settlement, by its nature, cannot be known definitively at present, since the settlement requires the UK and EU to pay only those amounts that fall due, rather than on the basis of a forecast. However, aside from the

[27] https://www.gov.uk/government/collections/eu-annual-statement

reductions arising from the extension to the Article 50 period, HM Treasury considers it unlikely that the final value, which will not be known for some years, will fall outside the original estimated range.

1.98 The main factors that could affect the value of the settlement are:

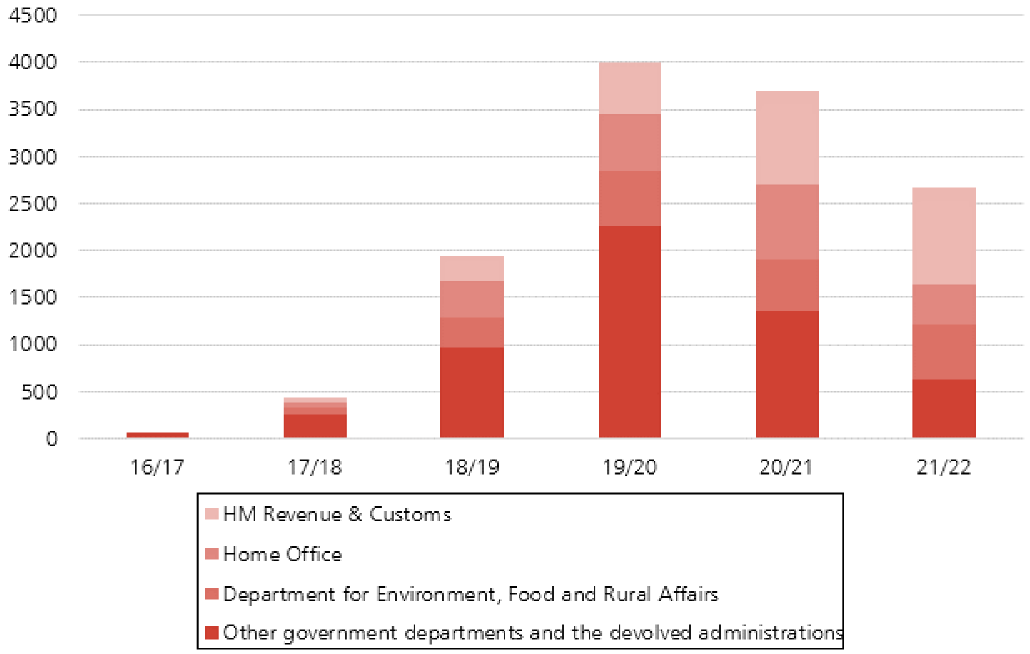
- financing share – the average proportion of the EU budget over 2014-2020 financed by the UK
- exchange rate – Sterling/Euro exchange rate
- decommitments – the proportion of the EU budgetary commitments in the RAL that are not implemented
- discount rate – the discount rate applied to future cashflows to take account of the time value of money

Spending on EU Exit preparations

1.99 The UK public sector has incurred costs to prepare for EU exit. These costs have been met through a mixture of additional funding provided specifically for this purpose and through existing budgets. The costs of preparing for EU exit are included within WGA but cannot be split out from other day-to-day activities. Assessing whether expenditure relates wholly or partially to EU exit preparations requires a significant level of judgement. It is challenging to harmonise these judgements across all entities.

1.100 HM Treasury has provided additional funding to departments and the devolved administrations to prepare for and then deliver the UK's departure from the EU, the following transition period and subsequently the costs of the post-transition period. In total over £12 billion of additional funding has been made available by the government for this purpose since 2016.

Chart 1.J: EU Exit funding allocations (£ million)



Source: EU Finances Statement 2020

1.101 Departmental spending (including spending on EU exit) is covered by Treasury budget management controls in order to prevent overspending.

Box 1.D: What the WGA does not include in respect of EU exit

WGA does not include:

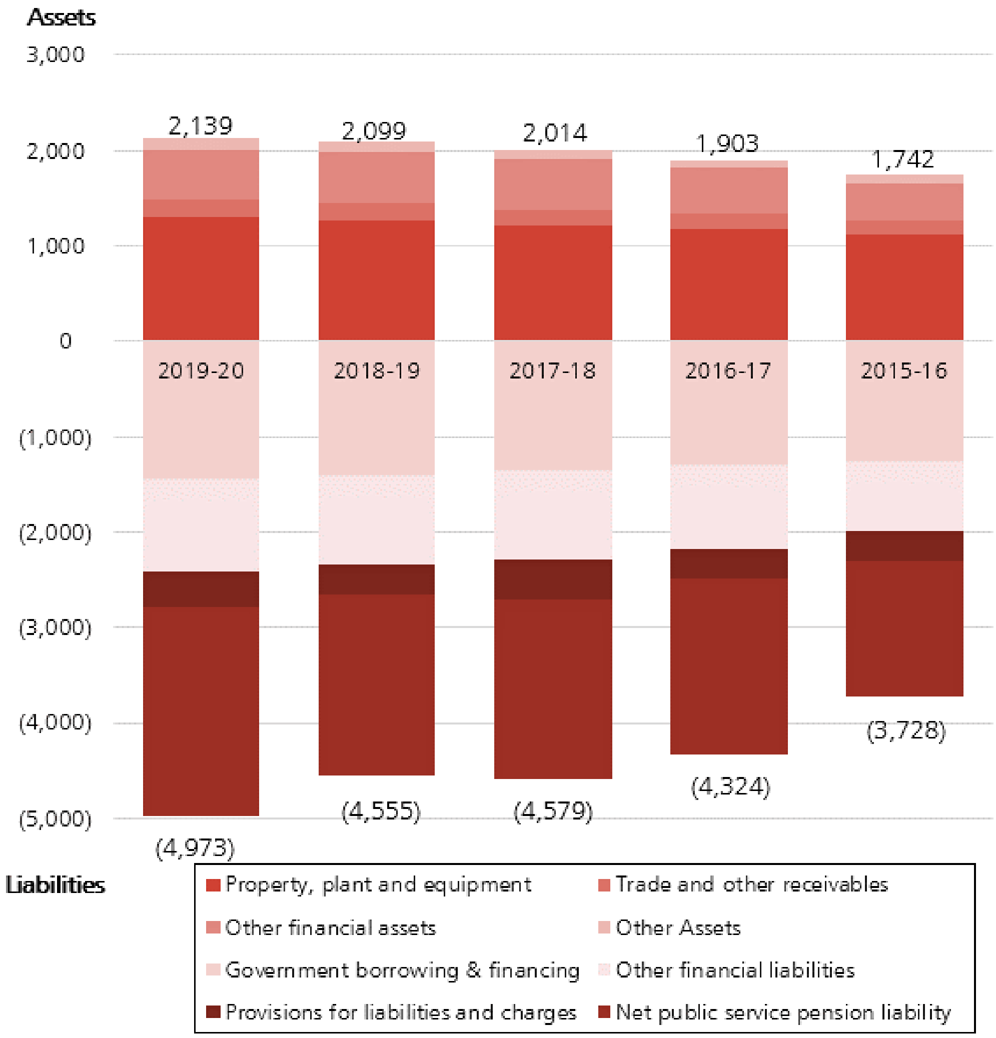
- liabilities relating to policy or legislative effects on the wider economy, if these effects do not meet the criteria set out in the accounting standards;
- transactions between entities not covered by WGA (for example private companies) and the EU; and
- the effect of EU exit on the economy; in addition, any marginal impact on the public finances (e.g. through increased or decreased spending on benefits; increased or decreased borrowing or changes in underlying assumptions that affect valuations) will be recognised but may not be separately identifiable.

Report on Assets and Liabilities

Statement of Financial Position

1.102 The purpose of the Statement of Financial Position, also known as a balance sheet, is to show the financial status of an entity at a specific point in time. In WGA, the Statement of Financial Position shows what the UK public sector owns (its assets) and how much it owes (its liabilities). This information is more valuable when several consecutive periods are grouped together, so that trends in the different items can be viewed.

Chart 1.K: Assets and Liabilities of the UK over time (£ billion)



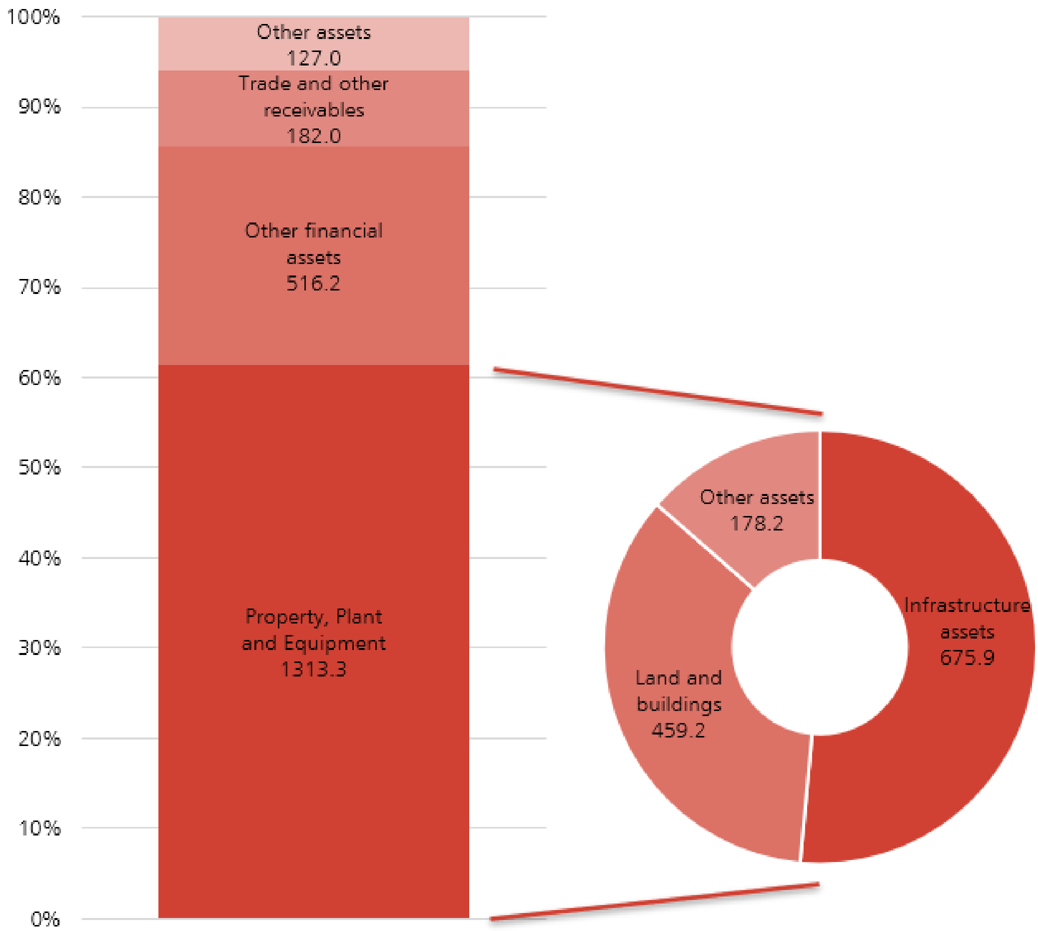
1.103 In the chart above, we can see the liability part of the balance sheet increasing at a faster rate than the assets. In the last five years, a significant factor for the increase in liabilities has been changes in discount rates used to calculate major liabilities such as net public service pension liability and provisions. The following sections explore the most significant assets and liabilities, and the underlying income and expenditure in 2019-20.

Assets

Total Assets £2,138.5 billion

1.104 The UK public sector has a large asset base spanning physical property, plant and equipment, financial assets, and intangible assets.

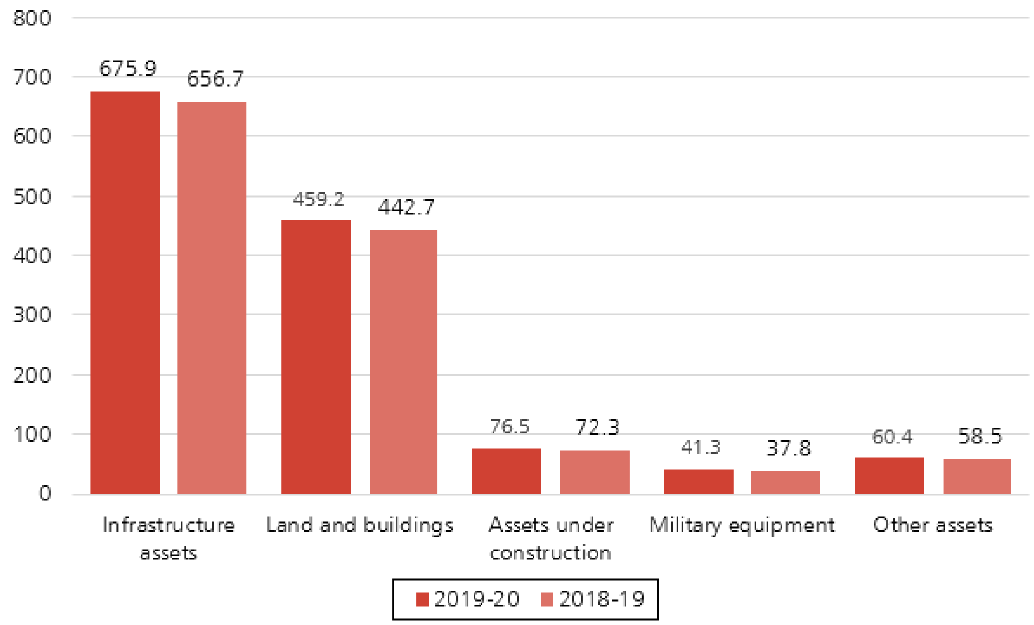
Chart 1.L: Breakdown of assets (£ billion)



1.105 The most significant assets owned by the government are property, plant and equipment (PPE) (which includes land and buildings, infrastructure and military equipment), financial assets and trade receivables. Almost 62% of Assets is PPE, 52% of which is infrastructure. The largest contributor to the public sector's infrastructure is the Rail Network valued at £332.3 billion (2018-19 £328.8 billion). Included in other assets is intangible assets of £40.2 billion (2018-19: £37.4 billion). Intangible assets are measured in accordance with the accounting standards. There is a broader definition of intangible assets which encompasses knowledge, techniques and know how, which supports broader consideration of public value. These are sometimes referred to as knowledge assets. As they do not meet the recognition requirements of the accounting standards they are not captured in WGA.

Property, Plant and Equipment £1,313.3 billion

Chart 1.M: Property, Plant and Equipment breakdown (£ billion)



1.106 Overall, the value of government's property, plant and equipment increased by £45.3 billion or 3.6% in 2019-20. The most significant component of the government's property, plant and equipment are infrastructure assets and land and buildings. Further detail follows on each of these balances.

Infrastructure Assets £675.9 billion

1.107 Infrastructure assets increased by £19.2 billion (2.9%) compared to the prior year. A breakdown of government infrastructure assets by type is shown in the table below.

Chart 1.N: Breakdown of infrastructure assets

Held by	2019-20 £bn	2018-19 £bn
Network Rail	332.3	328.8
Highways England / Department for Transport	128.5	121.2
Scottish Water	63.1	61.2
Northern Ireland Department for Infrastructure	28.5	28.0
Scottish Government Strategic Road Network	20.8	20.5
Welsh Government	19.6	16.8
Other	8.0	8.0
Total central government and public corporations	600.8	584.5
Transport for London	19.0	19.1
Highways Infrastructure and other local government assets	56.1	53.1
Total local government	75.1	72.2
Total Infrastructure assets	675.9	656.7

1.108 The most significant movements related to Highways England and Network Rail. The increase in the value of Highways England and Network Rail assets are primarily driven by revaluation gains, arising from the estimated annual increase of building a modern equivalent infrastructure asset. Given the high value and often specialised nature of the assets, these estimates are subject to a significant amount of uncertainty. More information on sensitivity analysis can be found in Note 2. The significant increase relating specifically to Highways England is also driven by additions to the strategic road network, with the most significant addition being the continuing work on the M5 Oldbury waterproofing during this period.

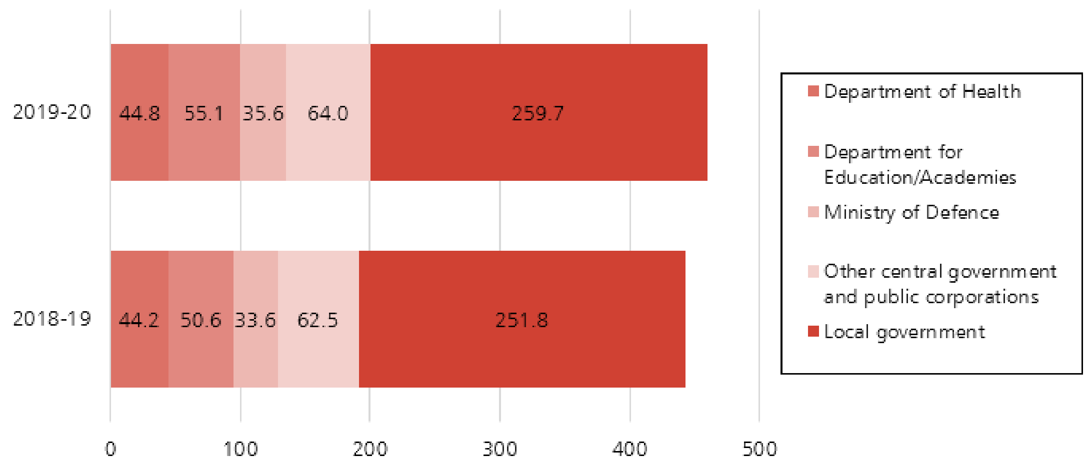
1.109 Central government values their infrastructure assets at depreciated replacement costs. Local government values their assets (of which highways infrastructure is the most significant) based on historical cost. WGA has an audit qualification as a result of these inconsistent accounting policies.

1.110 The carrying value of the local authority networked assets is £75.1 billion (2018-19: £72.2 billion). This compares to the ONS estimate for the depreciated replacement cost of these networked assets of £146.9 billion as at 31 December 2019 (2018: £137.8 billion). Infrastructure assets shown in WGA are likely to be understated by at least £71.8 billion. See Note 2.4 to the accounts for further detail.

Land and buildings £459.2 billion

1.112 The value of land, buildings and dwellings owned by government increased by £16.5 billion or 3.7% in 2019-20. The increase was largely drive by both additions and revaluations.

Chart 1.O: Government land and buildings (£ billion)



Managing the Government's estate

1.113 The Office of Government Property, the successor body to the Government Property Unit, was established in 2018 to drive forward a strategic approach to the government estate and develop the property function across government.

1.114 The annual State of the Estate report for the 2019-20 financial year was published in December 2020[28]. The report demonstrated the continued reduction, by over 70,000 m^2, in the size of the central government estate; a total reduction of 3.3 million m^2 (or 31%) since 2010. This was accompanied by a small increase (£80 million or 1.1%) in the operating costs for the estate, although the total cost reduction since 2010 stands at £1.5 billion (or 36%). The government continued to significantly outperform the private sector on three key performance metrics - space per person, cost per person and cost per m^2.

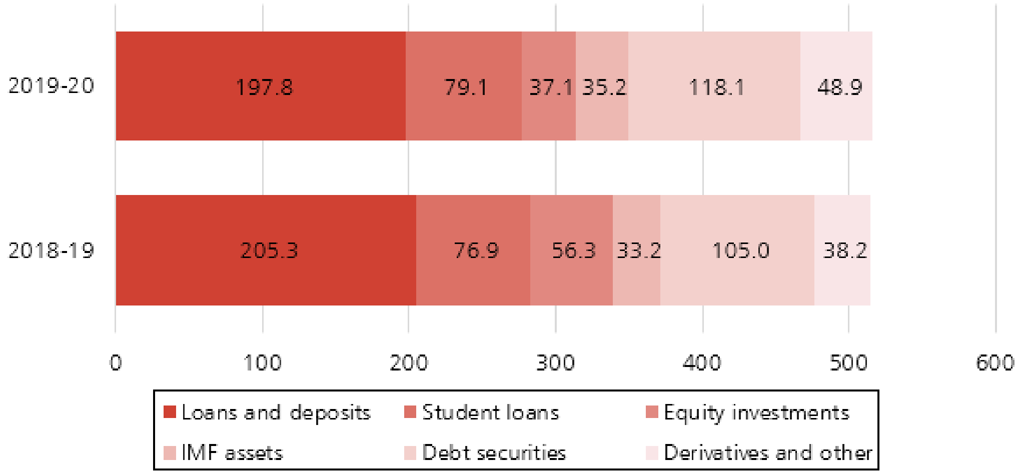
1.115 The annual Transparency Report for 2019-20, detailing the sale of government land and property in the reporting period, was published in February 2021[29]. This report confirmed that government had exceeded its target to raise £5 billion in capital receipts from the sale of land and property between 2015 and 2020. In this reporting period, £0.5 billion in capital receipts were realised from the disposal of 279 sites. This brings total receipts, since 2015, to £5.195 billion from the disposal of 2,206 sites of surplus land and property.

28 https://www.gov.uk/government/publications/state-of-the-estate-in-2019-2020

29 *https://www.gov.uk/government/publications/sales-of-government-assets*

Other Financial Assets £516.2 billion

Chart 1.P: Breakdown of other financial assets (£ billion)



1.116 The government holds a range of financial assets. Some are held as part of the government's normal operations to manage cash and foreign exchange risks. Others were acquired to support specific policy objectives. The largest balance in loans and deposits is Term Funding Scheme loans, held by the Bank of England (£107.2 billion). The largest balance in debt securities is held by the Exchange Equalisation Account (£92.2 billion). The largest student loan balance is held by the Department of Education (£69.2 billion). Further details on these significant balances are included below.

Term Funding Scheme loans: £107.2 billion

1.117 Assets held under the Term Funding Scheme (TFS) decreased by £14.2 billion as a result of loans maturing in 2019-20. The Term Funding Scheme (TFS) was part of a comprehensive package of easing measures announced by the Monetary Policy Committee in August 2016. The primary objective of the TFS was to reinforce the pass through of the August 2016 cut in Bank Rate to lower the interest rates faced by households and companies, allowing the reduction from 0.5% to 0.25% to have broadly the same impact as cuts made when rates were further from zero.

1.118 The design of the TFS reflected this primary objective and it was calibrated so that the reduction in Bank Rate could have a broadly neutral impact on lenders' margins in aggregate. Under the TFS, participating banks and building societies were able to borrow funds from the Bank of England at a rate close to Bank Rate for up to four years. The TFS closed to new lending in February 2018, as planned when it was introduced, having made £127 billion of loans.

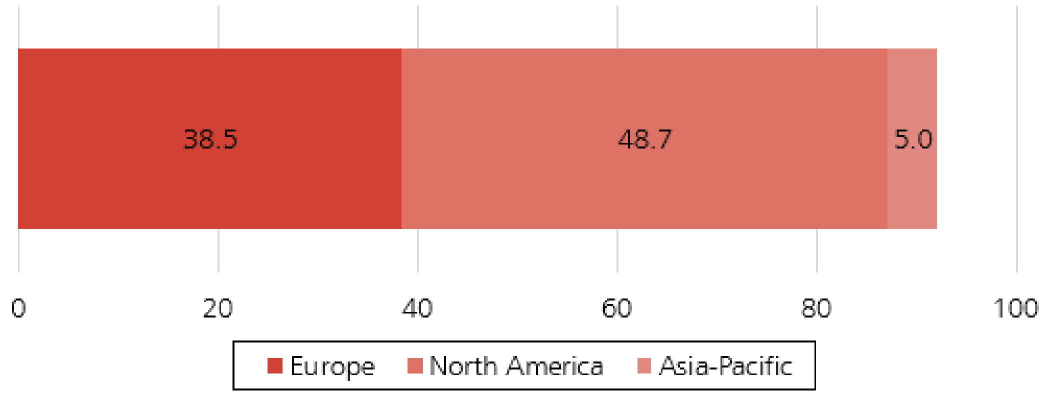
1.119 TFS loans made up 18.2% of the Bank of England's assets as at 31 March 2020.

1.120 More information about TFS loans can be found in the Bank of England's annual report and accounts, and in other documents on their website[30].

Exchange Equalisation Account - Debt Securities: £92.2 billion

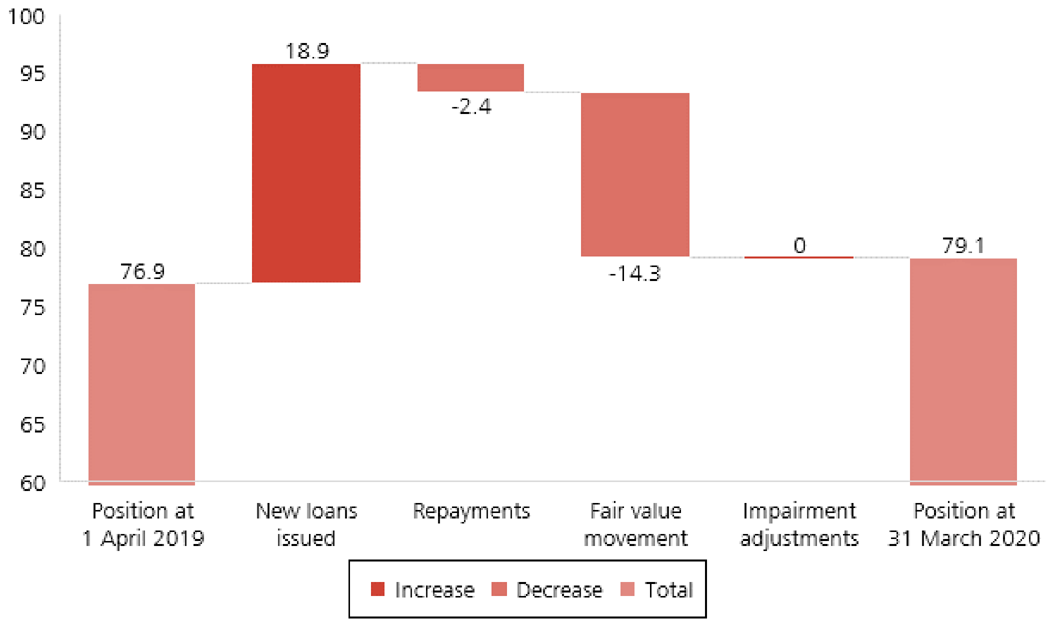
1.121 Foreign currency reserves are held by the Exchange Equalisation Account on a precautionary basis in the event of any unexpected shocks, or if required to meet any future change in exchange rate policy. The chart below shows the geographical spread of EEA debt securities.

Chart 1.Q: Concentration of debt securities by geographical region (£ billion)



Student Loans: £79.1 billion

Chart 1.R: Change in student loan valuation (£ billion)



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30 https://www.bankofengland.co.uk/quarterly-bulletin/2018/2018-q4/the-term-funding-scheme-design-operation-and-impact,

https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data

1.122 The student loan portfolio continues to expand. The value of outstanding student loans is forecast to reach £535.5 billion by March 2070.[31] Repayment rates vary by loan type, but the average of the government's long-term estimates is that around 50% of the value of loans issued in 2019-20 will be repaid.

1.123 In 2013 the government decided to sell a portion of the student loans issued before 2012. As part of Budget 2020, the government conducted an internal review of the student loan sale programme, in consultation with the Department for Education and UK Government Investments (UKGI). This review sets out the government's analysis and confirms that the two past sales achieved value for money, raising £3.6 billion and reducing public sector net debt.

1.124 However, following the Office for National Statistics' 2019 change to the treatment of student loans in the National Accounts, sales would now have new impacts on borrowing and net investment. The review announced that the government will not make further sales of student loans.

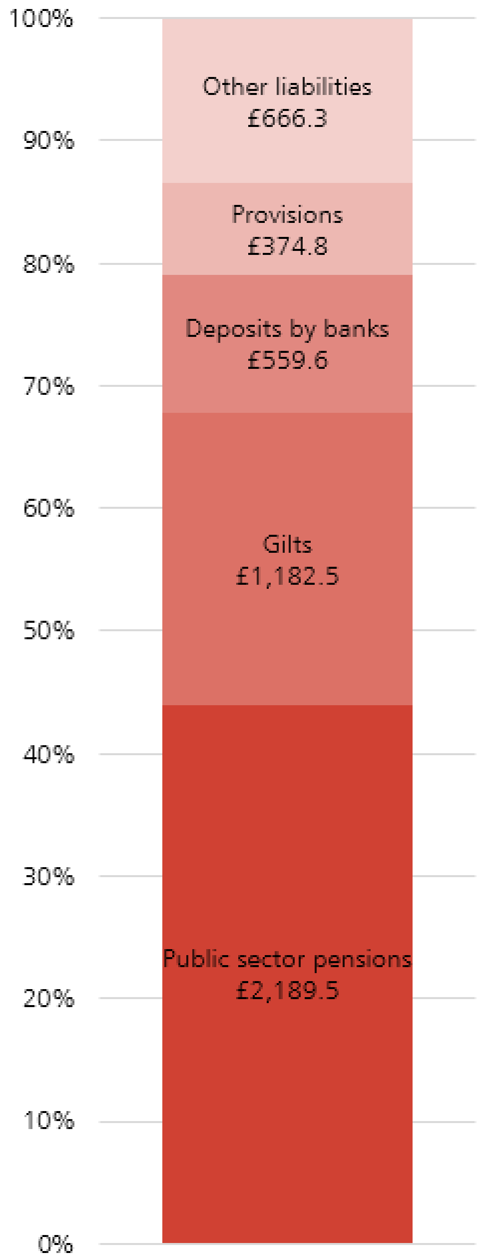
31 https://explore-education-statistics.service.gov.uk/find-statistics/student-loan-forecasts-for-england/2019-20

Liabilities

Total liabilities £4,972.7 billion

1.125 Government holds a series of significant liabilities: government borrowing, public sector pension liabilities, other financial liabilities, payables and provisions.

Chart 1.S: Breakdown of liabilities (£ billion)



Other liabilities are summarised in paragraph 1.126 below

Clinical negligence provision payments are dependent on the outcome of legal processes. Claims for seriously injured patients are usually paid as a lump sum up front and annual payments for the rest of the claimant's life. This means some elements of the liability will last several decades.

The **nuclear decommissioning provision** reflects work to decommission nuclear sites which are not expected to be fully completed until 2137. The length of time, and complexity of the materials involved, results in uncertainty in cost estimates in later years.

Deposits by banks are mostly deposits by commercial banks with the Bank of England and are repayable on demand. These fluctuate depending on the underlying business activity of these financial institutions.

Gilts are the main form of government borrowing. This will drive the government's need to access the bond market to fund borrowing. At the end of 2019-20, the longest maturity gilt in issue is due to redeem in the 2071-72 fiscal year and the main bulk of gilts are due for redemption before 2040.

The OBR produces projections for **public sector pensions** up to 2067-68. Given the nature of the liability, pay-outs will be made for many decades to come.

1.126 Other liabilities is made up of short-term and long-term items. Short-term liabilities range from trade and other payables, to Treasury bills and IMF Special Drawings Rights. Figures can fluctuate depending on the underlying business activity. Short-term liabilities also includes bank notes in circulation which is a liability repayable on demand, although it can be considered not to have a maturity and its value will fluctuate over time depending on the value of notes in circulation.

Long-term liabilities range from PFI contracts ending in 2049-50, to Pension Protection Fund provisions estimated to 2094, to obligations under finance leases with varying terms, including one held by the Ministry of Defence for homes for service personnel which ends in 174 years.

1.127 The following sections provide more detail on some of the government's most substantial liabilities. These are:

- deposits by banks
- government borrowings
- provisions
- public sector pensions

1.128 The only liabilities recognised in the 2019-20 WGA for COVID-19 support measures are an accrual of £151 million and provision for £10.8 billion for business support grants. All other support measures for individuals and businesses were recognised after 1 April 2020.

Deposits by banks £559.6 billion

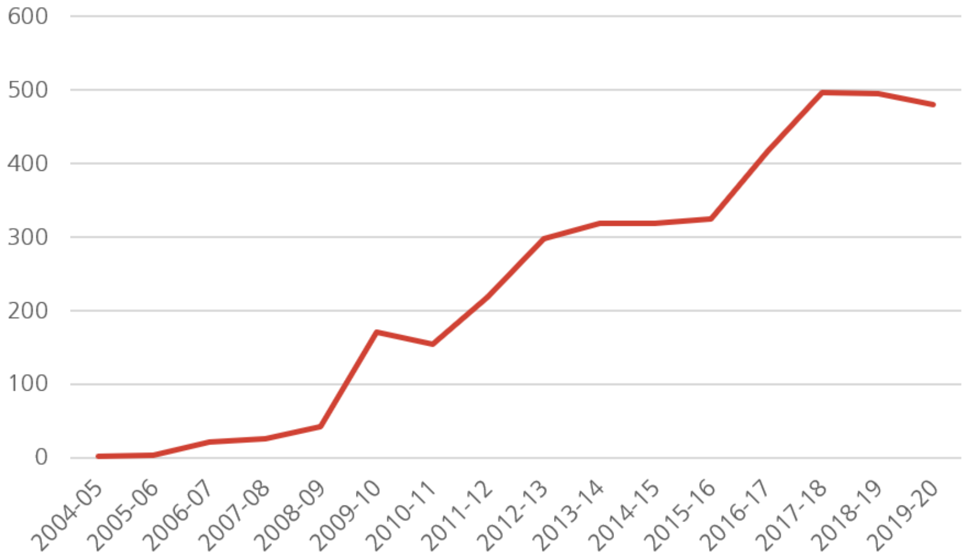
1.129 Deposits by banks have increased by £2.8 billion from £556.8 billion in 2018-19. They mainly comprise reserves accounts held at the Bank of England. Reserves accounts are sterling current accounts which banks and building societies hold at the Bank of England. Repayable on demand, they are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies. are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

1.130 The rate paid by the Bank on reserves account balances is also the means by which the Bank keeps market interest rates in line with Bank Rate. All reserves balances are remunerated at Bank Rate.

1.131 Chart 1.T below shows how deposits by banks at the Bank of England have increased steadily over the last 15 years. During this time the Bank of England has used new monetary policy tools, such as Quantitative Easing (QE) and the Term Funding Scheme, to boost spending and investment in the economy and help the independent Monetary Policy Committee meet its inflation target. These policies are funded by creating additional central bank reserves, which increases deposits by commercial banks at the Bank of England. Policies which create central bank reserves have been used multiple times since 2008, notably there have been rounds of QE in 2009, 2012, 2016 and 2020, which have led to the continued sharp increase in deposits by banks over the last 12 years.

1.132 In the case of QE, the basic mechanics involve the central bank creating money by extending a loan to the Bank of England Asset Purchase Facility (BEAPFF). The BEAPFF uses this money to buy gilts and high-quality corporate bonds from the private sector which results in a rise in central banks reserves held by commercial banks.

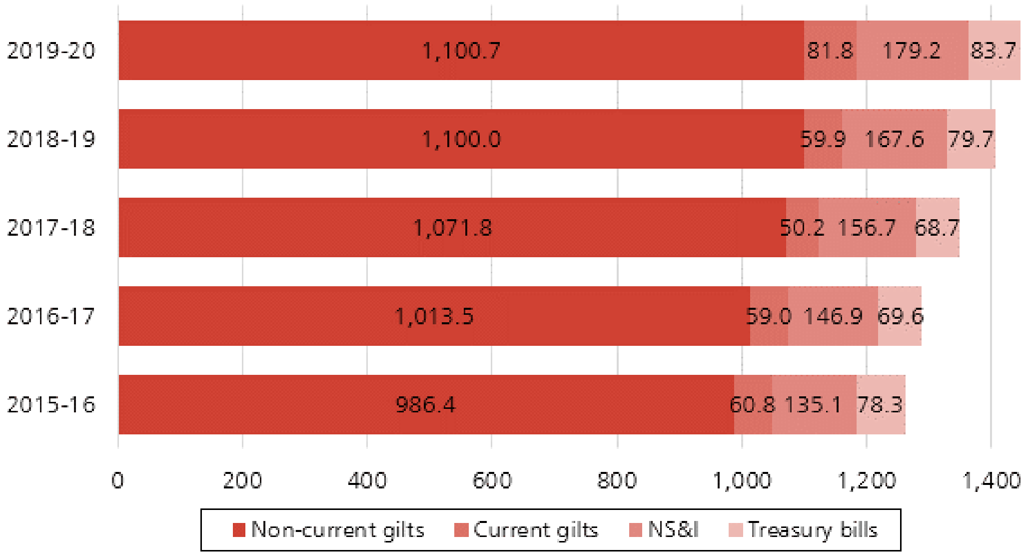
Chart 1.T: Deposit by banks at Bank of England over the last 15 years (£ billion)



Source: Bank of England as at February 2020

Government borrowing £1,445.4 billion

Chart 1.U: Government borrowing over time (£ billion)



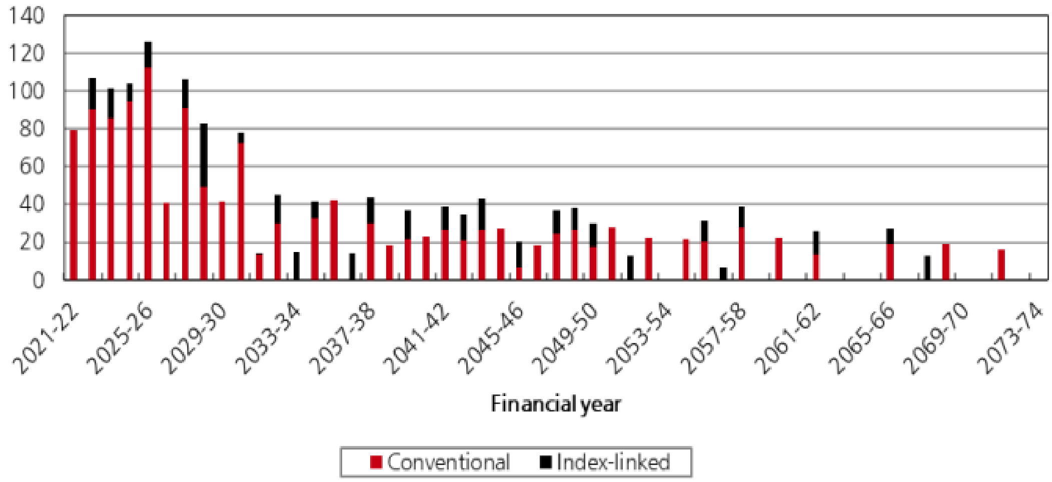
1.133 Government borrowing is achieved through the issuance of gilts and Treasury bills. The total nominal value of central government wholesale debt (excluding government holdings) as at 31 March 2020 was £1,445.4 billion, up from £1,407.2 billion as at 31 March 2019.

1.134 When setting a strategy for government borrowing, a number of risks are taken into account. These include interest rate risks, refinancing risk, inflation risk, liquidity risk and execution risk. The government maintains a relatively long average maturity of government debt to limit exposure to refinancing risk. Details of the government's debt management strategy and financing plans are set out in the Debt management report.[32]

1.135 Gilts are the primary form of government debt. The gilt redemption profile as at 4 February 2021, as disclosed in the Debt Management Office (DMO) Debt management report is included in Chart 1.V. This shows that some gilts are due for redemption as far in the future as the 2070's, but the bulk are due for redemption before 2040.

1.136 The government issues a mix of fixed coupon (conventional) and index-linked gilts. Index-linked gilts have their principal and coupon payments adjusted according to the Retail Price Index (RPI) inflation measure. One of the findings of the government's response to the Office for Budget Responsibility's (OBR) fiscal risks report was that government should look to manage the inflation exposure in the debt portfolio by gradually reducing the issuance of index-linked gilts as a proportion of total issuance.

Chart 1.V: Redemption profile of gilts as at February 2021 (£ billion)



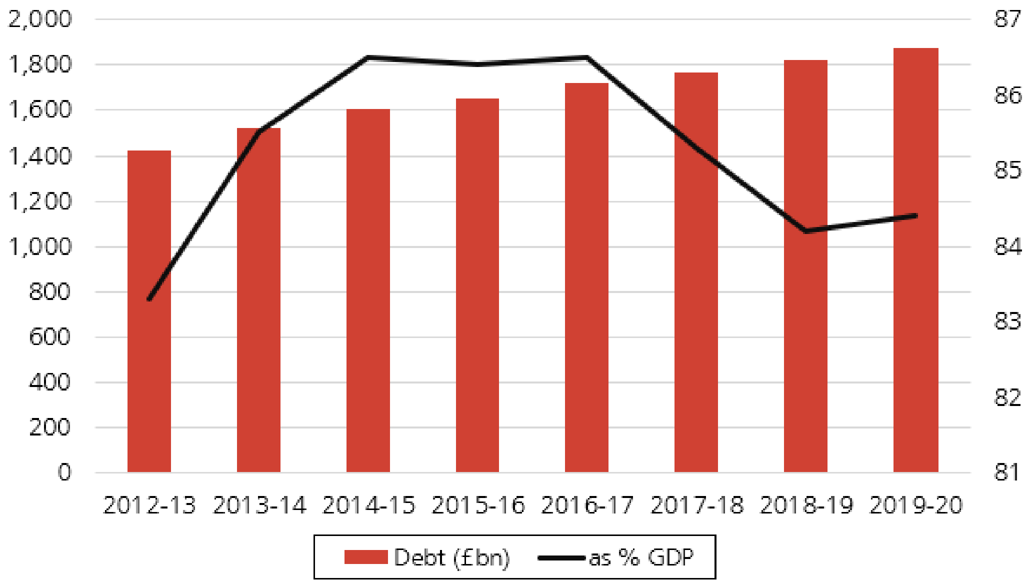
Source: Debt Management Office as at February 2021

1.137 At the end of the financial year ending March 2020, the statistical measure of UK general government gross debt was £1,877.5 billion, equivalent to 84.7% of gross domestic product (GDP) (source ONS).[33] This represents an increase of £55.6 billion since the end of the financial year ending March 2019, and debt as a percentage of GDP increased by 0.6 percentage points from 84.1% over the same period.

[32] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871876/03032020_DMR_off-sen_v2_FINAL_with_jpegs_v2.pdf

[33] UK government debt and deficit - Office for National Statistics (ons.gov.uk)

Chart 1.W: General government gross debt as percentage of GDP over time

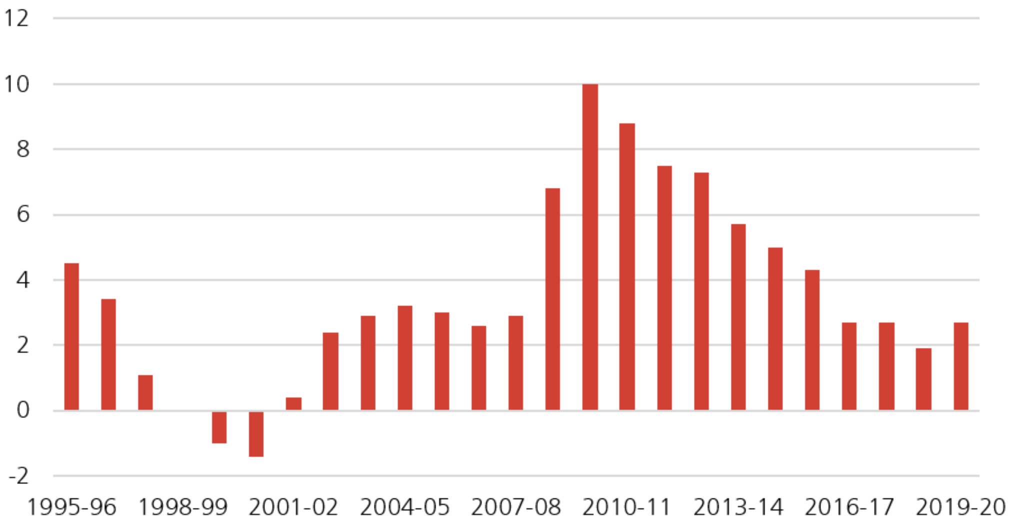


Source: Office of National Statistics as at March 2020

1.138 In the financial year ending March 2020, the UK general government deficit was £60.3 billion, equivalent to 2.7% of gross domestic product (GDP) (source ONS)[34]. This represents an increase in the deficit of £19.3 billion compared with the financial year ending March 2019.

1.139 The financial year ending March 2020 was the fourth consecutive year in which general government net borrowing was below 3% of GDP.

Chart 1.X: General government net borrowing (deficit) as a percentage of GDP over time



Source: Office of National Statistics as at March 2020

[34]UK government debt and deficit - Office for National Statistics (ons.gov.uk)

Provisions £374.8 billion

1.140 Total provisions increased by 20.4% (or £63.4 billion) from £311.4 billion in 2018-19 to £374.8 billion in 2019-20. £38.7 billion of this increase relates to provision for EU liabilities, which is a new item this year. Changes in the discount rate decreased total provisions by £9.1 billion (2018-19: £101.5 billion). For more information on the impact of discount rates on the value of the provision, please see Note 22 in the notes to the accounts.

Chart 1.Y: Movement by types of provisions (£ billion)

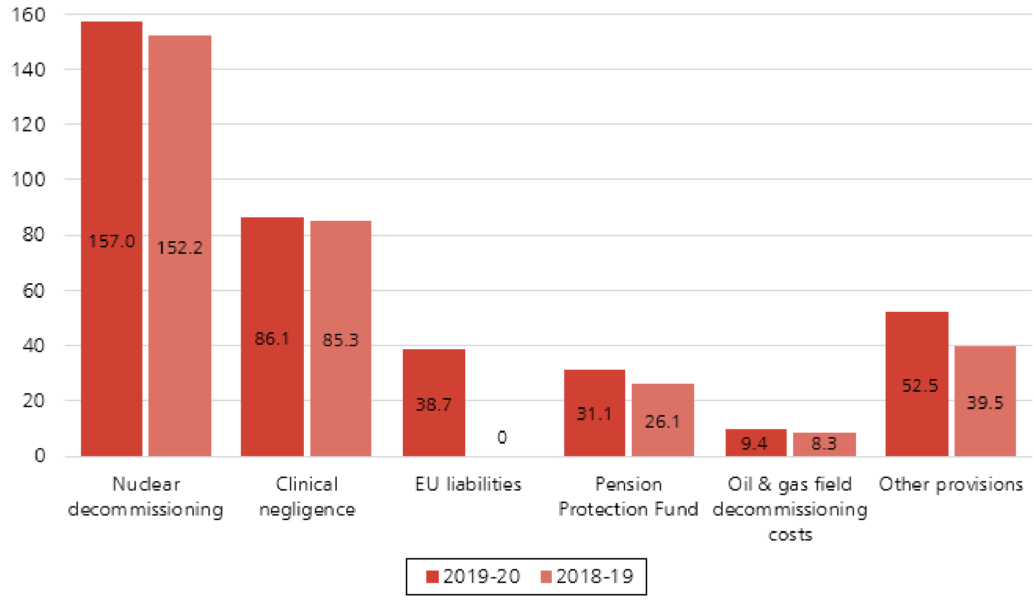
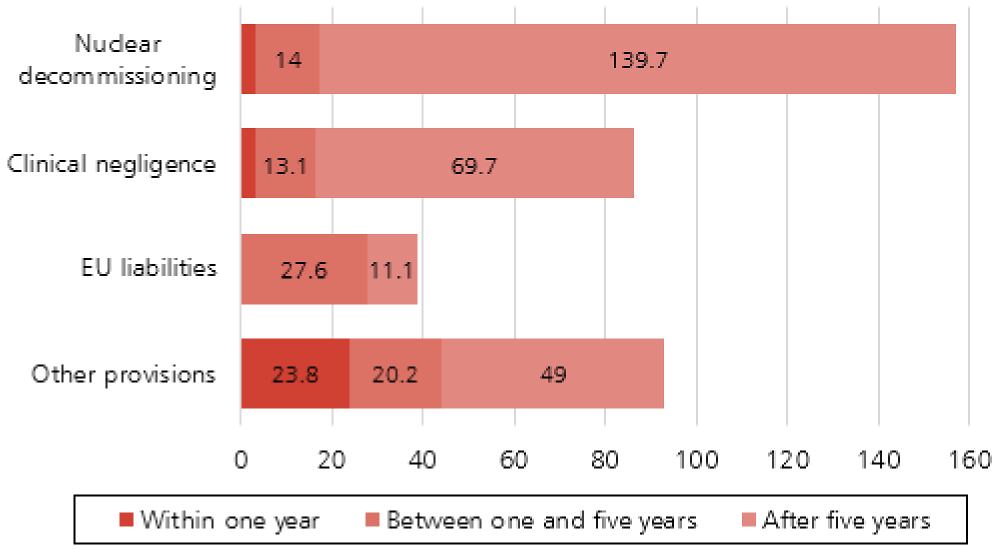
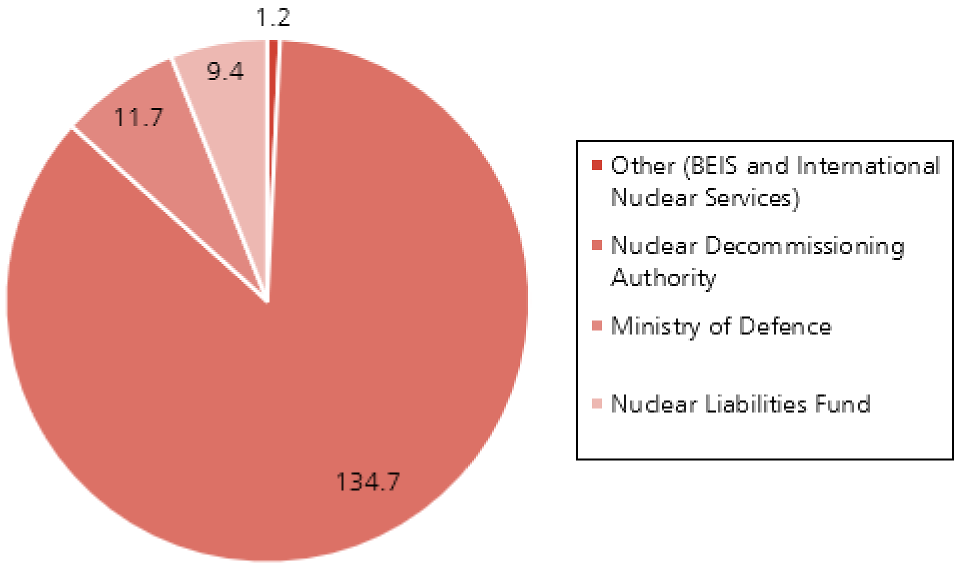


Chart 1.Z: Maturity of provisions (£ billion)



Nuclear decommissioning provisions £157.0 billion

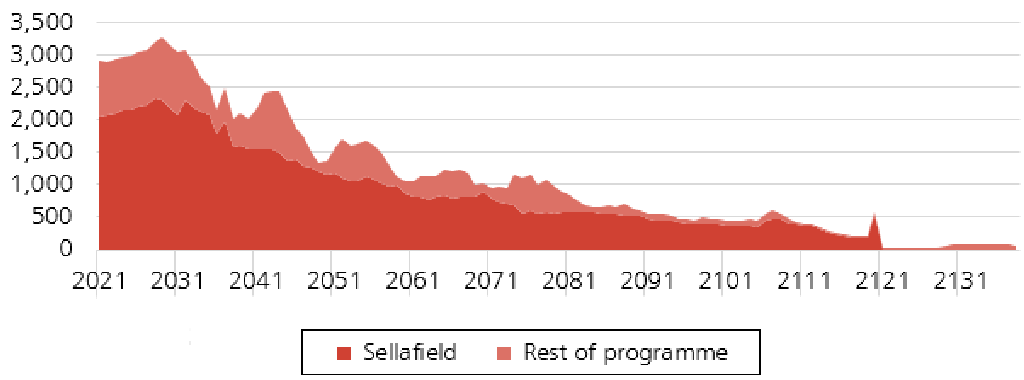
Chart 1.AA: Breakdown of the nuclear decommissioning provision (£ billion)



1.141 The provision for nuclear decommissioning increased by £4.8 billion, from £152.2 billion in 2018-19 to £157.0 billion in 2019-20. Changes in the discount rate increased this provision by £0.2 billion (2018-19: £96.0 billion decrease).

1.142 Chart 1.BB illustrates the expected profile of pay-outs by the Nuclear Decommissioning Authority (NDA) which total £131.9 billion before discounting and £134.7 billion after discounting. This is the largest portion of the total provision of £157.0 billion.

Chart 1.BB: Expected profile of pay-outs by the NDA (£m, undiscounted)



Source: Department for Business, and Industrial Strategy as at March 2020

1.143 The NDA realised many important plans and milestones during 2019-20. A major decommissioning milestone was reached when the defueling of the last Magnox site was completed. All separated plutonium from Dounreay was safely shipped to Sellafield for storage, allowing the packages to be treated at the UK's centre of excellence for managing plutonium.

1.144 September 2019 saw the publication of a single radioactive waste strategy for the NDA group, so there is now a clear approach to managing all radioactive waste generated within the NDA estate. NDA can now support an approach where radioactive wastes are managed according to the nature of waste (radiological, physical and chemical properties), rather than the radioactive waste category they fall into. This means greater opportunities to drive efficiencies, reduce the length of NDA's mission, bring significant savings, provide a clearer process and also reduce duplication of effort.

1.145 More strategic outcomes will be achieved with the closure of the reprocessing facilities and the building of new modern treatment and storage facilities to manage nuclear material and waste.

Clinical negligence provision £86.1 billion

1.146 The Department of Health and Social Care and the devolved administrations provide for future costs in a number of cases where they are the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence. Most of the UK government's clinical negligence claims are managed by NHS Resolution, who handle both clinical and non-clinical claims relating to the NHS in England.

1.147 NHS Resolution makes a provision in its accounts for the likely value of future claims payments and also records contingent liabilities which represent possible additional claims payments that have not already been provided for. The provision is made up of lump sum payments, long-term payments (usually lifetime) and incidents that have not yet been reported. The maturity profile of clinical negligence payments is impacted by uncertainty around the length of time it takes to resolve cases and the structure of payments. More information on contingent liabilities is included in Notes 29 and 30 to the accounts.

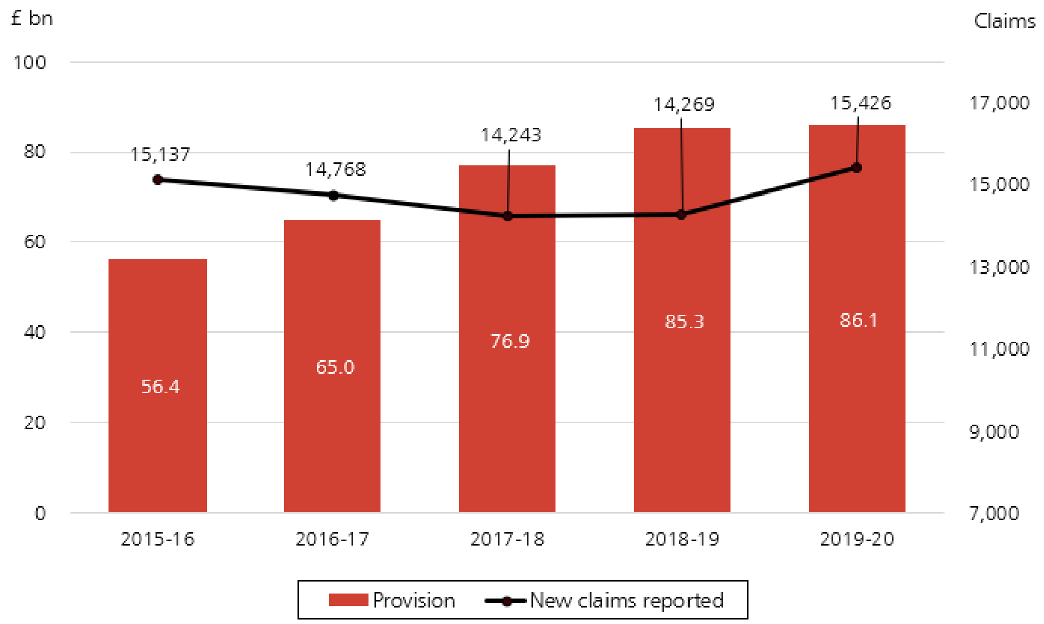
1.148 The drivers of claim costs are a combination of the number of claims received, the amount of compensation paid for those claims and the legal costs which are attached to them. Discount rates also have a significant effect on these costs.

1.149 The provision for clinical negligence claims increased by £0.8 billion or 0.9% in 2019-20, from £85.3 billion to £86.1 billion, partly due to liabilities arising from the general practice indemnity arrangements put in place during the financial year. In addition to the clinical negligence provision, £49.7 billion (2018-19: £50.8 billion) is included as a contingent liability for clinical negligence.

1.150 In 2019-20, NHS Resolution received 11,682 new clinical negligence claims, an increase of 998 claims (9.3%) from 2018-19. This increase was against a backdrop of increased NHS activity. The number of new non-clinical claims, typically employers' and public liability claims, increased by 4.4% to 3,744 in 2019-20. Further information on claims can be found on page 47 of NHS Resolution 2019-20 account.

1.151 The provision for liabilities has increased by £0.8 billion to £86.1 billion at 31 March 2020. This is the value of liabilities arising from incidents that occurred before 31 March 2020 at current prices. This figure includes claims received, and NHS Resolution's estimate of likely claims from incidents which have occurred but have yet to be reported (incurred but not reported, IBNR). Chart 1.CC provides further information.

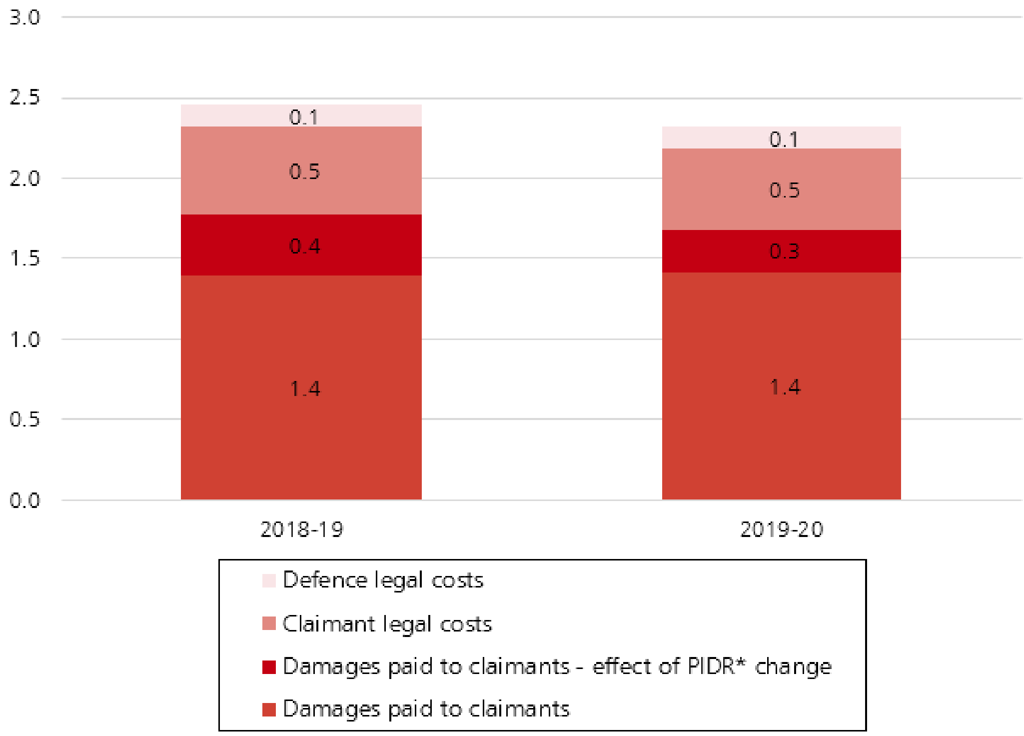
Chart 1.CC: NHS resolution total provision for clinical and non-clinical negligence claims (£ billion per year), and number of new claims reported in year



Source: NHS Resolution 2019-20 accounts as at March 2020

1.152 Chart 1.DD below provides a breakdown of the £2.4 billion of pay-outs made by NHS Resolution during 2019-20.

Chart 1.DD: NHS Resolution pay-outs in year (£ billion)



Source: NHS Resolution 2019-20 accounts as at March 2020

1.153 The provision is an estimate and is sensitive to changes in key assumptions. As an example, for the Clinical Negligence Scheme for Trusts (CNST) the NHS Resolution accounts estimate a figure of £44.4 billion, with a reasonable upper range of £51.8 billion, and a reasonable lower range £38.2 billion. Further information can be found in the accounts of NHS Resolution.

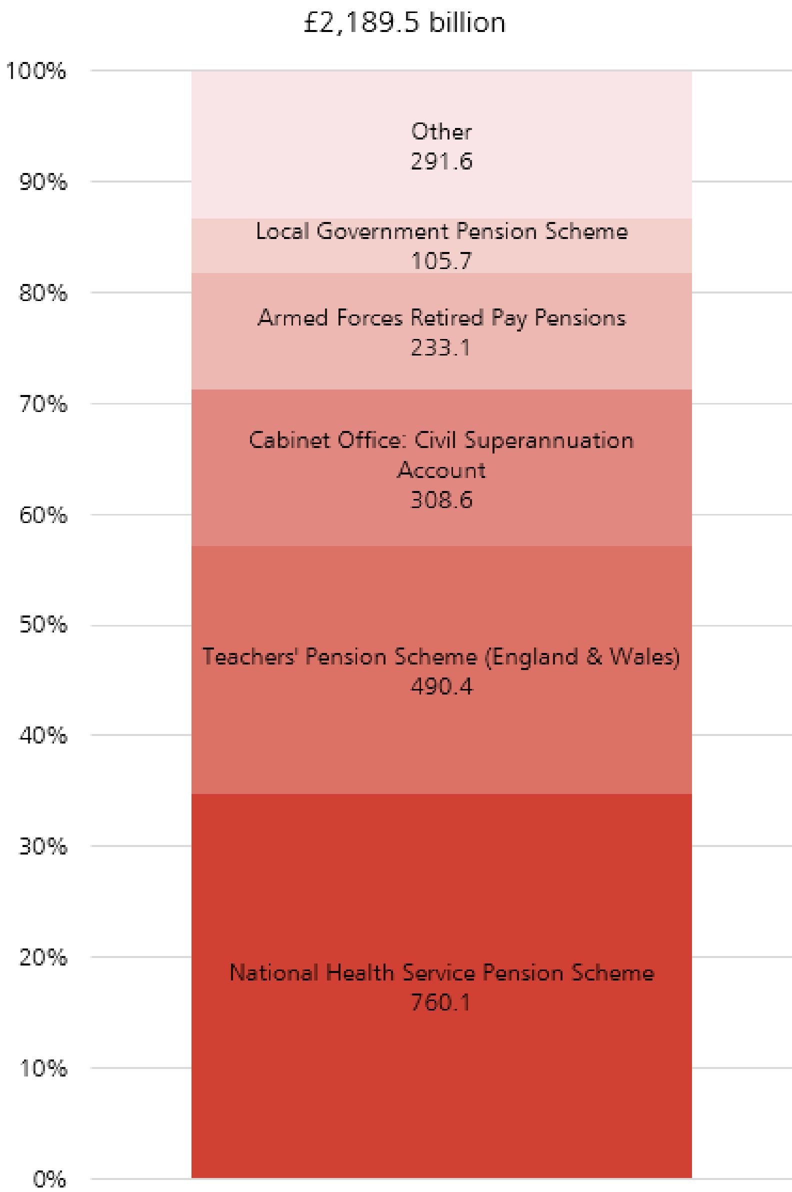
1.154 The use of mediation by NHS Resolution increased by 8% to 427 cases in 2019-20. An increase in mediations reduces the rate of claims going into formal litigation, reducing the stress of that process for patients and healthcare staff and contributing to a further decrease in claimant legal costs, helping to reduce the overall cost to taxpayers.

1.155 From April 2019, NHS Resolution introduced a new indemnity scheme for general practice. This scheme affords a tremendous opportunity to offer a responsive model of indemnity for new general practice claims which adapts to the changing way healthcare is delivered. NHS Resolution aims to consolidate the scheme by streamlining claims handling processes and promoting a safety culture in primary care to reduce harm.

Public sector pensions £2,189.5 billion

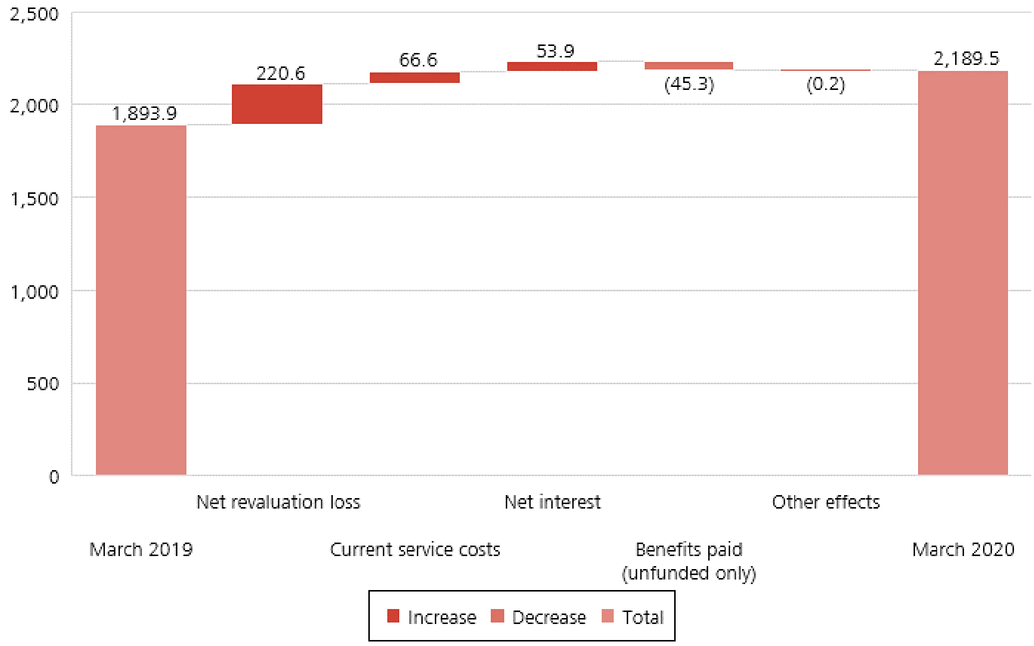
1.156 The net public sector pension accounts for 44.0% of total liabilities and is the largest liability in WGA. The net liability increased by £295.6 billion or 15.6% in 2019-20. It does not include the state pension, which is social security expenditure.

Chart 1.EE: Net public sector pension breakdown (£ billion)



1.157 Chart 1.EE shows a breakdown of the net public sector pension liabilities. The Local Government Pension Scheme and the Civil Superannuation Account cover Great Britain, the Armed Forces Retired Pay Pensions and National Health Service Pension Scheme cover the UK.

Chart 1.FF: Change in net public sector pension liability (£ billion)



The largest public service pension schemes

1.158 Four single unfunded pension schemes make up 81.9% of the pension liability. These are: the National Health Service Pension Scheme (NHSPS), Teachers' Pension Scheme (TPS) (England & Wales), Cabinet Office Civil Superannuation (PCSPS), and Armed Forces Pension Scheme (AFPS).

Snapshot of the four biggest pension schemes

Pension Scheme	Increase in liability	Active members*
NHSPS	£140.0 billion	1,619,853
TPS	£79.4 billion	702,773
PCSPS	£47.5 billion	510,220
AFPS	£37.8 billion	298,760

* Due to the complexity of some of the schemes, individual members may be a member of more than one scheme, and therefore double counted. An active member is defined as an individual who is in pensionable service and where the employer has not provided a withdrawal indicator.

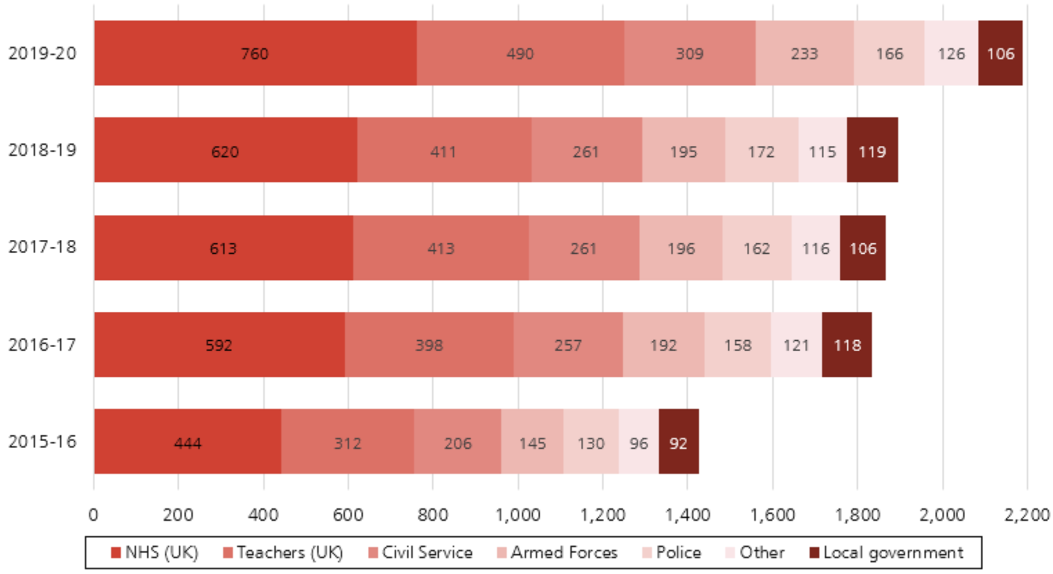
1.159 The four main schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". Pensions in payment and deferment are increased based on the change in the Consumer Price Index (CPI) in the 12 months to the end of the preceding September. As CPI at September 2018 was 2.4%, there was a 2.4% increase to these pensions in April 2019.

1.160 These four schemes are unfunded, defined benefit occupational pension schemes. The pay-as-you-go nature of these schemes means that pension contributions of employees and employers are used to offset payments to current pensioners. Future payments will be funded by future contributions and tax receipts.

1.161 The income received in the **NHS Pension Scheme** currently exceeds payments made by the scheme, so the balance of surplus cash is returned to HM Treasury under arrangements governed by the legislation.

1.162 The income in the **Principal Civil Service Pension Scheme** (PCSPS), **Teachers' Pension** Scheme (TPS) and the **Armed Forces Pension Scheme** (AFPS) is insufficient to pay all pensions in payment. The balance of funding is provided by Parliament.

Chart 1.GG: Pension liabilities over time (£ billion)



1.163 The balance sheet value of public sector pensions can vary significantly over time. Much of this change is due to changes in assumptions. These include demographic assumptions, such as life expectancy, used by actuaries to estimate the amount that will eventually be paid out in pensions. Another factor is the discount rate used to convert those future payments into a liability at the reporting date.

Discount rate

1.164 Each year, revisions are made to the discount rate used to calculate the public sector pension liability for accounting purposes. This rate is based on the market yield of corporate bonds net of the consumer price index (CPI). The discount rate for central government schemes is set by HM Treasury each year.

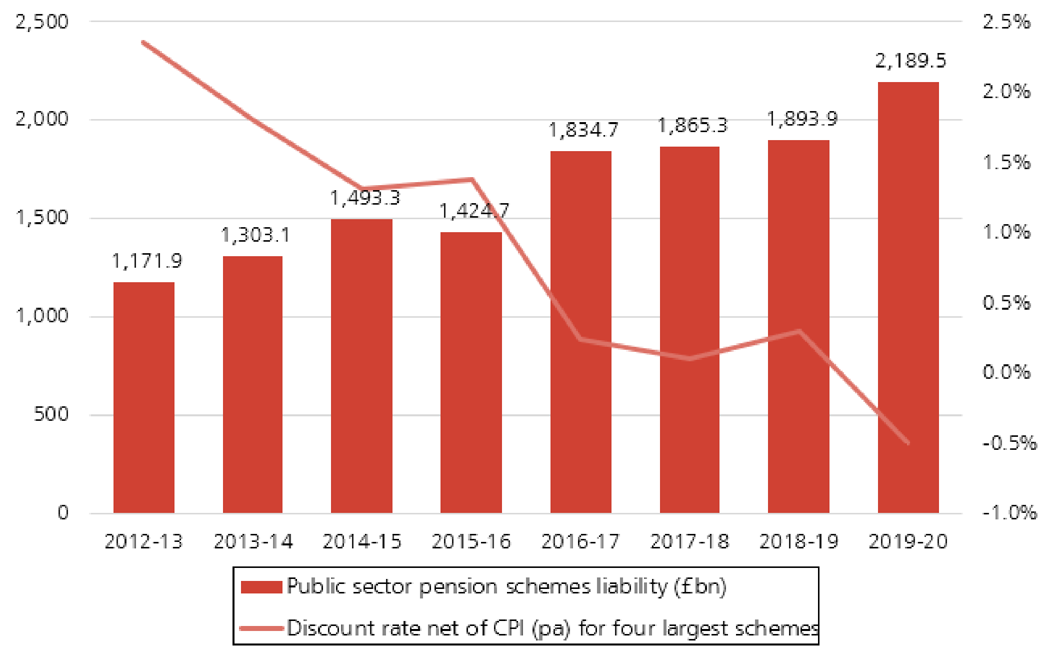
1.165 The discount rate generally has a significant impact on the liability because many of the benefit payments that the schemes expect to make fall decades into the future, and so a small change in the per annum discount rate has a large impact on the liability.

1.166 Chart 1.HH illustrates how the trend in this net discount rate compares with the trend in the public sector pension scheme liability over recent years. In 2019-20, there was a decrease to the central government net discount rate, from 0.3% to (0.5)%. This alone would be expected to cause a loss on revaluation and increase the pension liability by around £350 billion. The actual loss on revaluation from changes in assumptions of £220.6 billion also includes the impact of other actuarial assumptions, as summarised below.

1.167 The loss on revaluation of the pension liability is largely driven by a change in mortality improvement assumptions. Some schemes, including the four largest unfunded public sector pension schemes (NHS, Teachers, Armed Forces and Civil Service) have moved from using ONS 2016 life expectancy assumptions to ONS 2018 assumptions in the 2019-20 accounts. The life expectancy under ONS 2018 is assumed to be lower, hence reducing the gain experienced on the liabilities.

1.168 The net discount rate for the year 2020-21 (for the central government schemes) has been set at (0.95)% pa (a decrease from (0.50)% pa)[35]. We therefore anticipate an increase of perhaps around £200 billion in the reported public sector pension scheme liability when the 2020-21 WGA is published next year, solely as a result of this change in the net discount rate.

Chart 1.HH: Discount rate trend



Actuarial assumptions

1.169 The public sector pensions liability is also impacted by changes in other factors, in addition to the discount rate. These include:

- the assumptions for CPI growth and salary growth which affect how much an individual is expected to receive
- the assumptions for life expectancy which affect the expected term of pension payments
- the assumptions on workforce size which affect the number of people expected to receive pension payments

35 Local government accounts (including local government police and fire accounts) use a different discount rate set by the actuary.

1.170 Gradual changes in workforce size over many years (e.g. a reducing civil service or growing health service) can cause a gradual shift in the liability, as a larger or smaller value is added to the liability annually to reflect the pension promised to the workforce for their service that year.

1.171 Step changes in the liability can occur when key assumptions or data are updated, such as the ONS publication of population projections which are used to set life expectancy assumptions. Some schemes, including the four largest public sector pension schemes, moved from using ONS 2016 life expectancy assumptions to ONS 2018 assumptions in 2019-20. The ONS 2018 projections assume lower future life expectancy, compared to the ONS 2016 projections. This change was largely driven by higher observed mortality over 2016 to 2018 than was expected in the previous assumptions.

Maturity of public sector pensions

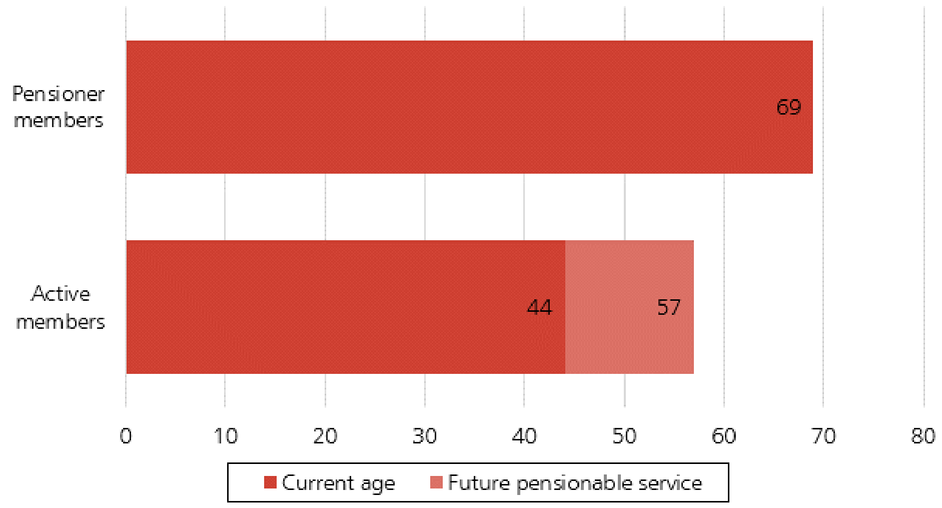
1.172 The table below shows the average life expectancy at 65 of male and female active and pensioner members. Active pension scheme members are those currently employed and paying in contributions, pensioner members are those being paid a pension. These averages have been calculated for the unfunded public service schemes (i.e. excluding the local government scheme), weighted by the pay or pension in each scheme. These figures were all calculated as at 31 March 2016 for the purposes of calculating employer contributions.

Chart 1.II: Average life expectancy at age 65 (years)

	Active member	Pensioner member
	(current age 45)	(current age 65)
Male	25	23
Female	27	25

1.173 Chart 1.JJ shows the average age for active and pensioner members and, average future service (for active members), with the average calculated in the same way as the average of the life expectancy figures above. The sum of average age and average future service represent the average age of leaving service and not the average age of retirement since not all members retire immediately after leaving service.

Chart 1.JJ: Average age and future service (years)



1.174 Chart 1.KK below shows the average duration of the liabilities for active and pensioner members. Duration is the average number of years in the future at which cash flows are paid. This average is calculated by weighting the average times to payment by the discounted cashflows due at those future times. Payments will therefore take place both before and after the duration.

Chart 1.KK: Average duration of liabilities (years)

	Active member	Pensioner member
Duration	26	12

Affordability of public sector pensions

1.175 Changes to the discount rate net of CPI drive changes in the public sector pension liability, but do not affect the future benefits payable. Due to this, the government focuses on other measures to assess the affordability of the public sector pension schemes and manage the associated fiscal risks.

1.176 For example, when monitoring the fiscal implications of the schemes, the government considers the OBR's long-term projections of public sector pension scheme expenditure, as published in their Fiscal Sustainability Reports. These look at the future expected pension cash flows as a percentage of GDP. The next Fiscal Sustainability Report is due to be published in July 2022.

Box 1.E: How are public sector pension liabilities treated in the National Accounts?

WGA recognises future pension liabilities when the rights accrue to employees, even though payment is not yet due. The National Accounts only recognises expenditure as it is paid out to retirees and does not recognise a future liability. The expenditure recognised in National Accounts is reduced by the amount received through employer and employee contributions.

Box 1.F: Actuarial Valuations of liabilities and provisions

Some figures in the WGA are calculated using actuarial techniques. The most significant of these are pensions liabilities and some of the provisions such as clinical negligence.

What is an actuarial valuation?

An actuarial valuation is the calculation of any amount where assumptions need to be made about what will happen in the future. Very often, this involves payments that are expected to be made several years in the future, where there is uncertainty in the amount or timing of the payments. Each future payment is estimated, discounted to the valuation date and added together.

Setting assumptions

Assumptions are needed if the timing or amount of future payments is uncertain. Some examples of assumptions in valuations include:

- life expectancy, retirement age and salary growth of pension scheme members
- average cost and inflation of clinical negligence claims
- timing of construction of nuclear decommissioning sites

Assumptions can be set based on the past experience of the entity being valued if the administrative data held is recorded accurately and if the dataset is large enough to make statistically robust conclusions. Many of the public service pension schemes hold data that can be used to set assumptions.

Assumptions should also allow for trends in the experience and known future changes in, for instance, pension scheme rules.

Different assumptions may be appropriate for valuations with different purposes, such as to set employer contribution rates or to specify liabilities in accounts for a pension scheme.

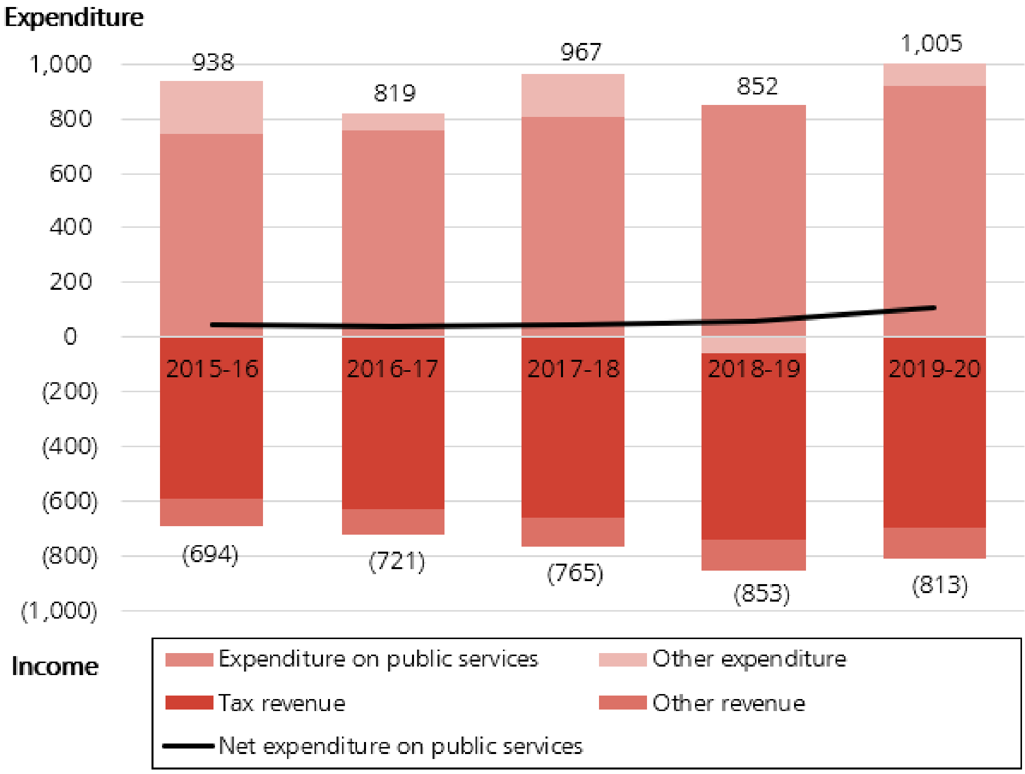
Data

The calculation of the liability will usually start from administrative data held. For instance, a pension scheme valuation will use the rates of pensions currently in payment, the amount of pensions accrued but not yet in payment and the salaries of current employees. If there are uncertainties about this data, then assumptions are made about the data before it is used in calculations.

Report on Income and Expenditure

1.177 Over the last 5 years the net expenditure on public services shown by the black line in Chart 1.LL, has increased by 118% (£57.1 billion). After being largely flat from 2015-16 to 2017-18, net expenditure increased in 2018-19 and increased further in 2019-20. This was largely driven by an increase in expenditure on public services.

Chart 1.LL: Income and expenditure trends



1.178 Conversely, total net expenditure for the year fluctuates radically from year to year. In previous years this has been because of provision financing costs which include the impact of changes in discount rates used for provisions. In 2016-17 this was £9.3 billion, increasing to £93.4 billion in 2017-18, and decreasing to -£101.5 billion in 2018-19. For 2019-20 the key driver of the provisions expense was the recognition of new provisions. More information can be found in Note 22 of the financial accounts.

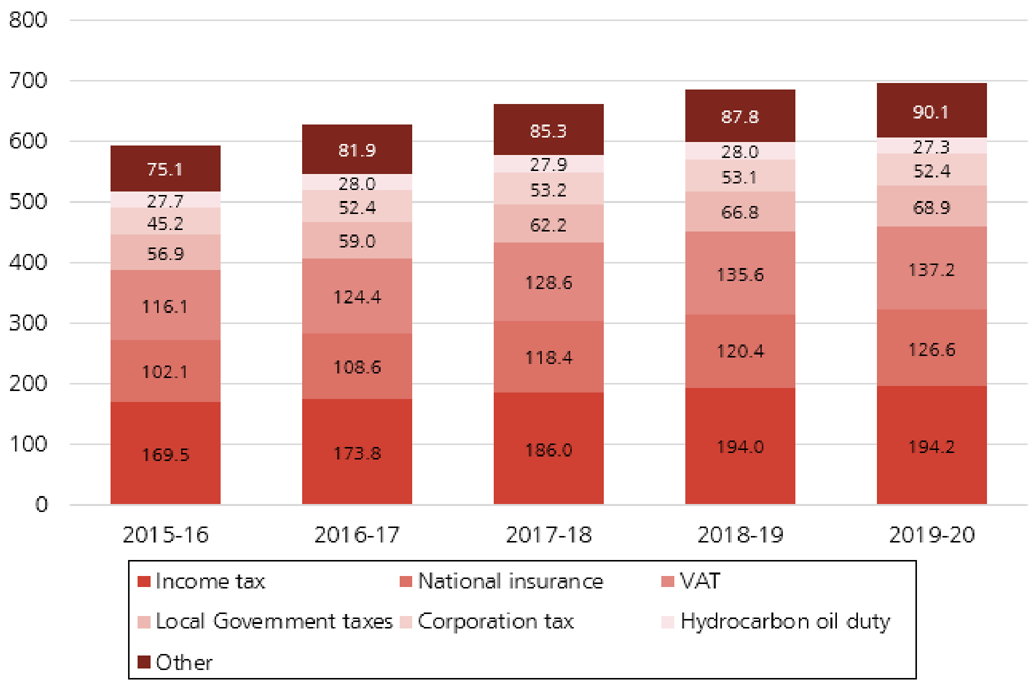
Income

The government received £813.3 billion in income

1.179 Taxation revenue makes up 85.7% (£696.7 billion) of total income, 88.3% of which is collected by HMRC. Taxation revenue is driven by the overall level of activity in the economy and by the rates of taxation, allowances and reliefs.

1.180 In 2019-20 HMRC achieved record total revenue figures, they had their best ever year for Self-Assessment returns filed online, and they brought in more money from tackling avoidance, evasion and non-compliance.

Chart 1.MM: Taxation revenue over time (£billion)



1.181 Income tax, National Insurance Contributions and VAT make up the three largest elements of total tax revenue, but a wide range of other taxes and duties are also factored in. The following snapshot summarises the key elements of total tax revenue in 2019-20.

Snapshot of taxation revenue

Income Tax and National Insurance

£336.1bn of total revenue | **2.1%** increase from 2018-19

The amount of revenue raised for these two taxes is closely linked to the number of people in employment and wage levels, both of which increased during this period. Rate changes also impact the amount of revenue collected. There were above inflation rises to the personal allowances and higher rate thresholds for Income Tax, as well as changes to the upper earnings limit for National Insurance contributions.

Value Added Tax

£137.4bn of total revenue | **1.3%** increase from 2018-19

Receipts tend to rise over time because of economic growth, inflation and consumer spending. A smaller increase than expected was seen, likely due to decreases in economic growth and consumer spending in the final quarter.

Corporation Tax

£53.0bn of total revenue | **0.9%** decrease from 2018-19

Corporation Tax has remained relatively static.

Hydrocarbon oils

£27.4bn of total revenue | **2.3%** decrease from 2018-19

Analysis of the impacts of COVID-19 on the oil and gas industry appears to explain the reduction in revenue. The increased fuel economy of vehicles and the growing popularity of electric cars could also be a contributory factor.

Stamp Taxes

£15.4bn of total revenue | **1.8%** decrease from 2018-19

Stamp Tax revenue is closely linked to the housing market. Sales of homes remain near their lowest point for a decade, coinciding with a sustained period of weak house price growth.

Alcohol

£11.9bn of total revenue | **1.7%** decrease from 2018-19

It is likely that the decrease is due to the effects of COVID-19, which initiated venue closures and the cancellation of sporting events in the final quarter.

Capital Gains Tax

£10.0bn of total revenue | **7.1%** increase from 2018-19

Movement in tax receipts is difficult to determine due to the underlying volatility of asset sales and the extent to which they generate capital gains. Timely information is not available due to the significant lag in declaration via Self Assessment.

Tobacco

£9.7bn of total revenue | **5.5%** increase from 2018-19

The number of smokers has continued to fall, reflecting an increase in health awareness. A rate change, effective from 11 March, had the effect of causing a short-term increase in revenue which is not expected to occur in the next financial year.

Insurance Premium Tax

£6.5bn of total revenue | **1.7%** increase from 2018-19

Movement in tax receipts is driven by changes in tax rates and the cost and number of insurance policies. Tax rates have remained the same since June 2017.

A number of other taxes, including Inheritance Tax, Bank Levy and customs duties, account for the remaining revenue.

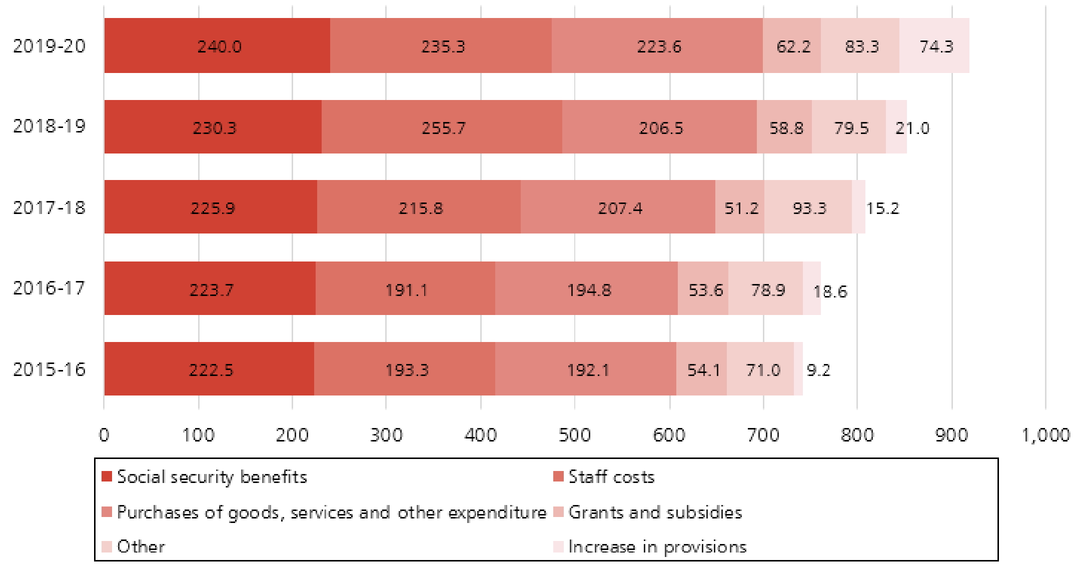
Source: HM Revenue and Customs as at March 2020

Expenditure

Total Expenditure on public services is £918.7 billion

1.182 The government spent £918.7 billion on public services. The most significant elements were **social security benefits** of £240.0 billion (2018-19: £230.3 billion), **staff costs** of £235.3 billion (2018-19: £255.7 billion) and **purchase of goods and services** of £223.6 billion (2018-19: £206.5 billion), each of which is explored in more detail in the following sections.

Chart 1.NN: Expenditure trends (£ billion)



1.183 Overall, total expenditure on public services has increased by 23.8% over the last 5 years. The largest change for 2019-20 was an increase in provisions of £53.3 billion to £74.3 billion (2018-19: £21.0 billion). This increase was largely driven by the recognition of a new £38.7 billion provision for EU liabilities. Further details can be found in Note 22.

1.184 As well as WGA, the Treasury publishes the Public Expenditure Statistical Analysis (PESA)[36] and the Country and Regional Analysis (CRA).[37]

1.185 These statistical publications provide another way of looking at government expenditure based on what it is spent on (e.g. health, education) and where it is spent.

[36] https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa

[37] https://www.gov.uk/government/collections/country-and-regional-analysis

Chart 1.00: Public Expenditure breakdown – Functional 2014-15 to 2019-20

Function	2019-20 £bn	% of total	2018-19 £bn	2017-18 £bn	2016-17 £bn	2015-16 £bn	2014-15 £bn
Social protection	275.2	34%	274.9	268.6	265.4	265.0	261.0
Health	164.0	21%	152.9	147.2	142.6	138.5	134.1
Education	92.4	12%	88.1	86.1	84.9	84.9	85.1
Defence	42.2	5%	40.2	38.7	37.1	36.6	36.7
Public order and safety	34.5	4%	32.4	31.5	30.1	30.2	30.5
Transport	34.7	4%	32.7	30.4	28.8	27.9	22.0
Other economic affairs	30.7	4%	28.0	22.9	20.4	19.1	19.0
Environment protection	11.7	1%	11.0	11.8	11.0	11.6	11.6
Housing and community amenities	14.5	2%	12.0	11.4	10.3	9.8	10.3
Recreation, culture and religion	12.1	2%	11.4	11.5	11.6	11.4	12.4
General public services	26.3	3%	24.8	23.0	23.4	21.4	22.1
Debt interest	55.4	7%	56.7	62.2	56.6	53.8	52.3
EU transactions	6.1	1%	7.9	5.4	4.7	7.7	6.2
Public services expenditure per PESA	**799.8**	**100%**	**773.0**	**750.7**	**726.9**	**717.9**	**703.3**
Add: Depreciation and impairment	51.5		47.9	56.5	48.6	42.7	45.4
Add: Increase in provisions	74.3		21.0	15.2	18.6	9.2	26.0
Accounting adjustments	(6.9)		9.9	(13.6)	(31.5)	(27.6)	(23.4)
WGA expenditure on public services	**918.7**		**851.8**	**808.8**	**762.6**	**742.2**	**751.3**

Source: Public Expenditure Statistical Analysis 2020 table 4.2 as at March 2020 [38]

[38] Table may not agree with PESA/CRA due to rounding

Chart 1.PP: Public Services expenditure breakdown – Country and Regional 2014-15 to 2019-20

Region	2019-20 £bn	% of total	2018-19 £bn	2017-18 £bn	2016-17 £bn	2015-16 £bn	2014-15 £bn
North East	27.5	3%	27.1	25.8	25.6	25.4	24.8
North West	74.9	9%	72.1	70.9	68.3	67.6	66.3
Yorkshire and the Humber	51.7	7%	49.8	48.5	48.1	47.7	46.8
East Midlands	42.9	5%	41.2	39.8	39.1	38.6	38.2
West Midland	56.8	7%	54.7	52.3	51.4	50.2	50.3
East	56.1	7%	54.0	51.6	49.7	49.5	48.3
London	97.1	12%	93.0	91.0	88.6	87.7	84.5
South East	81.9	10%	78.8	75.4	73.5	71.1	69.3
South West	51.7	7%	49.8	47.9	46.9	45.9	45.3
Scotland	63.2	8%	60.8	58.6	57.4	56.2	54.9
Wales	34.5	4%	33.4	32.4	31.4	30.9	30.6
Northern Ireland	22.7	3%	21.7	20.8	20.5	20.2	20.3
Outside UK	28.3	4%	30.0	26.4	25.5	25.8	27.1
Non-identifiable expenditure	107.4	14%	105.0	107.7	101.4	101.2	96.4
Public sector expenditure on services	**796.7**	**100%**	**771.4**	**749.1**	**727.4**	**718.0**	**703.1**
Add: Depreciation and impairment	51.5		47.9	56.5	48.6	42.7	45.4
Add: Increase in provisions	74.3		21.0	15.2	18.6	9.2	26.0
Accounting adjustments	(3.8)		11.5	(12.0)	(32.0)	(27.7)	(23.2)
WGA expenditure on public services	**918.7**		**851.8**	**808.8**	**762.6**	**742.2**	**751.3**

Source: Country and Regional Analysis 2020 table A.1 as at March 2020 [39]

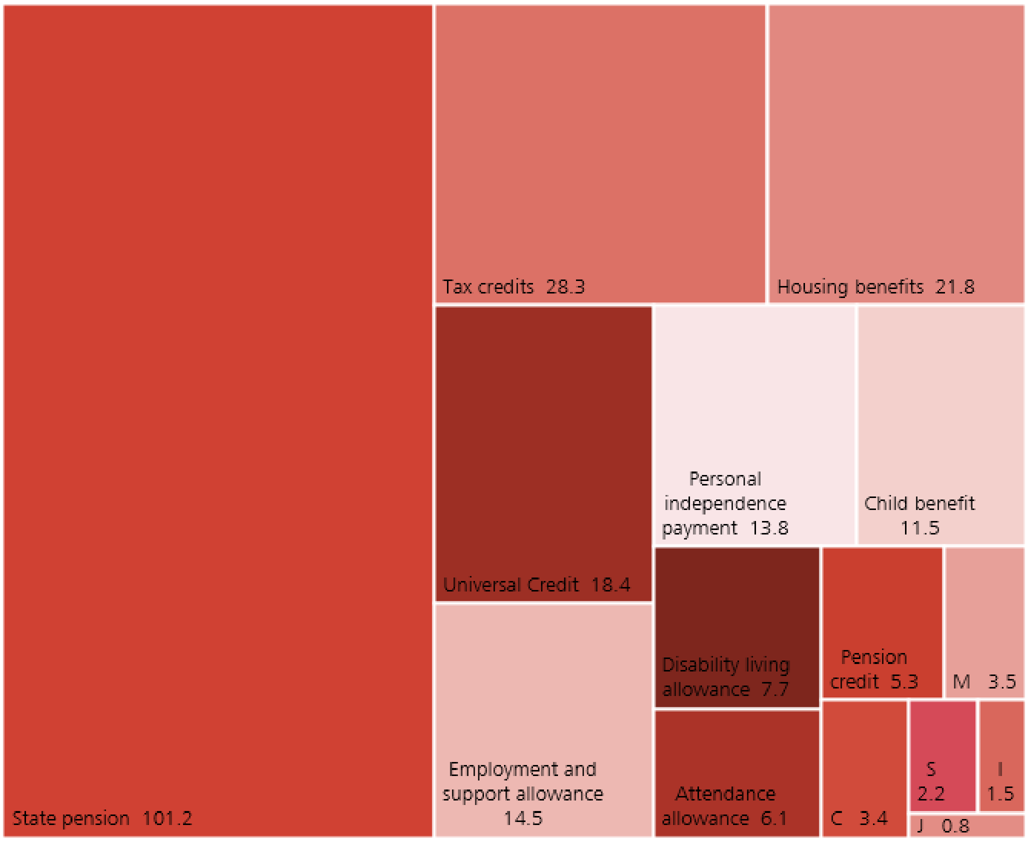
[39] Table may not agree with PESA/CRA due to rounding

Social security benefits totalled £240.0 billion

1.186 Government spending on social security benefits increased by 4.2% in 2019-20 compared with 2018-19. It has increased by 10.2% over the last five years. The largest element of social security benefits is the state pension. State pension expenditure increased by £2.1 billion as a result of the annual uprating in line with the "triple lock" at 2.6%.

1.187 The government's State Pension triple lock ensures that pensioner incomes are protected against inflation: this increases each year by whichever is the highest out of prices, average earnings or 2.5%.

Chart 1.QQ: Breakdown of social benefit payments (£ billion)



C	Carer's allowance	S	Statutory sick pay and maternity pay
I	Income support	J	Jobseeker's allowance
M	Miscellaneous benefits		

Chart 1.RR: Social security benefits over time (£ billion per financial year)

Staff costs totalled £235.3 billion

1.188 Staff costs comprise expenditure on salaries and wages, and expenditure on pension costs.

1.189 In 2019-20, the cost of salaries and wages was £168.2 billion (2018-19: £159.4 billion), an increase of 5.5% on the prior year which took place alongside a 1.8% increase in staff numbers. This compares to 4.3% increase in staff costs in 2018-19, which saw a 1.4% increase in staff numbers. The move away from the previous 1.0% pay restraint policy announced in September 2017 took effect for staff within the NHS from 1 April 2018, with the implementation of the Agenda for Change three-year deal. In July 2018, the government also announced pay rises for an additional 1 million public sector workers,[40] to be funded from departmental budgets.

1.190 Pension costs decreased by 30.3% to £67.1 billion in 2019-20 (2018-19: £96.3 billion), reflecting an additional £31.8 billion in past service costs recognised in 2018-19. This was largely a result of the Court of Appeal ruling against the government in the two cases of Sargeant and McCloud. This rule resulted in an increased liability in many different pension schemes, the effect of which was recognised during 2018-19.

1.191 Further details on staff costs and numbers are included in the staff cost Note 7. Further information on public sector pension costs, and the drivers of changes to these costs, are included in the pension liabilities section of Chapter 1 and in Note 24 to the accounts.

[40] https://www.gov.uk/government/news/around-one-million-public-sector-workers-to-get-pay-rise

Chart 1.SS: Staff costs by sector

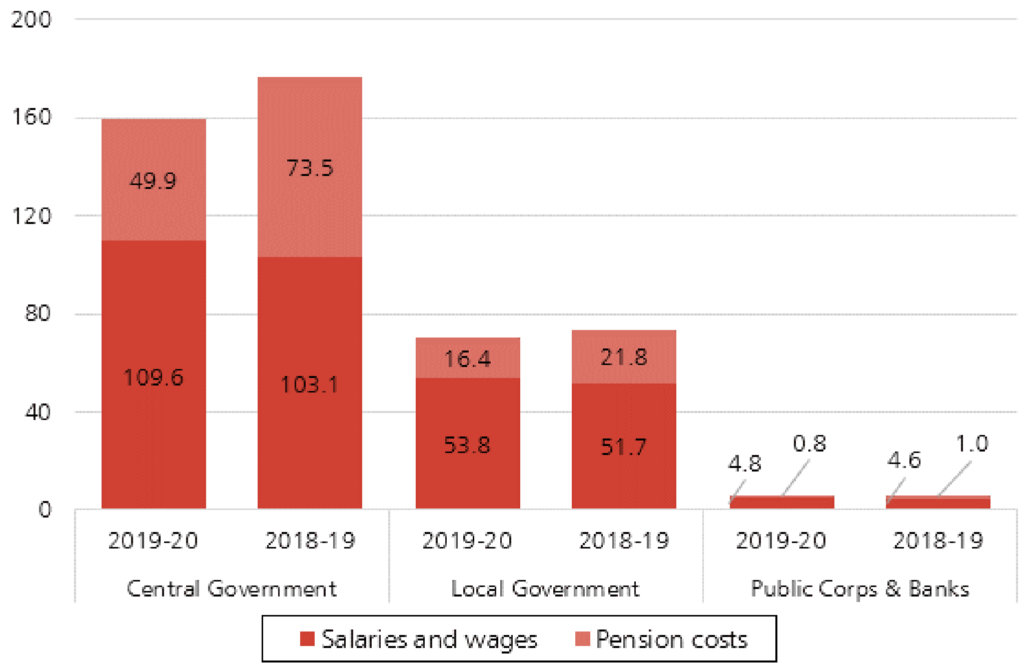
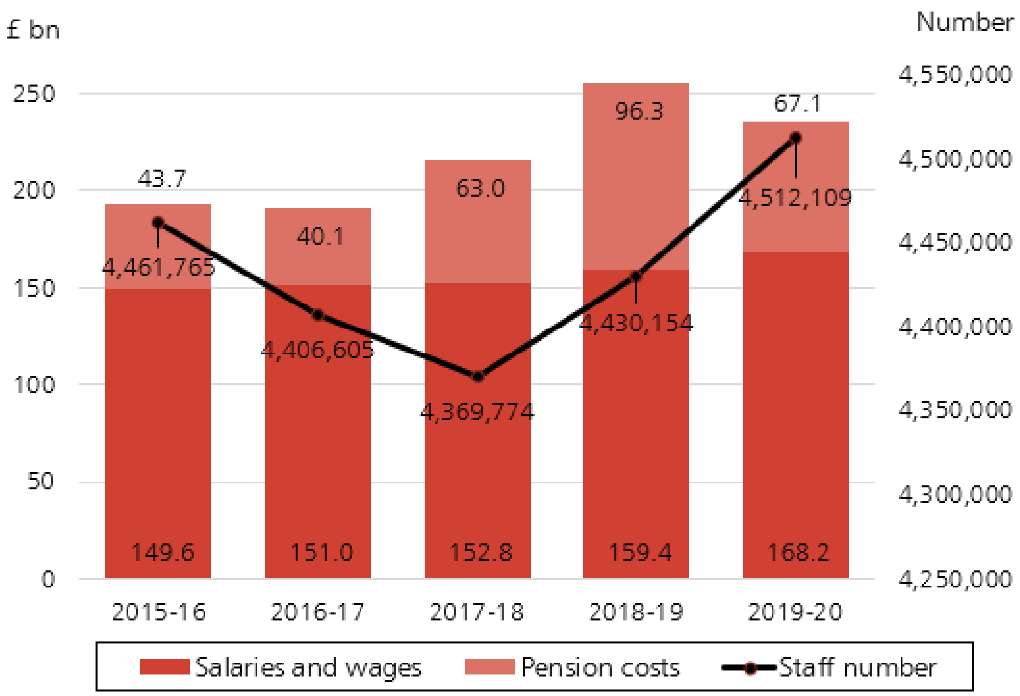


Chart 1.TT: Staff cost and staff numbers over time

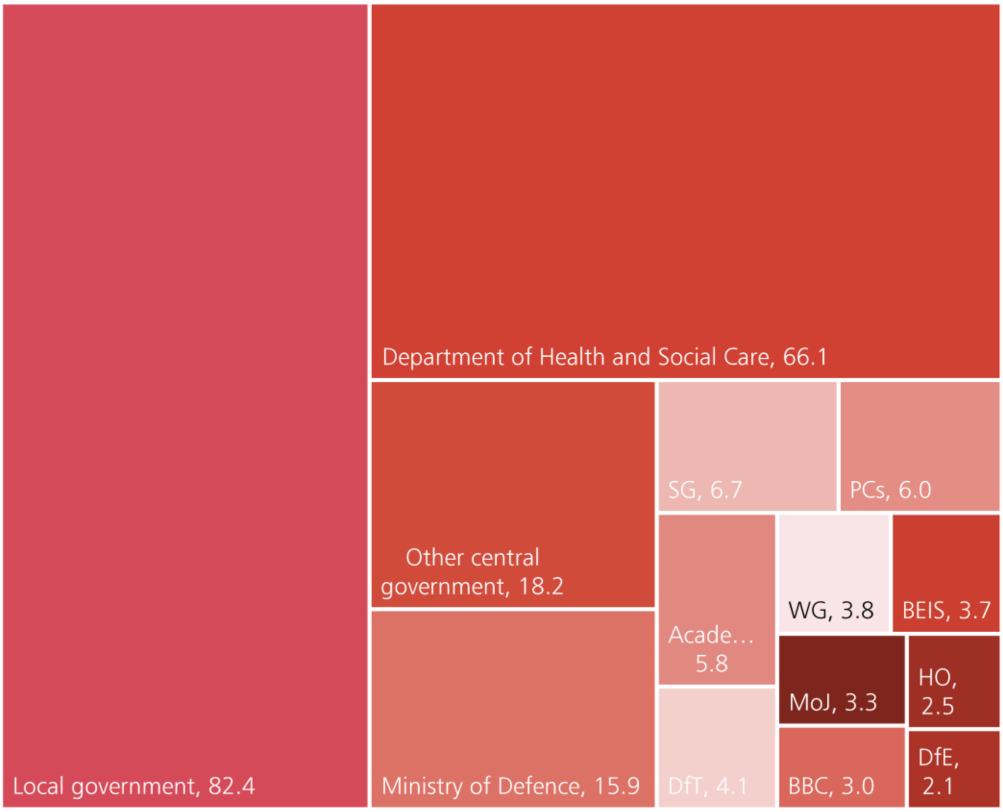


1.192 Staff numbers have increased slightly over the last five years, increasing by 50,344 or 1.1%. The general trend was of a fall in staff numbers from 2015-16 to 2017-18 offset by increases in staff numbers over the last two years. Key areas we see increases in are the health sector and in the academy sector.

Purchase of goods and services totalled £223.6 billion

1.193 Purchase of goods, services and other expenditure increased 8.3% or £17.1 billion compared to 2018-19. The balance can be analysed by identifying which entities make up the largest balances

Chart 1.UU: Purchase of goods and services (£ billion)



PCs	Other Public Corporations	SG	Scottish Government
DfT	Department for Transport	MoJ	Ministry of Justice
WG	Welsh Government	BBC	British Broadcasting Corporation
HO	Home Office	BEIS	Department for Business, Industry Strategy
DfE	Department for Education		

1.194 The Department of Health and Social Care (DHSC) reported the largest expenditure of purchase of goods and services of £66.1 billion (2018-19: £62.9 billion). The Secretary of State for Health and Social Care and other departmental ministers are accountable to Parliament for the provision of the comprehensive health and social care services in England. To enable the system to work flexibly, the critical day-to-day operational decisions are made by the professionals working in provider organisations, supported by the strategic and regulatory functions carried out by DHSC's arms-length bodies.

1.195 The Ministry of Defence has the second largest Departmental spend for purchase of goods and services at £15.9 billion (2018-19: £15.5 billion). The Ministry of Defence plays a pivotal role in providing defence and security for people of the United Kingdom across the globe. The Modernising Defence Programme (MDP) was launched in January 2018 to strengthen and modernise the Armed Forces in the face of a more complex and challenging international security situation. The MDP has established a set of policy approaches and capability investments that will help the UK to keep on track to deliver the right UK Defence for the coming decade.

1.196 Other large departmental spend includes Scottish Government (£6.7 billion) and academies (£5.8 billion). In all cases expenditure excludes transfers to other parts of the public sector (for example from the Department for Education to academies or local authorities).

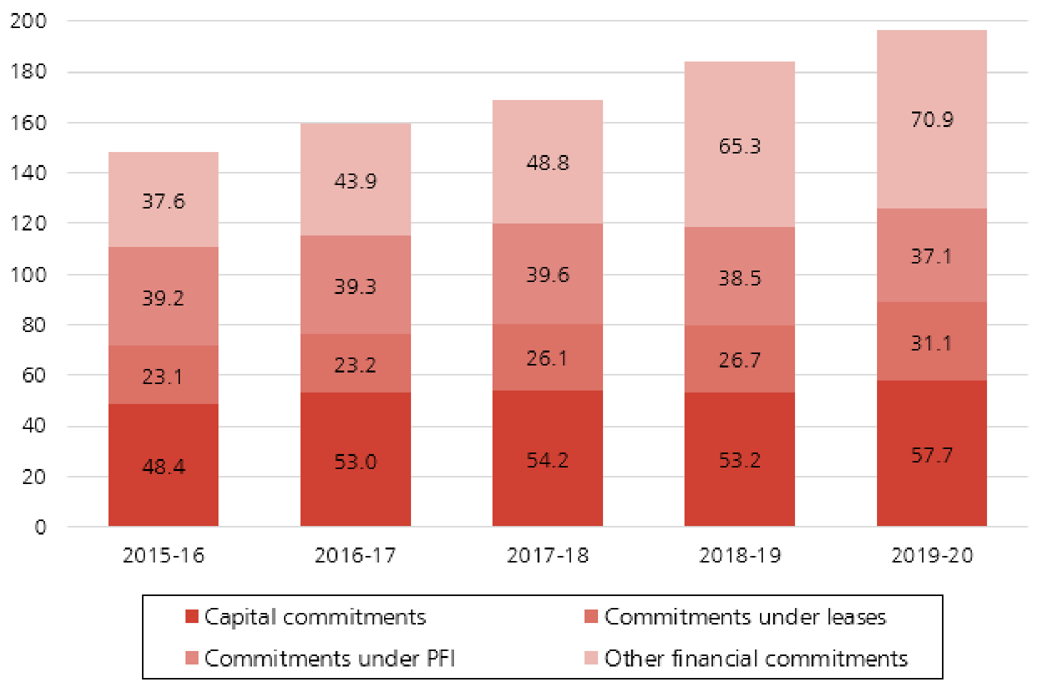
1.197 The wide range of activities carried out by entities in the public sector, differences in what is material in each entity and differences in reporting conventions means that it is hard to analyse expenditure on goods and services by category within WGA. For example, central government departments report by category of expenditure but frequently have items that are unique to their service (such as medical supplies). By comparison, local government reports based on the purpose of the expenditure (such as delivering social care). HM Treasury continue to work on providing a more useful analysis of goods and services that works across different sectors.

Commitments and contingent liabilities

Commitments

1.198 As well as the income, expenditure, assets and liabilities recognised in WGA, the accounts include several other liabilities and commitments that are disclosed but not recognised.

Chart 1.VV: Commitments (£ billion)

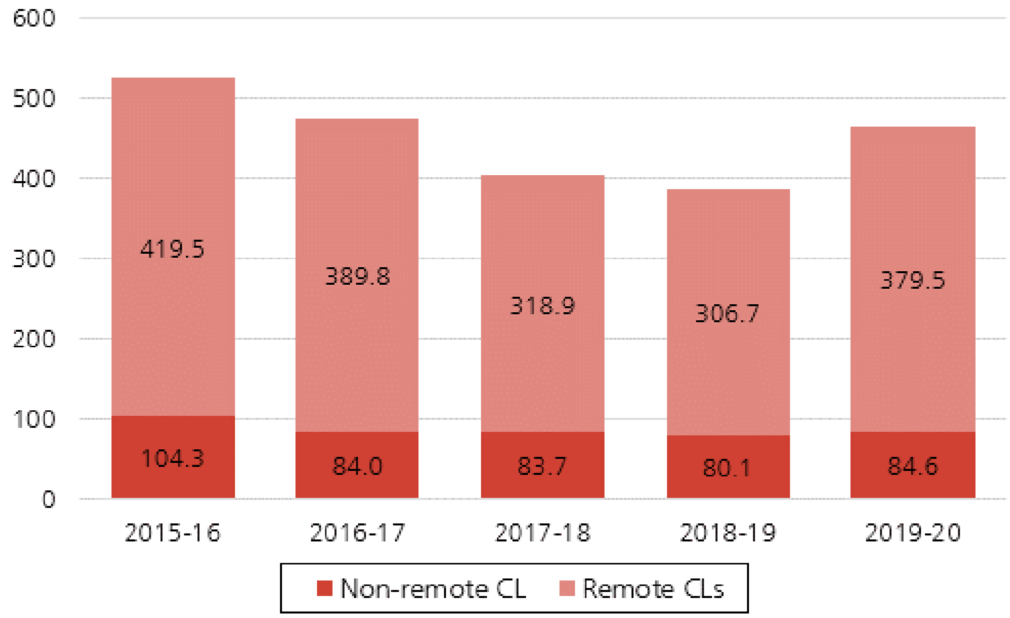


1.199 Commitments have increased by 32.7% over the 5 years to 2019-20, largely driven by an increase in other financial commitments which have nearly doubled over this period. Other financial commitments increased by £5.6 billion in 2019-20, to £70.9 billion (2018-19: £65.3 billion). Further details can be found in Note 28.

Contingent Liabilities

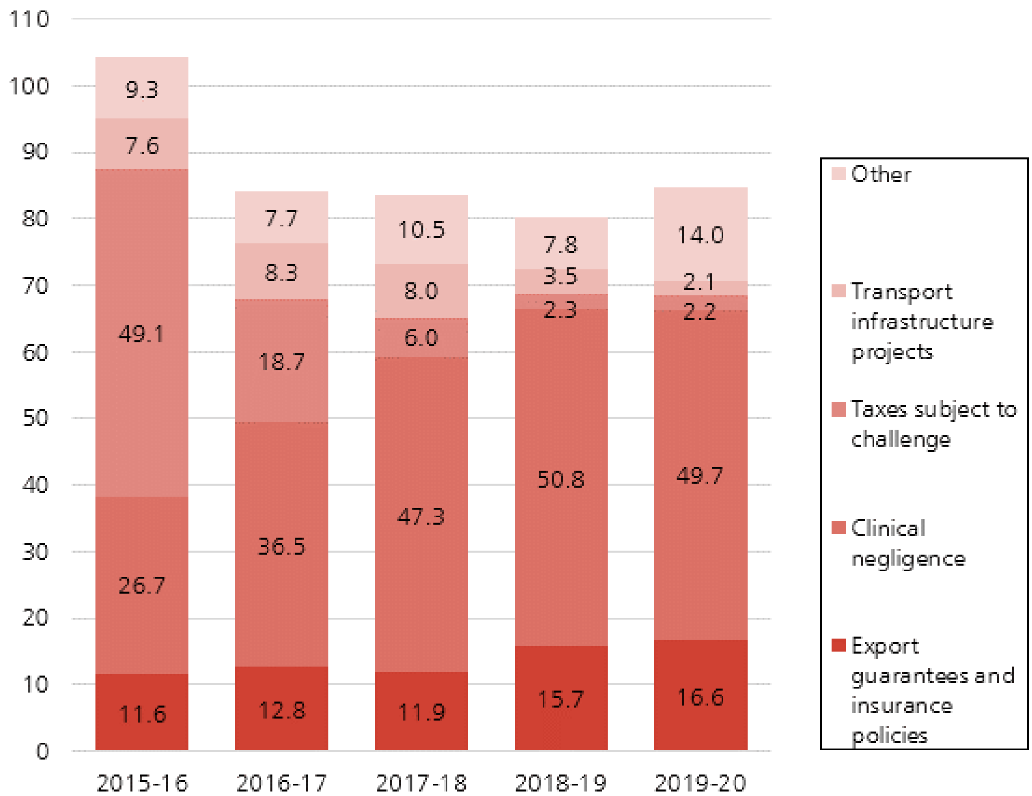
1.200 The government has a total of £464.1 billion disclosed as contingent liabilities, an increase of £77.3 billion from 2018-19 (restated). These include £84.6 billion (2018-19: £80.1 billion) of contingent liabilities that are reported under the accounting standards, and a further £379.5 billion (2018-19: £306.7 billion) of remote contingent liabilities. As the chance of these liabilities becoming due is considered remote, the accounting standards do not require their disclosure. However, the Treasury requires government departments to disclose remote contingent liabilities through its government reporting framework.

Chart 1.WW: Contingent and remote contingent liabilities (£ billion)



1.201 Non-remote contingent liabilities totalled £84.6 billion in 2019-20. The 2015-16 total included a large increase in taxes subject to challenge, this balance then reduced over the next three years and the contingent liability for taxes subject to challenge is now at a low level. The contingent liability for clinical negligence has increased over the last five years and now makes up 58.7% of the total, as shown below in Chart 1.XX.

Chart 1.XX: Non-remote contingent liabilities (£ billion)



1.202 The largest quantifiable non-remote contingent liability is clinical negligence, £49.7 billion (2018-19: £50.8 billion). The Department for Health and Social Care is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is a large degree of uncertainty as to the Department's (and other health bodies') liability. The contingent liability is an estimate of this possible expenditure.

1.203 Remote contingent liabilities totalled £379.5 billion (2018-19 restated: £306.7 billion). The largest component of this is the remote contingent liability held by the Pension Protection Fund (PPF) and is valued at £250.0 billion (2018-19: £180.0 billion). This is the aggregate value of all potential claims.

Other matters

Government Finance Function

1.204 The Government Finance Function (GFF) exists to enable the delivery of high-quality public services and to ensure that public money is spent efficiently and effectively. It is integral to HM Treasury, helping the government achieve its economic objectives by investing in its people, establishing robust financial systems, standards and policies, and sharing the good practice and expertise that exists across government.

1.205 The GFF is a diverse community of over 10,000 people spread out across the United Kingdom and globally, with three-quarters based in regions outside of London. The function is far broader than individual professions, bringing together a range of disciplines and expertise, from strategic business partners, to accountants, to risk and audit professionals.

1.206 Leadership of the function extends across all departments, with finance leaders in each taking responsibility for developing and executing their respective organisational strategies and aligning these to the function's vision and objectives. A small team of dedicated central resource works with organisations across the GFF to ensure a joined-up approach to delivering the function's vision, objectives and strategy.

1.207 The GFF Strategy 2019-23[41] sets out the function's vision and ambitions in a single cohesive document, articulating the leadership roles, deliverables, and ways of working. To achieve that vision, GFF has identified six key objectives that are fundamental to their success:

41 https://www.gov.uk/government/publications/government-finance-function-strategy-2019-2023

1.208 Some key recent achievements against these objectives are as follows:

People, diversity and capability

- The Government Finance Academy (GFA) continues to deliver high quality, specialised training to finance colleagues across government. There has been increased focus on virtual delivery of this learning and development with notable successes including the new finance forefront programme and technical accounting events. The GFA is also supporting the drive for greater professionalism across the function by offering CIMA accelerated courses.

Insight

- The Finance Board Pack Reporting project is driving a step change in the quality and consistency of the financial information presented in board packs, enabling more informed decision making across government and driving better financial management. The implementation of minimum standards across control totals, forecast accuracy, affordability, and risks and opportunities, was piloted with several departments with remaining departments commissioned to embed these standards by the end of 2021-22.

Planning, risk and performance

- The Risk Centre of Excellence continues to support the Heads of Risk network in developing guidance and tools to embed the new approach to risk management in departments, including a risk maturity model.

Greening Government Commitments

1.209 The Greening Government Commitments[42] (GGCs) set out the actions UK government departments and their agencies will take to reduce the negative effects that government's estates and operations have on the environment. Individual departments are required to publish their own sustainability reports either as part of their annual report, or as separate reports, which show progress against the following commitments:

- Reduce our emissions: reduce greenhouse gas emissions by at least 43% from a 2010 baseline and reduce the number of domestic business flights by at least 30% from the 2010 baseline.

- Improve our waste management: reduce the amount of waste going to landfill to less than 10% and reduce government's paper use by at least 50% from a 2010 baseline

- Reduce our water use by continuing to improve on the reductions each department made by 2015

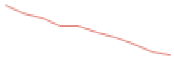
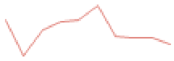
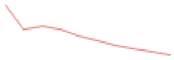
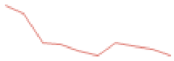
- Buying 'greener' products and services: continuing to buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society.

42 https://www.gov.uk/government/collections/greening-government-commitments

- Being open and transparent by reporting publicly on the steps departments are taking to address: climate change adaption; biodiversity and the natural environment; procurement of food and catering services; sustainable construction; and any other issues that departments consider to be most significant to reducing the environmental impact of their activities.

1.210 The GGC Annual Report[43] brings these together to show progress by government departments against the GGCs.

Chart 1.YY: GGC progress against targets

Greening Government Commitment	2019-20 Target	Progress from 2009-10 to 2019-20	2019-20 Performance	Result
Greenhouse gases	Reduce greenhouse gas emissions by at least 43%		50% reduction	Exceeded target
Domestic flights	Reduce the number of domestic business flights by at least 30%		38% reduction	Exceeded target
Waste to landfill	Reduce the amount of waste going to landfill to less than 10%		6% sent to landfill	Exceeded target
Paper consumption	Reduce the government's paper use by at least 50%		63% reduction	Exceeded target
Water	Continue to reduce water consumption		12% reduction	Target met

1.211 The Greening Government Commitments for the period 2021 to 2025 replace the previous framework for the period 2016 to 2020. The key changes are:

- Changing the target baseline year from 2009-10 to 2017-18 to more accurately reflect the current government estate and ensure government builds on the progress it has already achieved since 2010;
- Setting more stretching targets on the core areas of emissions, water, waste and domestic flights, and introducing new measures on biodiversity, climate adaptation and food waste;
- Integrating transparent reporting requirements into the core GGC targets for biodiversity and climate adaptation; and
- Reorganising the targets into headline commitments and sub-commitments, so that departments can commit to common overall objectives, with sub-commitments which contribute to the overall aims.

Net Zero

1.212 The UK was the first major economy to embrace a legal obligation to achieve net zero carbon emissions by 2050, and in November 2020 published a Ten Point Plan[44] to bring about a Green Industrial Revolution.

43 https://www.gov.uk/government/publications/greening-government-commitments-2018-to-2019-annual-report

44 https://www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution/title

1.213 The Ten Point Plan consists of:

1. Advancing offshore wind
2. Driving the growth of low carbon hydrogen
3. Delivering new and advanced nuclear power
4. Accelerating the shift to zero emission vehicles
5. Green public transport, cycling and walking
6. Jet zero and green ships
7. Green buildings
8. Investing in carbon capture, usage and storage
9. Protecting our natural environment
10. Green finance and innovation

1.214 The Net Zero Strategy[45] published in October 2021 sets out the government's pathway for transitioning to a net zero economy by 2050, making the most of new growth and employment opportunities across the UK and building on the Ten Point Plan. The strategy considers what is needed to enable change over the next 30 years – the skills needed in the economy, the shifts to the UK's energy systems, finance flows and behaviours at individual, local and national level required to fully decarbonise the economy.

1.215 HM Treasury's Net Zero Review[46] considers how the transition to net zero will be funded and where the funds will fall, helping ensure an equitable balance of contributions between households, businesses and taxpayers.

Events since 31 March 2020

1.216 There have been a number of events that could have a bearing on the Statement of Financial Position as at 31 March 2020. These events are shown in Note 32 to the accounts.

Catherine Little

Accounting Officer

1 June 2022

[45] https://www.gov.uk/government/publications/net-zero-strategy

[46] https://www.gov.uk/government/publications/net-zero-review-final-report

Chapter 2

Statement of Accounting Officer's responsibilities

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

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

2.2 The account is prepared on an accruals basis and in accordance with the GRAA and the 2019-20 Government Financial Reporting Manual (FReM) which applies EU adopted International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. The accounts must give a true and fair view of the whole of government's finances.

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

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

2.4 In addition to these responsibilities, and specifically with regard to Whole of Government Accounts (WGA), the Accounting Officer is responsible for:

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

2.5 The responsibilities of an Accounting Officer are set out in Managing Public Money, published by HM Treasury and include the need for efficiency, economy, effectiveness, and prudence in the administration of public resources to deliver value for money.[1]

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

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

Chapter 3

Governance Statement

Scope of Accounting Officer's responsibility

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

3.2 The previous Accounting Officer, James Bowler, was Accounting Officer for the Whole of Government Accounts up to 11 March 2020. I have been Accounting Officer for the Whole of Government Accounts since 12 March 2020. Although I was not Accounting Officer for the Whole of Government Accounts for the whole period that this report covers, James Bowler has provided me with written assurance that there were adequate governance arrangements in place up to 11 March 2020 and that the system of internal control was effective throughout.

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

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

3.5 HM Treasury has put in place a risk management framework to manage the key risks to the WGA consolidation and preparation process. This includes maintenance and regular review of a risk register to assist in identifying and implementing mitigating actions. HM Treasury also maintains a control and validation framework to define the controls over the preparation of the accounts and to monitor the effectiveness and completeness of the controls in place.

3.6 In producing WGA, I must rely on the Accounting Officer (or equivalent) of each entity to manage their own risks. In some instances, the risks from underlying accounts may have a significant impact on the WGA consolidation and preparation process. The major risks identified from the underlying accounts are set out in

Paragraphs 3.22 to 3.23. The key risks in the preparation of WGA, and any corresponding changes for 2019-20 is summarised below:

3.6.1 Failure to provide data or delays in the submission of WGA returns

The timeliness of WGA has been impacted by several factors, including the impact of the COVID-19 pandemic on underlying entity accounts and issues in the local government audit market. Deadlines for publishing annual reports and accounts were extended due to the pressures entities suffered as a result of the pandemic. This late completion of accounts then delayed entities' submission of data to WGA, as this is based on their audited accounts. These resourcing pressures also exacerbated existing issues in the local government audit market.

This risk was mitigated by assisting entities with their submissions and answering queries from entities and their auditors in order to facilitate the submission of audited returns. Submission deadlines were also extended where possible in order to obtain the required level of audited data.

3.6.2 Quality of WGA impacted by new qualifications in underlying accounts

A small number of component entities received qualified audit opinions on a number of new areas, many of which relate to the effects of COVID-19. However, there are no new qualifications in underlying accounts which are material to WGA. For details of the continuing qualifications in this area, see paragraph 3.22 below.

3.6.3 Introduction of a new system for WGA data collection and accounts preparation, OSCAR 2

The timeliness of WGA has been impacted by issues arising from the first year of implementation of a new information system. Late submissions of data were driven both by late account completion and by technological problems in submitting data. OSCAR 2 implementation issues also caused delays to the accounts production process.

Delays to data submission were minimised as much as possible by promptly answering questions from entities and their auditors about the new system and assisting entities to overcome any technical issues encountered. Submission deadlines were extended so as not to exclude from consolidation entities which encountered technical difficulties. Delays to data submission or accounts production caused by OSCAR 2 implementation were resolved by working with appropriate teams to fix the technical issues.

3.6.4 Inaccuracies in entities' WGA returns, resulting in materially misstated balances

The level of risk to the preparation of WGA arising from inaccuracies in returns is unchanged from previous years. I consider that the work undertaken by HM Treasury during the adjustments and analytical review processes of WGA preparation is sufficient to mitigate this risk and reduce the risk of material misstatement to a low level. Additionally, the new OSCAR 2 data collection system contains an increased number of data validation checks to ensure submissions are internally consistent.

3.6.5 Non-elimination of intra-group transaction streams and balances, resulting in materially misstated figures in the accounts

The level of risk to the preparation of WGA arising from non-elimination of intra-group items is unchanged from previous years. I consider that the work undertaken by HM Treasury during the eliminations and analytical review processes of WGA preparation is sufficient to mitigate this risk and reduce the risk of material misstatement to a low level. A feature of the new OSCAR 2 system is that, while data collection is still in progress, it allows entities to see details of intra-group transactions and balances which other entities have reported with them. This new functionality increased the completeness and accuracy of intra-group transactions reported, so facilitated their elimination.

3.7 The WGA governance framework has been in place for the year ended 31 March 2020 which this account reports on and the full period of account preparation up to the date of approval. The governance framework accords with HM Treasury guidance, including the 'Corporate Governance in Central Government: Code of Good Practice', to the extent that it applies to WGA.

The WGA governance framework

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

- The **HM Treasury Group Audit and Risk Committee**, chaired by a non-executive member and supported by the Treasury's internal audit function, reviews the department's approach to internal control and provides independent advice, with oversight of financial reporting and risk management activities associated with WGA.
- The **Government Internal Audit Agency** is available to provide support if the Audit and Risk Committee and I assess that the additional assurance provided by an internal audit engagement is required.
- As well as the internal framework of governance and risk management, the WGA is subject to external audit provided by the **Comptroller & Auditor General**, supported by staff from the National Audit Office (NAO). The Comptroller & Auditor General is independent and reports his findings on the accounts to Parliament. The Comptroller & Auditor General does not provide assurance to me, but the work of his staff supports my assessment of risks. More information about the respective responsibility of the auditor and preparer can be found in the Comptroller & Auditor General's audit certificate in Chapter 5. The Comptroller & Auditor General and his staff have access to all HM Treasury papers and attend HM Treasury's Audit and Risk Committee.

How WGA is prepared

3.9 WGA is a uniquely complex undertaking, and is unlike accounts in most private sector organisations. This section provides more information on the stages of WGA preparation.

Data collection

3.10 There are a wide range of entities consolidated into WGA. These include central government departments, local government bodies, entities in the devolved administrations of Scotland, Wales and Northern Ireland, and public corporations.

3.11 The data that makes up WGA is largely based on the information included in each entity's audited financial statements, which are published at different times. Historically, central government departments aimed to publish their accounts prior to that year's summer recess (summer closure of Parliament), English local government bodies aimed to publish their finalised accounts by July, and devolved administrations have their own reporting timetables, based on the requirements of local accountability and oversight bodies. It is not possible to prepare WGA until the vast majority of these entities have finalised their financial statements.

3.12 The format of financial statements varies across the UK public sector. In order to be consolidated into WGA, entities have to provide audited data in a standardised format using a data collection tool provided by the Treasury. The data collection tool covers the whole of an entity's group. There are approximately 700 data collection returns in WGA.

3.13 Not every entity in the public sector is consolidated into WGA. The largest entity which is excluded is the Royal Bank of Scotland[1]. Paragraph 3.24 explains how this leads to a qualification of the auditor's opinion. In addition to RBS, very small stand-alone entities (below £20 million) are not consolidated and the Treasury publishes a list of these entities online. Finally, there are some entities which are part of the public sector but are not answerable to the Executive function of government that are also excluded from WGA. These include entities such as the Crown Estate and the NAO. The Treasury also publishes a list of these entities online.

Adjustments and eliminations

3.14 In order to produce WGA, transactions between entities have to be eliminated. This ensures that assets, liabilities, income and expenditure are not overstated. There are a vast range of transactions within the public sector and the data collection tool asks entities to provide details of all of their transactions with other WGA entities.

3.15 Many transactions can be quickly eliminated based on returns in the data collection tool. Others require investigation because the transactions reported by two entities do not match. Sometimes this is due to legitimate differences of opinion on how to treat a transaction, on some occasions it is due to incomplete information in one counterparty, or it can be because one counterparty has made an error in the data collection tool.

[1] On 22 July 2020, Royal Bank of Scotland Group plc changed its name to NatWest Group plc. See Note 2.1 for further details.

3.16 As part of the WGA preparation process, the Treasury reviews and adjusts transactions between WGA entities until the difference in what is reported by entities (known as the 'eliminations error') is at an acceptable level. For the 2019-20 WGA the final elimination error in the Statement of Financial Position is £4.6 billion and in the Statement of Revenue and Expenditure, £3.1 billion.

Analytical review

3.17 Once the intra-governmental transactions have been eliminated, the Treasury moves on to a process called 'analytical review'. Analytical review is the process of analysing and interrogating the financial data to ensure its integrity and investigate variances and significant balances and transactions. In carrying out the analytical review the Treasury also focuses on ensuring that trends in the data are understood, which supports the analysis provided in Chapter 1 of WGA and provides useful data that is shared with other bodies to support broader development of public policy and statistics.

How WGA is being used

3.18 WGA is an established product. In addition to making an important contribution to accountability and transparency, both the publication and the underlying dataset are used to support decision making and risk management. Within the Treasury WGA data is used in the Managing Fiscal Risk publication, the Balance Sheet Review (BSR) and internally for example by the Local Government Spending team. More detail of the BSR is found in Chapter 1.

3.19 The publication and underlying dataset have also been used more broadly, including:

- The Office for National Statistics produce one off articles using WGA data, and use WGA data to feed into wider datasets such as in the compilation of the public sector finances dataset consistent with the IMF's Government Finance Statistic framework[2].
- The Office for Budget Responsibility (OBR) independently reports on the future sustainability of the public finances in its Fiscal Sustainability Report[3] and Fiscal Risks Report[4], drawing on the data published in WGA. In addition, the government responded to the findings of the Fiscal Risk Report in the Managing Fiscal Risks report.
- The Chartered Institute of Public Finance & Accountancy (CIPFA) is a professional body for people in public finance, and manages the accounting framework for Local Government. WGA data is used in their CIPFA stats which is an independent source of comprehensive data about local government and its services.

[2] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/internationalmonetaryfundsgovernmentfinancestatisticsframeworkinthepublicsectorfinancesappendixe

[3] https://obr.uk/report/fiscal-sustainability-report/

[4] https://obr.uk/report/fiscal-risks-report/

- Other professional bodies: both the Association of Chartered Certified Accountants (ACCA) and the Institute of Chartered Accountants in England and Wales (ICAEW) have presented analysis of WGA data.

Qualifications

3.20 The 2019-20 WGA audit opinion has been qualified as a result of qualifications in underlying accounts and as a result of issues relating to the boundary, non-coterminous year ends and accounting policies applied by the Treasury when carrying out the WGA consolidation.

Qualifications in underlying accounts

3.21 A small number of entities have audit qualifications to their accounts. The qualifications are caused by weaknesses that need to be managed by the relevant Accounting Officer (or equivalent) and cannot be managed by the WGA Accounting Officer.

3.22 The qualification that is material to WGA is summarised below:

- The **Ministry of Defence** (MOD) has not applied IFRIC 4 'Determining whether an Arrangement Contains a Lease' to all of its contracts. The MOD believes there are a number of contracts that should be accounted for as leases, but it does not have accurate information to enable it to do so. The impact on the financial statements of not applying IFRIC 4 is that contractors' assets held under finance leases and the associated liabilities have been excluded from the Statement of Financial Position. Consequently, the Comptroller & Auditor-General qualified his opinion on the accounts of the Ministry of Defence on the basis that a material value of leased assets and liabilities were omitted from its Statement of Financial Position.

Qualifications from the consolidation process

3.23 The qualifications which arise from the consolidation process are those relating to the boundary, accounting policies and non-coterminous year ends and are summarised below:

- The **boundary qualification** arises as a result of WGA making a conscious policy choice to exclude certain bodies from the consolidation. The largest of the bodies to be excluded is the Royal Bank of Scotland (RBS). The scale and nature of RBS activities would distort the picture of UK finances. This qualification will remain as long as RBS is in public ownership.

- The qualification on **inconsistent accounting policies** mainly relates to different methods used in valuing infrastructure assets. The largest difference remaining is the valuation of the local authority road network which will remain as a qualification in the medium term.

- The **non-coterminous year ends** qualification mainly relates to the inclusion of academy schools which have a year end of 31 August, as opposed to the 31 March date used by WGA.

- The qualification on **consolidation of components whose accounts have not been audited** relates to the consolidation of draft accounts data for a number of local authorities whose statutory audits have not yet concluded. This qualification particularly relates to property, plant and equipment and investment property valuations. In the absence of a component audit opinion, NAO were unable to obtain sufficient assurance that the valuations of these assets are materially correct. This is a new qualification in 2019-20 and is the result of delays in local authority audits.

3.24 Further details on the boundary and accounting treatment of infrastructure assets are included in the critical accounting estimates and judgements in Note 2 to the accounts. Further details on the qualification arising from the academies sector are included below.

WGA and the Academies sector

3.25 Academies have a financial year which aligns with the academic year. The Department for Education (DfE) has alternative reporting arrangements for the academies sector as agreed with the Treasury and Parliament. The DfE core department, its agencies and arm's length bodies prepare one set of accounts to 31 March. The academies sector prepare a separate sector account, to a year end of 31 August (known as the Sector Annual Report and Accounts, or SARA). This data creates a non-coterminous year end misalignment with the rest of WGA, and this in turn leads to a qualification to WGA.

3.26 It is not practical to change the Academies year end to 31 March, as this will cause significant disruption to the sector, and cause misalignment between the internal activities of academies (which would normally be planned over the course of an academic year) and financial reporting and planning.

3.27 The key challenge is to determine how similar or different a 31 March balance would be to the 31 August balance from 7 months earlier, which is the balance consolidated into WGA. Balances such as property, plant and equipment tend not to fluctuate during the year. Where this type of balance has increased during the year, the value part-way through the year is likely to be somewhere between the balances at the beginning and end of the year. So, we can use the total movement over the year as an estimate of the maximum error between the balances at 31 August and the following 31 March.

3.28 The balance as at 31 August 2018 was £52.5 billion and this was included in the 2018-19 WGA. We now know that the 31 August 2019 balance was £57.6 billion (which has been included in this 2019-20 WGA) and that the balance as at 31 March 2019 is likely to be in between those two figures, giving an estimated maximum error of £5.7 billion on last year's figure. In a similar manner we can estimate the maximum error for other balance sheet items at 31 March 2019 and at 31 March 2020. £5.7 billion on last year's figure.

3.29 Balances such as cash may vary more within a year. Given the size of these balances a material difference between 31 August and 31 March balances is not anticipated, and the Treasury and DfE will work together on an evidence base to support the 31 March position and any adjustments that may be required.

Comparing balance sheet positions – 31 March 2019

Item (£bn)	SARA balance 31 August 2019 (included in the 2019-20 WGA)	SARA balance 31 August 2018 (included in the 2018-19 WGA)	Estimated Maximum amount of variance between 31 August and 31 March.
Property Plant and equipment	57.6	52.5	5.1
Cash and cash equivalents	4.2	3.9	n/k
Other assets	1.5	1.4	0.1
Pension liability	(11.1)	(6.6)	(4.5)
Other liabilities	(2.5)	(2.3)	(0.2)

Source: SARA 2019

Comparing balance sheet positions – 31 March 2020

Item (£bn)	SARA balance 31 August 2020 (will be included in the 2020-21 WGA)	SARA balance 31 August 2019 (included in the 2019-20 WGA)	Estimated Maximum amount of variance between 31 August and 31 March.
Property Plant and equipment	59.7	57.6	2.1
Cash and cash equivalents	4.7	4.2	n/k
Other assets	1.8	1.5	0.3
Pension liability	(13.9)	(11.1)	(2.8)
Other liabilities	(2.7)	(2.5)	(0.2)

Source: SARA 2020

Balancing timeliness, quality and cost effectiveness of data

3.30 While there have been significant improvements in the quality of WGA over time, the accounts remain qualified. However, three of these qualification issues are partly driven by the same underlying root cause:

- The qualification relating to MOD remains, in part, because it would not be cost effective to review the contracts to identify arrangements that may amount to a lease.
- The qualification relating to highways infrastructure remains, in part, because it would not be cost effective to change accounting valuations within local authorities.
- The qualification relating to academies non-coterminous year end remains, in part because it would not be cost effective to require separate 31 March returns from the academies sector, this involves over 9,000 academy schools.

3.31 In preparing WGA, I must balance the timeliness, cost effectiveness and quality of the accounts. Spending significant additional public money to provide changes to WGA reporting and disclosures has to be carefully considered. While I will continue to improve WGA, it is important to acknowledge that some of the issues outlined above may not have a cost-effective solution. Where I determine this to be the case, I will consider how supplementary disclosures or information can be used to improve the quality of the accounts.

Assurance in making this judgement

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

3.33 I am satisfied that there is no additional remedial action to improve the quality of the data at this present time. Some improvements are currently in progress. Because lessons are being learned after the accounts of the previous year have been completed, improvements may take several years to be implemented fully.

3.34 I have considered the evidence that supports this Governance Statement and I am assured that the Treasury has a strong framework of controls to support the production of WGA.

Information and data handling

3.35 In preparing WGA, HM Treasury does not collect any personal data from WGA entities. WGA data collected from WGA entities are held on HM Treasury's Online System for Central Accounting and Reporting (OSCAR 2) database.

Disclosure of information to auditors

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

3.37 I confirm that this annual report and accounts 2019-20 is, as a whole, fair, balanced and understandable. I take personal responsibility for the annual report and accounts, including the judgements required for determining that it is fair, balanced and understandable.

Catherine Little

Accounting Officer

1 June 2022

Chapter 4

Financial Statements

Statement of Revenue and Expenditure

For the year ended 31 March 2020

	Note	2019-20 £bn	2018-19 £bn
Taxation revenue	4	(696.7)	(685.7)
Other revenue	5	(116.6)	(109.9)
Total public services revenue		**(813.3)**	**(795.6)**
Social security benefits	6	240.0	230.3
Staff costs	7	235.3	255.7
Purchase of goods, services and other expenditure	8	223.6	206.5
Grants and subsidies	9	62.2	58.8
Depreciation and impairment	10	51.5	47.9
Interest costs on government borrowing	11	31.8	31.6
Increase/(decrease) in provisions	22	74.3	21.0
Total expenditure on public services		918.7	851.8
Net expenditure on public services		105.4	56.2
Financing costs of long-term liabilities, including discounting	11	66.0	(56.6)
Revaluation of financial assets and liabilities		20.4	(1.1)
Net (income)/expenditure for the year		191.8	(1.5)

Statement of Comprehensive Income and Expenditure

For the year ended 31 March 2020

	2019-20 £bn	2018-19 £bn
Net (income)/expenditure for the year	191.8	(1.5)
Other comprehensive income and expenditure:		
Net (gain)/loss on:		
Revaluation of property, plant and equipment	(29.7)	(49.8)
Revaluation of intangible assets	(1.0)	(0.1)
Revaluation of assets measured at Fair Value through Other Comprehensive Income	10.6	3.3
Revaluation of pension scheme liabilities	220.6	(71.1)
Other comprehensive (income)/ and expenditure	200.5	(117.7)
Total comprehensive (income)/ expenditure for the year	**392.3**	**(119.2)**

Statement of Financial Position

As at 31 March 2020

	Note	2019-20 £bn	2018-19 restated £bn
Non-current assets			
Property, plant and equipment	12	1,313.3	1,268.0
Investment property	13	24.1	22.9
Intangible assets	14	40.2	37.4
Trade and other receivables	15	22.3	17.9
Other financial assets	16	299.2	320.6
		1,699.1	**1,666.8**
Current assets			
Inventories	17	10.6	9.7
Trade and other receivables	15	159.7	172.4
Other financial assets	16	217.0	194.3
Cash and cash equivalents	18	37.6	44.2
Gold holdings	34	12.8	9.9
Assets held for sale	35	1.7	1.5
		439.4	**432.0**
Total assets		**2, 138.5**	**2,098.8**
Current liabilities			
Trade and other payables	19	(143.2)	(133.3)
Government borrowings	20	(344.7)	(307.2)
Other financial liabilities	21	(656.8)	(652.1)
Provisions	22	(30.4)	(17.7)
		(1,175.1)	**(1,110.3)**
Non-current liabilities			
Trade and other payables	19	(57.9)	(58.6)
Government borrowings	20	(1,100.7)	(1,100.0)
Other financial liabilities	21	(105.1)	(98.1)
Provisions	22	(344.4)	(293.7)
Net public sector pension liability	24	(2,189.5)	(1,893.9)
		(3,797.6)	**(3,444.3)**
Total liabilities		**(4,972.7)**	**(4,554.6)**
Net liabilities		**(2,834.2)**	**(2,455.8)**
Financed by taxpayers' equity:			
General reserve		(3,436.1)	(3,048.8)
Revaluation reserve		597.3	588.8
Other reserves		4.6	4.2
Total liabilities to be funded by future revenues		**(2,834.2)**	**(2,455.8)**

The financial statements and supporting notes on pages 100-202 and Annex A form part of these accounts.

Catherine Little
Accounting Officer
1 June 2022

Statement of Changes in Taxpayers Equity

As at 31 March 2020

	General reserve	Revaluation reserve	Other reserves	Total
	£bn	£bn	£bn	£bn
At 1 April 2018 (restated)	**(3,110.3)**	**541.0**	**4.1**	**(2,565.2)**
Net income /(expenditure) for the year ended 31 March 2019	1.5	-	-	1.5
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	49.8	-	49.8
Revaluation of intangible assets	-	0.1	-	0.1
Revaluation of assets measured at Fair Value through Other Comprehensive Income	-	(3.3)	-	(3.3)
Revaluation of pension scheme liabilities	71.1	-	-	71.1
Other reserves movements including transfers	(11.1)	1.2	0.1	(9.8)
Balance at 31 March 2019 (restated)	**(3,048.8)**	**588.8**	**4.2**	**(2,455.8)**
Net income/(expenditure) for the year ended 31 March 2020	(191.8)	-	-	(191.8)
Net gain/(loss) on:				
Revaluation of property, plant and equipment	-	29.7	-	29.7
Revaluation of intangible assets	-	1.0	-	1.0
Revaluation of assets measured at Fair Value through Other Comprehensive Income	-	(10.6)	-	(10.6)
Revaluation of pension scheme liabilities	(220.6)	-	-	(220.6)
Other reserves movements including transfers	25.1	(11.6)	0.4	13.9
Balance at 31 March 2020	**(3,436.1)**	**597.3**	**4.6**	**(2,834.2)**

Statement of Cash Flows

For the year ended 31 March 2020

	Note	2019-20 £bn	2018-19 £bn
Cash flows from operating activities			
Net operating expenditure for public services	SoRE	(105.4)	(56.2)
Adjustments for non-cash transactions		190.2	163.8
Adjustment for non-operating transactions		25.9	28.3
(Increase)/decrease in inventories	17	(0.9)	-
(Increase)/decrease in trade and other receivables	15	8.3	(12.1)
Increase/(decrease) in trade and other payables	19	9.2	0.7
Net cash movement for the provision of pensions	24	(44.3)	(42.7)
Use of provisions	22	(15.2)	(13.3)
Net cash inflow/(outflow) from operating activities		**67.8**	**68.5**
Cash flows from capital expenditure and financial investment			
Purchase of non-financial assets		(66.2)	(63.7)
Proceeds from disposal of non-financial assets		6.3	5.6
Net cash inflow/(outflow) from purchase and disposal of financial assets and liabilities		(67.5)	16.0
Net cash inflow/(outflow) from capital expenditure and financial investment		**(127.4)**	**(42.1)**
Cash flows from financing activities			
Interest received	5	8.2	7.1
Financing costs of long-term liabilities, including discounting		(48.4)	(49.4)
Finance charges paid on finance leases and PFI contracts		(6.8)	(6.4)
Net Borrowings		100.0	32.2
Net cash inflow/(outflow) from financing activities		**53.0**	**(16.5)**
Net increase/(decrease) in cash and cash equivalents	18	(6.6)	9.9
Cash and cash equivalents at the beginning of the year	18	44.2	34.3
Cash and cash equivalents at the end of the year	18	**37.6**	**44.2**

Notes to the accounts

Note 1. Statement of accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with the 'Government Resources and Accounts Act 2000' (GRAA) and International Financial Reporting Standards (IFRS), as adapted and interpreted by the Financial Reporting Manual (FReM). Many public bodies consolidated into these financial statements do not follow the FReM. For example, local authorities follow the IFRS-based Code of Practice on Local Authority Accounting. Adjustments are made on consolidation to harmonise accounting policies where material and any exceptions are noted in these accounting policies.

In adopting the going concern basis for preparing the financial statements, the Accounting Officer has considered the government's power to set tax rates to meet its funding requirements, as well as controls over public spending, which ensure that the government will continue to exercise its functions.

1.2 Accounting convention

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

1.3 Basis of consolidation

The financial statements consolidate a group of entities that appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money. This group includes:

- central government bodies including departments, arm's length bodies, agencies and the NHS
- local government bodies such as councils, police and crime commissioners, combined authorities and transport bodies (such as Transport for London)
- public corporations
- the devolved administrations of Scotland, Wales and Northern Ireland

The Whole of Government Accounts (WGA) boundary is based on the Office for National Statistics (ONS) classification of the public sector to ensure the accounts are consistent and comparable to other measures of financial performance, such as the National Accounts. There are areas where the boundary diverges from the ONS classification, most significantly the exclusion of Royal Bank of Scotland (RBS), and further details are provided in the critical accounting estimates and judgements in Note 2.

WGA is prepared by consolidating financial data provided by components based on their own audited statutory accounts, supplemented with additional information where required. For components with transactions and balances over certain thresholds, the financial data provided for consolidation is reviewed by the component's own auditor to confirm consistency with the audited statutory accounts. Those thresholds are £2 billion for central government bodies and £0.5 billion for local government bodies, applicable to any of income, expenditure, assets excluding property, plant and equipment, or liabilities excluding pension liabilities. WGA also does not include small bodies (those with assets, liabilities, income and expenditure less than £20 million), and a small number of non-government entities that report directly to Parliament, such as the National Audit Office.

A list of all the entities consolidated in the financial statements is published on gov.uk.

1.4 Accounting standards in issue but not yet effective

The following new standards have been issued but are not yet effective:

IFRS 16 'Leases' was issued in January 2016, effective for periods beginning on or after 1 January 2019. The FReM deferred the public sector's adoption of IFRS 16 Leases until 2020-21, however it will now be adopted by the public sector in 2022-23 because of challenges to 'business as usual' posed by COVID-19. IFRS 16 replaces IAS 17 'Leases' and represents a significant change in lessee accounting. It removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The FReM includes an adaptation allowing entities to early adopt IFRS 16 where certain conditions are met, subject to approval by HM Treasury. The Department for Digital Culture, Media and Sport and Department for Transport used this adaptation to early adopt in 2019-20. Transport for London and the BBC are the two other significant entities which adopted IFRS 16 in 2019-20, as they do not follow the FReM. A WGA consolidation adjustment removes the effect of these entities' transition to IFRS 16 and WGA is presented on an IAS 17 basis.

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The adoption of IFRS 16 will result in an increase in right-of-use assets and reported liabilities (representing the obligation to make future lease payments). The impact of IFRS 16 on WGA has not been quantified, as it depends on work carried out at individual organisations to identify the impact within their own accounts. The impact is expected to be material.

IFRS 17 'Insurance Contracts' was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023. 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. It is not possible at this time to quantify the impact of IFRS 17 on WGA, as this will be dependent on choices made on the scope and applicability of the standard to the public sector, and work done within individual entities to assess the impact on their own business.

There are no other IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations not yet effective that would be expected to have a material impact on WGA.

1.5 Foreign Currency

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

1.6 Revenue

Taxes and duties

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when a taxable event has occurred, the revenue can be measured reliably, and it is probable that the associated economic benefits from the taxable event will flow to the government. Revenues are deemed to accrue evenly over the period for which they are due. Taxation that is retained by an entity, either by statute or approval from HM Treasury, is treated as revenue from contract and is under the scope of IFRS 15. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

Taxes and duties are accounted for on an accruals basis, except for stamp duty and National Insurance Classes 1A and 1B. These are accounted for on a cash basis and the timing difference does not have a material impact on the accounts. In addition, some repayments are accounted for on a cash basis. The nature of tax legislation and HMRC associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts.

Taxable events for material tax streams are as follows:

Revenue type	Revenue recognition point
Income tax	Earning of assessable income during the taxation period
Social security	Earning of income on which National Insurance is payable
Corporation tax	Earning of assessable profit during the taxation period
Value Added Tax	Undertaking of taxable activity during the taxation period
Other excise duties	Date of production, date of import or movement of goods out of a duty suspended regime
Stamp duty	When property or shares are purchased
Council Tax	Residency in, or ownership or tenancy of, a chargeable dwelling for any period in the financial year
National Non-Domestic rates	Occupation or ownership of a relevant non-domestic property for any period in the financial year

Income tax excludes tax credits which are recognised separately as an expense.

Amounts collected on behalf of the EU

Where the UK acts as an agent of the EU in collecting revenues on its behalf, and bears none of the risks and rewards, these amounts are excluded from WGA. This applies in the case of EU customs duties collected by HMRC.

Other revenue

Revenue from the sale of goods and services is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. WGA recognises revenue at the point where control over a product or service transfers to a customer. Income from the European Union (EU) in respect of supported projects is recognised at the point that the expenditure on those projects is recognised. Grants and similar financing for capital items, to the extent that they have not been eliminated on consolidation, are recognised immediately in the Statement of Revenue and Expenditure unless it is likely that the grant will need to be repaid, in which case the grant is deferred in the Statement of Financial Position.

1.7 Expenditure

Social security benefits

Social security benefits are statutory entitlements payable to private individuals and households and include the state pension. Social security benefits are accounted for as expenditure in the period to which they relate. Social security benefits include tax credits, which are recognised in the year in which claims are assessed and awards authorised. Where under or overpayments are identified, either during the award year or subsequently, most of this is recovered over time.

Staff costs

Staff costs include salaries and wages, the costs of pensions and other employee benefits. Staff costs that can be attributed directly to the construction of an asset have been capitalised. Average staff numbers include staff engaged on capital projects. Public sector pension scheme costs include current service costs and past service costs, both of which are explained in further detail in accounting policy Note 1.19.

Grants and subsidies

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

Interest costs

Interest costs on government borrowing are determined using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows to the debt instrument’s initial carrying amount. Most government borrowings are at fixed interest rates. For variable rate or index-linked borrowings, the current rate applicable to each product is used. Gilts with the same maturity and coupon rate are sometimes issued in separate tranches and may have a different effective interest rate due to market conditions. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are treated as one issue using a weighted average effective interest rate.

1.8 Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently valued at current value in existing use. For non-specialised assets, such as offices, this is the market value based on its current use less depreciation. For specialised assets, including the road and rail network held by central government, this is replacement cost less depreciation.

Infrastructure assets are valued at replacement cost less depreciation. However, road network assets held by local government, Northern Ireland infrastructure assets and some others are valued at historical cost less depreciation. Further details on the accounting estimates involved in valuing infrastructure assets are included in the critical accounting estimates and judgements in Note 2.

Land and buildings are usually professionally valued at 5-year intervals, or when material changes are known to have arisen, and are subject to annual internal reviews. Gains on revaluation are taken to the revaluation reserve. Losses on revaluation for a particular asset are debited to the revaluation reserve if gains for that asset have been previously recorded, otherwise the full amount is charged to the Statement of Revenue and Expenditure.

Assets under construction are measured at cost less any recognised impairment loss and are not depreciated.

Military equipment comprises non-current assets used by the military for which there is no civilian use. It includes items such as tanks, fighter aircraft and warships. It is initially recognised as a tangible non-current asset at its direct purchase or production cost and is then depreciated over its useful economic life. Development expenditure on military equipment, which meets the capitalisation criteria, is capitalised as an intangible asset.

Other assets including community assets are accounted for as property plant and equipment. Heritage assets are recognised at fair value or, if this information is not available, at cost. Some heritage assets are not recognised on the Statement of Financial Position, as the costs of valuing these unique assets are not commensurate with the benefits.

1.9 Investment properties

Investment properties consists of land and buildings held for rental revenue or for capital appreciation. Investment properties are measured initially at cost and are subsequently measured at fair value. Gains or losses arising from a change in fair value or disposal are recognised in the Statement of Revenue and Expenditure.

1.10 Intangible assets

Intangible assets are recognised if it is probable that they will result in future economic benefits to the government and if their cost can be measured reliably. Intangible assets are initially recognised at cost and subsequently valued based on current value in existing use. Where no active market exists, intangible assets are revalued using indices or another suitable model.

1.11 Depreciation and amortisation

Depreciation or amortisation is charged to write down the cost or valuation of an asset to its residual value over its estimated useful economic life. Residual values and useful economic lives are reviewed annually. Assets acquired through finance leases or Private Finance Initiative (PFI) contracts are depreciated over the shorter of the lease term and the estimated useful life. Any impairment in value in addition to depreciation is recognised immediately in the Statement of Revenue and Expenditure.

The depreciation period varies based on the estimate made by each WGA entity of the useful economic life of their assets. Generally, property, plant and equipment are depreciated over the following timescales:

Type	Period
Infrastructure Assets	
Scottish water infrastructure	Up to 150 years
Road and rail network	Up to 100 years
Land and Buildings	
Freehold land	Not depreciated
Buildings	Up to 60 years
Assets under construction	
Assets under construction	Not depreciated
Military equipment	
Military equipment	Up to 50 years
Other Assets	
Plant and machinery	Up to 30 years
Transport equipment	Up to 50 years
IT equipment	Up to 10 years
Furniture and fittings	Up to 20 years

Intangible assets are typically amortised over the following timescales:

Type	Period
Military equipment	Up to 35 years
Development expenditure	Up to 35 years
Software	Up to 15 years
Licences and other	Up to 15 years

1.12 Inventories

Inventories are valued at the lower of cost and net realisable value. Where there is no expectation of consumption or sale in the ordinary course of business, the value is impaired to reduce it to net realisable value.

1.13 Cash and cash equivalents

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

1.14 Gold holdings

Gold is valued at fair value based on the sterling equivalent of the London Bullion Market Association dollar denominated spot bid price at the reporting date. Changes in fair value are recognised in the Statement of Revenue and Expenditure.

1.15 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. IFRS 9 allows entities to apply a 'simplified approach' for trade receivables, contract assets and lease receivables. The simplified approach allows entities to recognise lifetime expected credit losses on all these assets without the need to identify significant increases in credit risk. An entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other, these are recognised in the Statement of Revenue and Expenditure.

1.16 Leases

Leases in which a significant proportion of the risks and rewards of ownership are transferred to government are finance leases and the leased assets are treated as if they had been purchased. The corresponding liability to the leasing company is shown as a finance lease liability and the accounts distinguish between payments of interest and capital.

All other leases are operating leases and the costs in respect of operating leases are recognised in the Statement of Revenue and Expenditure on a straight-line basis.

The Ministry of Defence has not applied IFRIC 4 ‘Determining whether an Arrangement Contains a Lease’ to all its contracts. The MOD believes there are a number of contracts that should be accounted for as leases, but it does not have accurate information to enable it to do so. Further information regarding this departure from the FReM can be found in Chapter 3.

1.17 Private Finance Initiatives (PFI)

PFI contracts in which the government controls or regulates the services that the private sector operator must provide with the assets and controls any significant residual interest in the asset at the end of the contract, are recorded on the government’s Statement of Financial Position as if they had been purchased. The corresponding liability to the PFI operator is recognised as a PFI liability and the accounts distinguish between payments of interest, capital and charges for services.

If the above conditions are not met, the asset is not recognised and all payments are recognised as charges for services.

Several WGA entities have PFI contracts which should not be recognised on the Statement of Financial Position because, under IFRIC 12, the private sector contractor was, on balance, considered to have greater control over the use of the asset. WGA entities reported these off-balance sheet contracts in their accounts in different ways in 2019-20, as the accounting standards allow flexibility as to how to present the information.

1.18 Provisions

Provisions are recognised when the government has a present obligation as a result of a past event and it is probable that the government will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the reporting date and are discounted to present value where the time value of money is material.

Discount rates are set by HM Treasury which gives rates for short, medium, long-term, and very long-term general provisions. These are defined as follows:

- short-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary between 0 and up to and including 5 years from the reporting date
- medium-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary of after 5 and up to and including 10 years from the reporting date
- long-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary of after 10 years and up to and including 40 years from the reporting date
- very long-term rate: A nominal discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 40 years from the reporting date

Where some or all the expenditure required to settle a provision is expected to be recovered from a third party, the recoverable amount is treated as an asset. The net provision expense after deducting expected recoveries from third parties is recognised in the Statement of Revenue and Expenditure.

1.19 Pension liabilities

The pension liability relates to public sector pension liabilities for current and former government employees, plus a small component for other approved organisations that qualify for membership of these government schemes. The government operates both defined benefit and defined contribution pension schemes. The defined benefit pension schemes are either funded (meaning that the scheme receives contributions and invests them to fund pension payments) or unfunded (meaning that there is no separate fund and the government is directly liable to fund pension payments as they fall due). The pension liability excludes the state pension paid to the general public which is included within overall expenditure and recorded as welfare spend. The future liability to pay state pension is not recognised in the accounts, because the expenditure is reported to match the period of entitlement.

For defined benefit pension schemes, the difference between the fair value of scheme assets (if any) and the present value of the scheme liability is recognised as a net asset or net liability on the Statement of Financial Position. The scheme liability is calculated by discounting expected future benefit payments back to the reporting date using a discount rate based on high quality corporate bonds, usually interpreted as corporate bonds with a credit rating of AA. The expected future benefit payments are calculated allowing for pensionable service to the reporting date, future increases to benefits in accordance with scheme rules (known as the projected unit method) and projections of earnings for current employees up to the date of retirement, leaving service or early death. The pension liability is therefore an estimate of the amount of money that would need to be invested in high quality corporate bonds at the reporting date to cover all the expected future benefit payments accrued up to the reporting date.

Current service costs are the increase in the present value of the scheme liabilities arising from current members' service over the year. They are determined by the individual scheme actuaries and are calculated using the discount rate at the start of the year. Past service costs are changes in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction, change, or improvement to retirement benefits. These also include any gains or losses in relation to events defined as settlements or curtailments.

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

The gains and losses on revaluation reflect three elements:

- the change in the underlying assumptions used by the actuaries to determine the value of scheme liabilities. This includes changes in the assumptions such as financial assumptions, mortality rates and projected salary increases
- where in-year experience differs from assumptions previously used to determine the liabilities. For example, relating to assumptions about general salary and pension increases
- differences between the asset returns experienced in-year and the interest on the assets included in the Statement of Revenue and Expenditure for funded schemes
- The current service costs, any past service costs, including those arising from settlements or curtailments, and pension financing costs are recognised as an increase in the pension liability and are charged to the Statement of Revenue and Expenditure. The gain or loss on revaluation of pension scheme assets and liabilities is recognised in the Statement of Other Comprehensive Income.

Payments to defined contribution pension schemes are recognised in the Statement of Revenue and Expenditure as they fall due.

1.20 Financial instruments

Financial assets

Financial assets are categorised as one of the following:

1. Amortised cost for financial assets whose cash flows are solely payments of principal and interest and the business model is to hold those financial assets in order to collect contractual cash flows. They are initially recognised at fair value and thereafter at amortised cost using the effective interest method less any impairment. The effective interest rate method is a method of calculating the amortised cost of a financial asset and of recognising and allocating interest income over the relevant period.

2. Fair Value Through Other Comprehensive Income (FVTOCI) in the case of:

- debt instruments whose cash flows are the sole payments of principal and interest and held within the business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- equity instruments that are neither held for trading nor contingent consideration recognised in a business combination
- Regular purchases and sales of financial assets are recognised at the trade date, which is the date on which the entity commits to purchase or sell the asset, or, in the case of loans and advances to financial counterparties, at the settlement date. After initial recognition, these assets are subsequently carried at fair value. Gains and losses in fair value are recognised directly in equity. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Revenue and Expenditure

3. Fair value through profit or loss (FVTPL) for any financial assets that are not measured at amortised cost or FVTOCI. This category includes derivatives and investments in equity instruments, unless an irrevocable election is made on initial recognition to classify as FVTOCI. The election is only available to equity instruments that are not held for trading. Transactions costs and any subsequent movements in the valuation of assets held at FVTPL are recognised in the Statement of Revenue and Expenditure.

Financial assets other than equity instruments and those at FVTPL are assessed for impairment at each reporting date using the expected credit loss model as introduced by IFRS 9, and impairments are recognised in the Statement of Revenue and Expenditure. All equity investments, measured at either fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI), and other financial instruments measured at FVTPL, are outside the scope of IFRS 9's impairment model.

Financial assets are derecognised when the rights to receive future cash flows have expired or are transferred and the risks and rewards of ownership have been substantially transferred.

IFRS 9 impairment requirements for financial assets apply to:

1. debt instruments – loans, trade receivables and debt securities measured at amortised cost or fair value through other comprehensive income (FVTOCI)
2. lease receivables
3. contract assets within the scope of IFRS 15
4. certain financial guarantees and loan commitments

Financial liabilities

Most of the government's financial liabilities are classified as amortised cost. The exceptions are derivatives and IMF Special Drawing Rights allocation which are classified as fair value through profit of loss. Deposits by banks can also be classified as fair value through profit or loss.

1.21 Contingent liabilities and contingent assets

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

1.22 Events after the reporting period

The Government Financial Reporting Manual (the FReM) modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for events that provide evidence of conditions that existed at the reporting date do not apply, and therefore all such events are non-adjusting.

Note 2. Critical accounting estimates and judgements

2.1 WGA boundary

The Government Resources and Accounts Act (GRAA) 2000 requires HM Treasury to prepare WGA for "a group of bodies each of which appears to HM Treasury (a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money". In complying with the GRAA, HM Treasury has made a judgement to base the consolidation boundary on entities classified to the public sector by the Office for National Statistics (ONS). This has the benefit of aligning the boundary of WGA to the boundary for National Accounts and increases the usefulness of WGA as a tool for understanding the public finances.

The exceptions to this policy are:

- WGA excludes a small number of entities such as the National Audit Office, Crown Estate and Audit Scotland that are accountable to their respective parliaments or assemblies rather than to an executive arm of the government, and therefore do not form part of government. The total impact of excluding these bodies from WGA is estimated to be £1.5 billion of gross expenditure and £17.5 billion of net assets. Some of these amounts would be eliminated on consolidation. Over £14.1 billion of the net assets not included in WGA are reflected in the Crown Estate.

- Minor entities are excluded on the basis that they are too small to have any material impact on WGA. The criteria used for minor bodies in 2019-20 was that they had to have gross expenditure, income, assets and liabilities of less than £20 million (2018-19 £20 million). For example, this includes some district councils. The total impact of excluding minor bodies is estimated to be £0.6 billion of gross expenditure and £0.1 billion of net assets. Some of these amounts would be eliminated on consolidation.

The WGA also does not include some other bodies such as English Further Education colleges, Trust Ports and most significantly the Royal Bank of Scotland (RBS).

RBS

RBS is recognised as an investment of government rather than being consolidated. This has been a consistent policy applied since the government took its holding. This is on the basis that the scale of RBS would have dwarfed other aspects of WGA, distorting the accounts and making it difficult to determine trends. It would also have been very technically challenging to consolidate RBS due to the differences in accounting policies and year-end. The government does not intend to retain its shares in RBS.

The table below sets out the estimated effect of excluding RBS from the consolidation. It is based on RBS's financial results for the year ended 31 December 2019. It does not include an estimate of the changes required to align the year-end or accounting policies.

	Revenue	Expenditure	Net expenditure	Assets	Liabilities	Net Assets/ (liabilities)
	£bn	£bn	£bn	£bn	£bn	£bn
2019-20 WGA	813.3	(918.7)	(105.4)	2,138.5	(4,972.7)	(2,834.2)
2019 RBS	18.4	(14.6)	3.8	723.0	(679.5)	43.5
Eliminations	(2.2)	2.2	0	(88.1)	88.1	0
WGA plus RBS	829.5	(931.1)	(101.6)	2,773.4	(5,564.1)	(2,790.7)

On 22 July 2020, Royal Bank of Scotland Group plc changed its name to NatWest Group plc. This will not have any financial effect on WGA, but all references to the government's shareholding in RBS within WGA become references to the shareholding in NatWest in future.

2.2 Effects of the COVID-19 pandemic

The effects of the Covid-19 pandemic led to increased estimation uncertainty in a variety of areas of the accounts of entities which are consolidated into WGA. This included the valuation of property and other assets, inventories, revenue recognition and expected credit losses (ECL) for financial instruments. Uncertainty around the trajectory of the pandemic persisted during the process of accounts preparation.

In a large number of component entities there was increased uncertainty regarding property valuations as at 31 March 2020, as there was a shortage of market evidence for comparison purposes to inform opinions on value. This valuation uncertainty affects balances within the land and buildings asset category shown in Note 12, investment properties shown in Note 13 and certain pension scheme assets within Note 24. It is not possible to aggregate the uncertainty, but it will be material at WGA level.

Due to the timing of the pandemic support schemes were being developed very close to the financial year end, which in some cases meant careful consideration of the amounts to be recognised in 2019-20. See 2.10 below for the significant judgements the Department for Business, Energy and Industrial Strategy made in this area.

A number of departments had significant accounting judgements in determining ECL figures for financial assets in 2019-20 given the economic climate in 2020. Macro-economic forecasts quickly became outdated and there was a need to continuously monitor for new information becoming available within the rapidly changing environment. See 2.3 below for judgements HM Revenue and Customs made around accrued tax revenue.

2.3 Taxation revenue

Taxation revenue is recognised in the period in which the event that generates the revenue occurs. Some of the accrued revenue receivable figures and other items are subject to statistical estimation of forecasts, as tax returns and tax payments can be filed later. Due to the areas of uncertainty involved, actual outcomes could differ from the estimates used. HM Revenue and Customs (HMRC) noted that, at the time of publication of their 2019-20 Annual Report and Accounts, the full impact of COVID-19 on accrued tax revenue was unknown which increased the level of uncertainty within their estimations. Each year HMRC reviews the performance of its estimation models. In 2018-19, the Accrued Revenue Receivable overestimation was £7 billion (1.1% of that year's total revenue) and the Accrued Revenue Payable underestimation was £0.8 billion (0.1% of that 2018-19 total revenue). The factors which led to this overestimation in 2018-19 have been corrected in 2019-20, for more information see the notes to HMRC's Trust Statement within their 2019-20 Annual Report and Accounts.

2.4 Valuation of infrastructure assets

Infrastructure assets in central government are largely comprised of the strategic road and rail networks, which are managed by Department for Transport. They are valued at replacement cost less depreciation. The valuation of infrastructure assets is subject to significant uncertainty, as determining the replacement cost requires certain assumptions including a modern equivalent asset (a network which is identical in function but constructed using modern methods) and instantaneous build on a greenfield site.

Road network assets held by local authorities are currently held at historical cost less depreciation, which is different from the valuation basis used by central government. Local authorities investigated a valuation based on replacement cost less deprecation. However, the body that sets the standards for local authority accounts decided that the costs of implementation outweighed the benefits and decided not to proceed.

The best proxy currently available for depreciated replacement cost is the calculated asset value used by the ONS in the National Accounts. The National Accounts estimated the value of local government networked assets at £146.9 billion (2018-19: £137.8 billion restated) as at 31 December 2019. Infrastructure assets are likely to be understated by at least £71.8 billion. The ONS figure excludes land, and therefore the total error is likely to be larger than the figure stated. Further information regarding this departure from the FReM can also be found in Chapter 3.

Rail network

The strategic rail network owned by Network Rail is valued using a complex model. As at 31 March 2020 this asset is valued at £332.3 billion (2018-19 £328.8 billion). The following sensitivity analysis reflects the sources of estimation uncertainty, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

Remaining asset lives: sensitivity to change	Depreciated Replacement Cost	Change	
	£bn	£bn	%
Decrease by 10%	308.9	-23.4	-7%
Base assumptions	332.3	N/A	N/A
Increase by 10%	355.6	23.3	7%

The land valuation includes an assessment of land purchase compensation costs. As Network Rail rarely purchases large parcels of land, the estimate of -65% shown below reflects the experience of Highways England.

Land compensation adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 55%)	326.3	-6.0	-2%
Base assumption (65%)	332.3	N/A	N/A
Increase by 10pp (to 75%)	338.2	5.9	2%

The valuation model for infrastructure assets assumes instantaneous build on a greenfield site. Comparative costs for constructions on greenfield sites may be difficult to find, so it is sometimes necessary to start with a comparative cost for construction in a live operational environment, which is more expensive, and reduce to a greenfield cost by an estimate of 32%. This adjustment applies only to costing rates built up using a methodology not already reflecting greenfield build.

Greenfield site adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease 10pp (to 22%)	328.5	-3.8	-1%
Base assumption (32%)	332.3	N/A	N/A
Increase 10pp (to 42%)	336.1	3.8	1%

After allowing for known costs in constructing assets there remain unknown and localised costs that are captured using a risk factor of 22%

Risk factor adjustment: sensitivity to change	Depreciated Replacement Cost £bn	Change £bn	%
Decrease by 10pp (to 12%)	313.2	-19.1	-6%
Base assumption (22%)	332.3	N/A	N/A
Increase by 10pp (to 32%)	351.3	19.0	6%

Strategic road network

The strategic road network owned by Highways England is valued using a complex model. As at 31 March 2020 this asset is valued at £128.5 billion (2018-19 £121.2 billion).

The valuation relies on accounting estimates and is subject to estimation uncertainties. The following sensitivity analysis reflects the sources of estimation uncertainty, showing the impact of changes in assumptions at the reasonable boundaries of uncertainty.

The Highways England Capital Enhancement Cost Index (HECI) is an index which directly reflects the movement in prices experienced by Highways England. It is applied to roads and structures for the purposes of yearly revaluation.

Costing rates: sensitivity to change	Depreciated Replacement Cost	Change	
	£bn	£bn	%
Decrease by 10%	115.1	-13.4	-10%
Base assumptions	128.5	N/A	N/A
Increase by 10%	141.9	13.4	10%

HECI: sensitivity to change	Depreciated Replacement Cost	Change	
	£bn	£bn	%
Base case (263 points)	128.5	N/A	N/A
Increase by 10 points (to 273)	139.2	10.7	8%

2.5 Financial assets

Student loans

Due to the implementation of IFRS 9, student loans are carried at fair value through profit or loss (FVTPL). The FReM requires that where future cash flows are discounted to measure fair value, the higher of the rate intrinsic to the financial instrument or HMT's current discount rate should be used. The discount rate used to discount expected cash flows to calculate the fair value of student loans is the intrinsic rate of the loan for Master's loans, and HMT's standard cross-government discount rate of RPI+0.7% (2018-19: RPI+0.7%) for the remainder of the loan books, as required by the FReM's interpretation of IFRS 9.

The fair value calculation also takes into account an estimate of the value of student loans which will not be repaid because of the policy decisions made by the government for the loans to be written off in certain circumstances such as death, disability or the age of the student. This estimate is sensitive to assumptions on borrowers' earnings which are based on latest forecasts from the Office for Budget Responsibility.

The method for determining the carrying value of the student loan book in the accounts is set by the FReM and is likely to be higher than the amount that they could be sold for. This is because the discount rate used by a market investor in valuing the future cash flows would likely be higher given that the investment is riskier than gilts.

Term Funding Scheme (TFS) loans

Loans made by the Bank of England through the Term Funding Scheme (TFS) and associated scheme fees are valued on present value methodology, using expected future cash flows and discounted using Bank Rate to provide a net present value. The discount rate adopted is deemed appropriate as it represents the funding cost to the Bank of providing the loans. The deviation away from using a 'market implied rate' is justified as TFS loans are unique in their nature, provided at an indiscriminate rate to achieve the policies set by the Bank of England in its function as a central bank. As such there is not an equivalent product or market with which to compare.

All participants that have drawn on TFS have been assessed at the end of the reference period running from 30 June 2016 to 31 December 2017 against their level of net lending. For participants whose net lending over the reference period is negative, an additional scheme fee over Bank Rate has been applied to the cost of the loan.

Term Funding Scheme loans are treated as non-current financial assets as they are not tradeable and their value is not realisable by the Bank of England at short notice. The Bank of England may only require the participants to repay early if the latter goes into default, i.e. they are in breach of the terms and conditions of the scheme.

2.6 Public sector pension liability

The assessment of the pension liabilities requires various assumptions about future unknowns in order to determine the expected future benefit payments. These assumptions include life expectancy, employee turnover rates, projections of price inflation and projections of earnings for current employees. A discount rate is then required to discount the future benefit payments to produce a net present value. The local government pension schemes are managed individually and locally which means there is no single real discount rate. There is a single real discount rate provided by the Cabinet Office which is used by central government. More information on pensions is presented in Note 24 Pensions.

The key financial assumptions used by the actuaries of government pension schemes to determine 2019-20 and 2018-19 WGA pension liabilities are set out below:

	2019-20			2018-19		
	Unfunded central government %	Unfunded local government %	Funded local government %	Unfunded Central government %	Unfunded local government %	Funded local government %
Rate of increase in salaries	4.10	1.80 - 4.40	1.80 - 4.00	4.10	1.00 – 4.40	2.00 – 4.40
Rate of increase of Pensions in Payment	2.35	1.80 - 4.00	1.60 – 3.40	2.60	2.00 – 4.40	2.00 – 3.90
Discount rate - real	(0.50)			0.29		
Discount rate - nominal	1.80	1.50 – 2.50	0.50 – 2.60	2.90	2.00 – 3.00	2.00 – 3.00
Price inflation assumption	2.35	0.50 - 4.00	0.10 – 4.00	2.60	1.70 – 4.00	0.40 – 4.00

2.7 Provision for nuclear decommissioning

Nuclear Decommissioning Authority's (NDA's) nuclear decommissioning provision forms the bulk of the overall government provision for nuclear decommissioning and represents the best estimate of the costs of decommissioning plant and equipment on their designated nuclear licenced sites to return them to pre-agreed end states in accordance with the Authority's published strategy. NDA's programme of work will take until the year 2137.

The estimate is necessarily based on assumptions regarding processes and methods likely to be used to discharge the obligations, reflecting a combination of latest available technical knowledge, requirements of the existing regulatory regime, government policy and commercial agreements. Given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. The estimate is updated to reflect changed circumstances and more recent knowledge and changed assumptions; as a result, material adjustments could be made to the carrying amount of the nuclear decommissioning provision and related assets and liabilities in the future. The principal assumptions and sensitivities around the cost estimates were reviewed and updated by NDA management as at 31 March 2020.

Sensitivity analysis

	% Change	Provision (£bn)
Increase in discount rate	0.5%	116
Decrease in discount rate	0.5%	159

Four different discount rates are used, according to the expected timing of cashflows (from short-term to very long-term), see Note 22 for details for the rates used each year. The change in discount rates in 2019-20 produced a decrease of £3.8 billion (2018-19: £107.8 billion decrease). This figure excludes the change relating to inflation plus the recoverable contract costs off-setting balance which otherwise result in a decrease of £0.2 billion (2018-19: £96.0 billion).

Analysis of expected timing of discounted cash flows for the NDA Nuclear Provision is as follows*:

	Waste	Research	Sellafield	Fuel Manufacturing & Generation	Others	2019-20 Total	2018-19 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Up to 1 year	0.1	0.2	2.1	0.5	0.1	3.0	2.7
2 to 5 years	0.5	0.8	8.8	1.8	0.4	12.3	11.1
6 to 20 years	2.8	1.6	31.9	5.7	0.7	42.7	36.4
21 to 50 years	3.7	0.1	32.6	8.7	0.6	45.7	38.8
50 years +	4.2	0.1	23.1	3.4	0.4	31.2	41.6
	11.3	**2.8**	**98.5**	**20.1**	**2.2**	**134.9**	**130.6**
Deduction in respect of Site Licence Companies pension receivable from NDA						-0.2	-0.9
Total NDA Decommissioning Provisions						**134.7**	**129.7**

*https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923597/CCS0320287242-001_BEIS_Annual_Report-Web_Accessible.pdf

The table below shows how the sensitivities can result in a range of values that could be higher or lower than the base case assumption.

Sensitivity	Waste £bn	Research £bn	Sellafield £bn	Fuel Manufacturing & Generation £bn	Others £bn	2019-20 Total £bn	2018-19 Total £bn
Increase	25.9	0.2	83.6	2.0	0.1	111.8	117.3
Reduction	-3.9	-0.3	-13.9	-2.0	-0.2	-20.3	-24.3

The NDA calculates its provision based on management's best estimate of the future costs of the decommissioning programme, which is expected to take until 2137 to complete. The NDA also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. These are the basis of the sensitivities identified in the sensitivity increase and reduction lines above. The sensitivity increase line brings together NDA's assessment of credible risks that may increase the cost estimate, and the reduction line shows the decrease in cost estimate that may arise from credible opportunities. Factors that feed into key sensitivities includes costs of constructing and operating facilities, the impact of timing on construction and operations, final decommissioning of assets and site clearance. The key sensitivities are as follows.

The key sensitivities for waste activities are in the timing and costs of constructing and operating the Geological Disposal Facility, which is expected to receive waste from 2045. Construction costs are dependent on the location and construction requirements of the facility.

Activities on the sites used primarily for research are concerned with final decommissioning of assets and site clearance. Key sensitivities are the cost and timing of site clearance.

Sellafield represents activities associated with the operation of the site, reprocessing and eventual decommissioning, and includes all site overheads. Principal sensitivities are around the cost of delivering the plan, particularly the costs of new construction, decommissioning, and post operational clean out work in the long term.

The generation programme of work includes defueling the generation stations and preparing for interim Care and Maintenance (complete by 2030), followed by a final site clearance phase around 2070 to 2107. The main cost risks in the final site clearance phase.

Further details are reported in the Annual Report and Accounts for Department for Business, Energy and Industrial Strategy and the NDA.

2.8 Provision for clinical negligence

The clinical negligence provision requires the directors of the NHS Resolution to make judgements, estimates and assumptions to value the liability. The estimates and associated assumptions are based on historical experience and other factors that are relevant. They are reviewed annually by the NHS Resolution, supported by its actuaries, the Government Actuary's Department. Known reported claims are individually valued using likely costs to resolve the claim and probability factors to take account of the potential of a successful defence, while Incurred But Not Reported (IBNR) claims are valued using actuarial models to predict likely values. Due to the long-term nature of the liabilities and the assumptions on which the estimate of the provision is based, some uncertainty about the value of the liability remains.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The value of the provision is sensitive to changes in discount rates, and a sensitivity analysis is provided below (source: Department of Health and Social Care Annual Report and Accounts 2019-20).

Discount rates (all terms): sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
All rates -1 percentage point	59.7	15.3	34%
Base assumptions	44.4	N/A	N/A
All rates +1 percentage point	34.2	-10.2	-23%

Other key sensitivities are claims value inflation, average costs of claim and the probability of a successfully defended claim. A sensitivity analysis of these is shown below (source: Department of Health and Social Care Annual Report and Accounts 2019-20).

Claims value inflation: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
All rates -1 percentage point	39.3	-5.1	-11%
Base assumptions	44.4	N/A	N/A
All rates +1 percentage point	50.3	5.9	13%

Average costs of claim: sensitivity to change	Estimated IBNR provision	Change to original IBNR estimate	
	£bn	£bn	%
Reduction in average claim values of 20%	35.7	-8.7	-20%
Base assumptions	44.4	N/A	N/A
Increase in average claim values of 20%	53.1	8.7	20%

Probability of a successfully defended claim: sensitivity to change	Estimated IBNR provision £bn	Change to original IBNR estimate £bn	%
All probabilities -5 percentage points	40.5	-3.9	-9%
Base assumptions	44.4	N/A	N/A
All probabilities +5 percentage points	48.3	3.9	9%

Life expectancy assumptions determine the expected period over which liabilities will be paid and so also affect the value of the provision.

2.9 Provisions related to the EU financial settlement

The provisions recognised in relation to the EU financial settlement are mostly due to EU pension obligations and outstanding EU Budgetary commitments (the so-called RAL) at the end of 2020.

The UK obligation in respect of EU pensions is estimated on the basis of applying the estimated UK post 2020 financing share to projected end 2020 EU pension obligations, and adjusting for the difference in discount rates used in EU accounts and those required under the FReM. The projected end 2020 EU pension obligations are estimated by adjusting the end 2019 balance for changes over 2020 (e.g. payments made and additional entitlements accrued). The accounting valuations for the pension related liabilities are sensitive to actuarial assumptions (e.g. life expectancy, inflation) for defined benefit pension obligations. The key assumptions are drawn from the EU's 2019 accounts.

The UK's post 2020 financing share (the average proportion of the EU Budget over 2014-20 financed by the UK) is estimated based on historical outturn contributions and the Office for Budget Responsibility's March 2020 forecast of UK contributions to the 2020 Budget.

The obligation in respect of the RAL is estimated based on information in EU Budgets adopted on or before 31 March 2020 and associated budget implementation data. The estimated post 2020 financing share is applied to commitments in EU Budgets up to 2020 and adjusted for forecast implementation rates (based on the historical level of commitments that do not lead to payments).

These provisions represent payments and receipts to be recognised several years into the future. There are a number of key sensitivities and assumptions which may affect future valuations. The key sensitivities are set out in the table below:

Assumption	Change	Degree of uncertainty	Sensitivity of output to changes in input	Financial impacts £bn
Financing share	Increase of 1%	Low	Moderate	Increase of 0.4
Exchange rate	Sterling appreciation of 1%	High	Moderate	Decrease of 0.4
Decommitments	Increase of 1 percentage point	Moderate	Moderate	Decrease of 0.3
Discount rate	Increase of 0.1 percentage point	Moderate	Moderate	Decrease of 0.3

The obligations of the financial settlement are principally denominated in Euros and therefore the sterling valuations are sensitive to changes in the Sterling/Euro exchange rate. A depreciation of Sterling against the Euro results in the value of the provision liability (RAL, Pension) increasing. An appreciation of Sterling has the opposite effect. This models a 1% depreciation/appreciated from the 31st March 2020 exchange rate.

The value of the RAL is sensitive to the level of implementation of EU Budget commitments as not all commitments necessarily translate into payments. A decrease in decommitments increases the value of the RAL liability. An increase in decommitments will have the opposite effect.

The asset and liability valuations are sensitive to changes in the discount rates applied under the applicable accounting standards. Provisions are discounted in accordance with the requirements of the Financial reporting Manual and the rates set centrally by HM Treasury. The 0.1% decrease is applied to each of the spot rates set for different time horizons. Changes to this discount rate do not affect what the UK pays under the financial settlement, only the valuation of the liability for financial reporting purposes.

Further details on the financial settlement are reported in the HM Treasury Annual Report and Accounts 2019-20.

2.10 Recognition point of Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund provisions

The Small Business Grant Fund was announced by the Chancellor during his Budget speech on 11 March 2020 and subsequently extended during the Chancellor’s speech on 17 March 2020 setting out the government’s economic response to COVID-19. The Retail, Hospitality and Leisure Grant Fund was also announced during the Chancellor’s speech on 17 March 2020. The Guidance to Local Authorities (LAs) setting out how LAs would manage the grants on behalf of the Department for Business, Energy and Industrial Strategy (BEIS) was issued on 24 March 2020. The Guidance to Businesses (the ultimate grant recipients) was issued on 1 April 2020, the same day as funding was provided from BEIS to LAs to make grant payments. Due to the impact of COVID-19, LAs were encouraged to make early payments to eligible grant recipients from their own funds. BEIS was legally obligated to reimburse the LAs. Therefore, BEIS recognised a grant accrual of £151 million for grants paid out by the LAs before 1 April 2020.

BEIS has recognised a provision of £10.8 billion, in addition to the £151 million recognised as a grant accrual. This is because the announcements and payments made prior to 31 March 2020 created a constructive obligation under IAS 37. This amount is based on eligibility and payments information received from LAs after 31 March 2020 and has been limited by the closure of the scheme after the year end. As a result there are no particular valuation uncertainties.

2.11 Non-coterminous year ends

WGA consolidates a wide variety of organisations. All bodies, barring the exceptions discussed below, use a year end to 31 March. Where the impact of different year ends is material, HM Treasury is required by the accounting standards to make adjustments to align the component's submission to the WGA year end.

The following WGA components have different financial year ends where the impact is judged by HM Treasury to be immaterial:

- Commonwealth Development Corporation - year end to 31 December
- Northern Ireland and Scottish FE colleges - year end to 31 July
- Channel 4 - year end to 31 December
- Bank of England – year end to 28 February
- National Physics Laboratory – year end to 31 December
- Navy, Army and Air Force Institute - year end to 28 April
- Northern Ireland Transport Holding Company – year end to 25 March
- British Nuclear Fuels - year end to 30 June

The following WGA components have different financial year ends where the impact is judged by HM Treasury to be material:

Academies sector

The Academies sector annual report and accounts has a year end to 31 August 2019. The account is compiled and published by the Department for Education. The Department was unable to estimate, to a material level of accuracy, the adjustments required to reflect their financial position and performance to 31 March. WGA therefore reflects the Academies sector to 31 August 2019, with no adjustments made.

The material balances impacted by this misalignment are property, plant and equipment (where academies report net book value of £57.6 billion) and pension liabilities (where academies report a pension deficit of £11.1 billion). See paragraph 3.28 of the Governance Statement in chapter 3 for estimates of the maximum amount of variance between 31 August and 31 March.

The academies sector is also subject to a qualification based on accuracy and completeness of the comparative land and buildings values and based on accuracy of the opening revaluation reserve balance. More details can be found in the Comptroller and Auditor General's certificate and report in chapter 5.

2.12 Contracts for difference (CfDs)

CfDs are a mechanism used to support investment in UK green energy projects. CfDs have been established as a contract between the 'Generator' and the Low Carbon Contracts Company (LCCC), a company wholly owned by the government and consolidated within the Department for Business, Energy and Industrial Strategy (BEIS). WGA includes several CfDs on the Statement of Financial Position. During 2019-20, changes to the forecast models used by BEIS meant it became possible to reliably estimate the valuation of Hinkley Point C (HPC) CfD. As a result of this, BEIS considered the recognition criteria for HPC CfD to have been met, and the HPC CfD has been recognised in the BEIS Annual Report and Accounts 2019-20.

Long term forecasts are not generally seen as a single most likely outcome with degrees of uncertainty either side. Rather there are multiple sets of inputs that are internally consistent and credible. A set of these inputs is usually used as a 'scenario' and multiple deliberately different scenarios are used to illustrate different possible futures when undertaking long term forecasting. Therefore, individual forecasts may use a very different set of assumptions such as generation mix, carbon and fuel costs, electricity demand and interconnector capacity, but still be within what we would describe as the 'universe of reasonableness'.

The following table shows the impact on the fair value of CfDs by applying reasonably possible alternative assumptions to the valuation obtained using the forecasting model. Due to the significance and uniqueness of Hinkley Point C (HPC) CfD the impact (and certain assumptions) has been shown separately.

An additional element in the calculation of the CfD liability is the discount rate that is applied. The HM Treasury discount rate of 0.7% has been used for valuing financial instruments such as CfDs. The table below illustrates the impact of using a different rate (the social discount rate of 3.5%, as published in the HM Treasury Green Book).

	Favourable / (Unfavourable) changes		
	HPC CfD £bn	Other CfDs £bn	Total Impact £bn
Change in fair value of CfDs if:			
High Case scenario	4.1	8.8	12.9
Low Case scenario	(4.5)	(5.9)	(10.4)
Discount rate of 3.5%	23.1	7.1	30.2

The fair value is highly dependent upon the actual capacity generated once the plant is built and the electricity prices which will prevail at the time of generation. The favourable and unfavourable changes show how the impact of changes in capacity and prevailing electricity prices will affect the fair value of the CfDs due to the change in the level of cash flows. As the sensitivity analysis illustrates, the overall fair value movements are subject to material uncertainty.

Further details on the assumptions can be found in the accounts of the Department of Business, Energy and Industrial strategy and Note 23 financial instruments.

Note 3. Segmental reporting

Segmental reporting 2019-20

	Central government £bn	Local government £bn	Public corporations £bn	Whole of Government £bn
Taxation revenue	(630.0)	(66.5)	(0.2)	(696.7)
Other revenue	(60.0)	(43.5)	(13.1)	(116.6)
Total public services revenue	**(690.0)**	**(110.0)**	**(13.3)**	**(813.3)**
Social security benefits	218.1	21.3	0.6	240.0
Staff costs	159.5	70.2	5.6	235.3
Purchase of goods, services and other expenditure	132.2	82.4	9.0	223.6
Interest cost on government borrowing	31.8	-	-	31.8
Increase in provisions	70.1	0.5	3.7	74.3
Other expenditure	97.3	14.7	1.7	113.7
Total expenditure on public services	**709.0**	**189.1**	**20.6**	**918.7**
Net (revenue)/expenditure on public services	**19.0**	**79.1**	**7.3**	**105.4**
Financing costs of long-term liabilities, including discounting	52.0	10.0	4.0	66.0
Net loss/(gain) on revaluations and disposals of assets and liabilities	21.4	0.6	(1.6)	20.4
Net expenditure/(revenue) for the year	**92.4**	**89.7**	**9.7**	**191.8**
Property, plant and equipment	838.7	389.7	84.9	1,313.3
Other non-current assets	209.1	37.8	138.9	385.8
Current assets	341.5	43.3	54.6	439.4
Total assets	**1,389.3**	**470.8**	**278.4**	**2,138.5**
Current government borrowings	(344.7)	-	-	(344.7)
Other current liabilities	(208.8)	(31.8)	(589.8)	(830.4)
Non-current government borrowings	(1,100.7)	-	-	(1,100.7)
Provisions non-current	(313.0)	(2.5)	(28.9)	(344.4)
Net public sector pension asset/(liability)	(1,914.4)	(275.8)	0.7	(2,189.5)
Other non-current liabilities	(98.5)	(45.5)	(19.0)	(163.0)
Total liabilities	**(3,980.1)**	**(355.6)**	**(637.0)**	**(4,972.7)**
Net assets/(liabilities)	**(2,590.8)**	**115.2**	**(358.6)**	**(2,834.2)**

WGA uses the same classification of sectors of government as the Office for National Statistics (ONS).

Central government comprises government departments, the devolved administrations of Scotland, Wales and Northern Ireland, non-departmental public bodies, entities in the National Health Service, the pension liability for all teachers included within the Teachers' Pension Scheme and certain local government functions in Northern Ireland and Scotland, such as police, education and social services, which are carried out by central departments. Central government also includes academy schools. The share of central government expenditure has been increasing over time as schools convert and transfer out of the local government sector.

Local government comprises all local authorities, police and crime commissioners, fire and rescue authorities, national park authorities and waste disposal authorities in England and Wales and local authorities in Northern Ireland and Scotland.

Public corporations comprise a range of publicly owned companies, many of which provide services to the general public, including the BBC, Channel 4, Bank of England and Scottish Water.

Note 7 provides a breakdown of staff numbers by sector.

Segmental reporting 2018-19

	Central government £bn	Local government £bn	Public corporations £bn	Whole of Government £bn
Taxation revenue	(618.9)	(66.6)	(0.2)	(685.7)
Other revenue	(54.9)	(43.0)	(12.0)	(109.9)
Total public services revenue	**(673.8)**	**(109.6)**	**(12.2)**	**(795.6)**
Social security benefits	206.0	23.7	0.6	230.3
Staff costs	176.6	73.5	5.6	255.7
Purchase of goods, services and other expenditure	120.9	77.5	8.1	206.5
Interest cost on government borrowing	31.6	-	-	31.6
Increase in provisions	16.8	1.2	3.0	21.0
Other expenditure	89.6	15.3	1.8	106.7
Total expenditure on public services	**641.5**	**191.2**	**19.1**	**851.8**
Net (revenue)/expenditure on public services	**(32.3)**	**81.6**	**6.9**	**56.2**
Financing costs of long-term liabilities, including discounting	(69.8)	9.6	3.6	(56.6)
Net loss on revaluations and disposals of assets and liabilities	-	(0.1)	(1.0)	(1.1)
Net expenditure/(revenue) for the year	**(102.1)**	**91.1**	**9.5**	**(1.5)**
Property, plant and equipment	811.6	374.5	81.9	1,268.0
Other non-current assets	216.8	35.1	146.9	398.8
Current assets	342.3	39.3	50.4	432.0
Total assets	**1,370.7**	**448.9**	**279.2**	**2,098.8**
Current government borrowings	(307.2)	-	-	(307.2)
Other current liabilities	(174.5)	(28.1)	(600.5)	(803.1)
Non-current government borrowings	(1,100.0)	-	-	(1,100.0)
Provisions non-current	(266.5)	(2.6)	(24.6)	(293.7)
Net public sector pension liability	(1,592.7)	(300.8)	(0.4)	(1,893.9)
Other non-current liabilities	(100.9)	(42.8)	(13.0)	(156.7)
Total liabilities	**(3,541.8)**	**(374.3)**	**(638.5)**	**(4,554.6)**
Net assets/(liabilities)	**(2,171.1)**	**74.6**	**(359.3)**	**(2,455.8)**

Note 4. Taxation revenue

	2019-20 £bn	% of total	2018-19 £bn	% of total
Income Tax	194.2	28%	194.0	28%
National Insurance Contributions (NIC)	126.6	18%	120.4	18%
Value Added Tax (VAT)	137.2	20%	135.6	20%
Corporation Tax	52.4	8%	53.1	8%
Hydrocarbon oils duty	27.3	4%	28.0	4%
Excise duty	29.0	4%	28.5	4%
Stamp taxes	16.2	2%	16.4	2%
Capital gains tax	10.0	1%	9.3	1%
Other taxes and duties	34.9	5%	33.6	5%
Central government taxation revenue	627.8	90%	618.9	90%
Council Tax	36.4	5%	34.5	5%
National Non-Domestic Rates (NNDR)	32.5	5%	32.3	5%
Local government taxation revenue	68.9	10%	66.8	10%
Total taxation revenue	696.7	100%	685.7	100%

Most government expenditure is financed through **taxation revenue**. Most taxation income is from individuals, with income tax and National Insurance levied on salaries, wages and employers, and VAT and certain duties levied on consumption. Local taxes comprise of council taxes and business rates.

Total taxation revenue increased by £11.0 billion (1.6%) in 2019-20.

Income tax increased by £0.2 billion (0.1%) and **National Insurance Contributions** rose by £6.2 billion (5.1%). The amount of revenue raised for these two taxes is closely linked to the number of people in employment and wage levels, both of which increased during this period. Rate changes also impact the amount of revenue collected. There were above inflation rises to the personal allowances and higher rate thresholds for Income Tax, as well as changes to the upper earnings limit for National Insurance contributions. The latter change of circa 7% year on year increase contributed to the larger percentage increase in National Insurance Contributions.

Value Added Tax (VAT) increased by £1.6 billion (1.2%). Receipts have risen over time because of economic growth, inflation and consumer spending. A smaller increase than expected was seen, due to decreases in economic growth and consumer spending in the final quarter of 2019-20.

Corporation Tax has shown a decrease of £0.7 billion (1.3%).

Hydrocarbons oil duty decreased by £0.7 billion (2.5%). Analysis of the impacts of COVID-19 on the oil and gas industry explains the reduction in revenue. The increased fuel economy of vehicles and the growing popularity of electric cars is also a contributory factor.

Excise duty increased by £0.5 billion (1.8%). Alcohol accounted for £11.9 billion of the total revenue, showing a decrease of £0.2 billion due to the effects of COVID-19, which initiated venue closures and the cancellation of sporting events in the final quarter of 2019-20. Tobacco accounted for £9.7 billion of the total revenue, showing an increase of £0.7 billion due to a rate change which brought forward activity by importers, effective from 11 March, and had the effect of causing a short-term increase in revenue which is not expected to occur in the next financial year.

Stamp taxes and **Capital gains tax** increased by £0.5 billion (1.9%), reflecting the volatility of the housing market sales and capital gains generated.

Other taxes and duties of £34.9 billion comprises Inheritance Tax, Betting and Gaming duties, Air Passenger duties, Climate Change Levy, Bank Levy, Insurance Premium Tax, Landfill Tax, Lottery Income, Broadcast Licence fees and Apprenticeship Levy.

Local government taxation revenue increased by £2.1 billion (3.1%), comprising **Council Tax** and **National Non-Domestic Rates**. Both increases are due to uprating and inflation rises.

Note 5. Other revenue

	2019-20 £bn	2018-19 £bn
Revenue from contracts:		
Sales of goods and services (excluding the NHS)	33.1	35.5
Levies	5.4	4.6
Court fines and penalties	0.8	1.0
Passenger Transport and income from train operating companies	8.4	6.4
Other fees and charges	7.0	4.1
Rental income	9.8	9.8
EU income	8.4	5.9
License income	1.6	3.0
Revenue from contracts	74.5	70.3
NHS Income:		
Sales of goods and services	4.6	1.0
NHS fees and charges (dental, prescription and other)	1.9	1.9
Other income from the NHS	1.6	4.8
NHS Income	8.1	7.7
Other income:		
Interest income	8.2	7.1
Private sector contributions to local services	3.8	3.5
Pension income	4.2	3.1
CRC allowance sales and EU emissions trading scheme	0.5	1.7
Grants from private sector	2.4	2.1
Miscellaneous operating revenue	14.9	14.4
Other Income	34.0	31.9
Total Other Revenue	116.6	109.9

Other Revenue overall has increased by £6.7 billion in 2019-20.

Two of the main reasons for the increase in income are as follows:

£2.2 billion of this increase falls under the Levies line and relates to Capacity Market supplier charge income. This market had been paused during 2018-19 due to European Court of Justice (ECJ) judgements. During this standstill period no Capacity Market related supplier charges had been collected. Capacity Market activities resumed in October 2019. (This is offset by other decreases on the levies line, so the overall increase on this line is lower).

£1.1 billion is additional amounts received from organisations which participate in public sector pension schemes but are not themselves consolidated within the WGA boundary. This is due to significant increases in employer contribution rates to public sector pension schemes.

Sales of goods and services is largely made up of goods and services provided by local authorities (£20.2 billion in 2019-20 and £19.2 billion restated in 2018-19). This figure includes a wide range of goods and services, including income from schools and adult social care provision. £5.0 billion (£9.5 billion restated in 2018-19) is goods and services provided by central government, which includes a wide range of income streams. The prior year central government figure included £2.1 billion of franchised track access income. The equivalent 2019-20 amount of £2.5 billion has been included under the 'Passenger Transport and income from train operating companies' line in this note.

The 2018-19 figures stated in the prior year accounts were £1 billion higher for central government, and the same amount lower for local government, than the restated figures above. This was due to an error in the amounts disclosed last year. There is no impact on the 'Sales of goods and services' total.

One of the most significant and complex income streams included in this figure is the £643 million (2018-19 £765 million) of income recognised in year by the Nuclear Decommissioning Authority for the reprocessing of nuclear fuel. The remaining income is from Public Corporations, including Channel 4, Scottish Water and the Post Office.

The Sales of goods and services total shown in the note excludes £4.6 billion relating to NHS entities (2018-19 £1.0 billion) which is separately disclosed under the 'NHS Income' line. The increase is mainly due to enhanced reporting within the WGA of NHS related income between different account lines. The actual increase across NHS Income as a whole is £0.4 billion.

Levies of £5.4 billion (2018-19 £4.6 billion) are made up of Capacity Market supplier charge income as referred to above, income from the Low Carbon Contracts Company operational cost levy, the Electricity Settlements Company's settlement cost levy and the Oil and Gas Authority's petroleum licence levy. Other smaller sources of levy income include the Department for Environment, Food and Rural Affairs, Pension Protection Fund, Land Registry and HM Treasury.

Passenger transport and train operating companies' income of £8.4 billion is made up of passenger income from Transport for London (£4.4 billion) and income from Train Operating Companies (TOCs) (£4.0 billion). The current year figure includes £2.5 billion of franchised track access income. The prior year equivalent figure of £2.1 billion was reported under the 'Sale of goods and services (excluding the NHS)' line in this note.

Rental income of £9.8 billion includes £7.3 billion from local government housing. This relates to rents and related costs collected from local government council tenants.

EU Income of £8.4 billion (£5.9 billion in 2018-19). The most significant single contribution (£3.7 billion in 2019-20, £3.9 billion in 2018-19) is income from the EU to the Department for Environment Food and Rural Affairs (DEFRA). This income mainly relates to the Basic Payment Scheme and income payable to other paying agencies, and is therefore paid back out as grants, which can be seen in Note 9.

Licence income of £1.6 billion (£3.0 billion in 2018-19) is largely made up of income from OFCOM. The BBC licence fee is classified as a tax in Note 4. The prior year figure had been higher due to £1.4 billion from the auction of 2.3 and 3.4 GHz spectrum bands which was recognised in 2018-19.

NHS income of £8.1 billion (£7.7 billion in 2018-19) is made up of a variety of sources, including income from private patients (£0.7 billion in 2019-20, £0.6 billion in 2018-19). As referred to above, the year-on-year variances on the 'NHS Sales of Goods and Services' and 'Other income from the NHS' lines are due to enhancements to the WGA accounts production processes for this year and are not indicative of changes in the amounts reported by the Department of Health and Social Care. We do not have sufficient equivalent data from the previous year to enable the prior year equivalents for these two lines to be accurately restated. The actual year on year increase across NHS Income as a whole is £0.4 billion.

Pension scheme income of £4.2 billion in 2019-20 (£3.1 billion in 2018-19) relates to employer contributions from organisations which participate in public sector pension schemes but are not themselves consolidated within the WGA boundary. Examples included GPs and charity hospices that contributed to the NHS pension scheme; higher and further education institutions and independent teaching establishments that contributed to the Teachers' Pension Scheme. It also includes non-WGA entities such as the National Audit Office, Audit Wales and Electoral Commission that contribute to the Principal Civil Service Pension Scheme. As referred to above, the increase this year is due to higher employer contribution rates to public sector pension schemes.

Note 6. Social security benefits

	2019-20 £bn	% of total	2018-19 £bn	% of total
State pension	101.2	42%	99.1	43%
Pension credit	5.3	2%	5.4	2%
TV licences for the over 75's	0.3	0%	0.5	0%
Pensioner benefits	106.8	44%	105.0	45%
Disability living allowance	7.7	3%	8.7	4%
Attendance allowance	6.1	3%	5.9	3%
Personal independence payment	13.8	6%	11.1	5%
Carer's allowance	3.4	1%	3.2	1%
Employment and support allowance	14.5	6%	15.3	7%
Jobseeker's allowance	0.8	0%	1.4	1%
Income support	1.5	1%	2.0	1%
Statutory sick pay and maternity pay	2.2	1%	2.7	1%
Universal Credit	18.4	8%	8.0	3%
Other working age benefits	1.2	0%	1.3	1%
Tax credits	28.3	12%	28.5	12%
Child benefit	11.5	5%	11.5	5%
Housing benefit	21.8	9%	24.3	10%
Miscellaneous benefits	2.0	1%	1.4	1%
Disability, working and other benefits	133.2	56%	125.3	55%
Total social security benefits	**240.0**	**100%**	**230.3**	**100%**

The State Pension (including the 'new state pension'), at £101.2 billion, is the largest benefit paid, and accounted for 42% of benefit spending. State Pension expenditure increased by £2.1 billion and this was due to annual uprating in line with the "triple lock" at 2.6%. However, the number of claimants continues to fall due to the equalising of the state pension age for men and women, and raising it to 66.

Disability, working and other benefits increased by £7.9 billion (6.3%). Most of this increase was accounted for by the annual uprating of benefits and the increase in uptake of Universal Credit. Universal Credit replaces Employment and Support Allowance, Jobseeker's Allowance, Income Support, Housing Benefit, Child Tax Credit and Working Tax Credit meaning that the number of people claiming these benefits and tax credits are falling. However, some non-working age and non-income related claimants will remain on their existing benefits.

The table below summarises benefits to be replaced by Universal Credit (UC).

	2019-20 £bn	2018-19 £bn
Income-related Employment and support allowance	14.5	15.3
Income-related Jobseeker's allowance	0.8	1.4
Housing benefit for working age claimants	21.8	24.3
Income support	1.5	2.0
Working tax credit	3.2	4.2
Child tax credit	15.1	18.1
Total benefits (that are being transferred to UC)†	**56.9**	**65.3**
Current Universal Credit expenditure	18.4	8.0

Note 7. Staff costs

	Permanently employed staff £bn	Others £bn	2019-20 Total £bn	2018-19 Total £bn
Salaries and wages	155.9	12.3	168.2	159.4
Pension scheme costs: current service costs (net of employees' contributions)	66.6	-	66.6	62.2
Pension scheme costs: past service costs	(0.6)	-	(0.6)	31.8
Pension scheme costs: losses on settlements and curtailments	(0.6)	-	(0.6)	(0.3)
Expenditure on external pension schemes	1.7	-	1.7	2.6
Total staff costs	**223.0**	**12.3**	**235.3**	**255.7**

Pension scheme costs decreased by £29.2 billion in 2019-20 to £67.1 billion. These costs included expenses such as current service costs, past service costs, enhancements, gains or losses on settlements and curtailments. Further details are included in Note 24.

Salaries and wages increased by £8.8 billion to £168.2 billion in 2019-20, an increase of 5.5% on the prior year. This is partly due to an increase in staff numbers

† These total figures include some non-working age and non-income related claimants who will not be transferring to UC and will remain on their existing benefits.

(which grew by 1.8%). Expenditure by the Department of Health and Social Care (which encompasses NHS staff in England) accounted for £3.0 billion of the increase. The remaining increase was driven by growth in the Academies sector, which grew by 10% as the result of new academies being added and smaller increases across central government and the devolved administrations. A split of staff costs by sector can be found in the segmental analysis in Note 3.

Average number of persons employed (Full time equivalent)

	Permanently employed staff	Others	2019-20 Total	2018-19 Total
Health sector	1,578,671		1,578,671	1,530,972
Academy schools	503,447		503,447	467,850
Northern Ireland and Scotland FE colleges	14,802		14,802	16,749
Other	642,554	215,592	858,146	838,141
Total Central government (including health)	**2,739,474**	**215,592**	**2,955,066**	**2,853,712**
Local government	1,383,346	56,535	1,439,881	1,462,828
Public corporations	93,216	23,946	117,162	113,614
Total	**4,216,036**	**296,073**	**4,512,109**	**4,430,154**

In addition to permanently employed staff, 'others' included the cost of ministers, special advisers, temporary and contract staff. The cost of the salaries of ministers was £5.0 million (2018-19: £5.4 million) and the cost of special advisers was £10.7 million (2018-19: £7.1 million). The ministerial salary only includes the additional element on top of the basic salary of an MP.

Civil service and other compensation schemes - exit packages

Exit package cost band 2019-20 for Central Government and Public Corporations

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,763	4,418	7,181	-
£10,000-£50,000	2,244	4,361	6,605	0.2
£50,000-£100,000	456	1,035	1,491	0.1
>£100,000	253	257	510	0.1
Total	**5,716**	**10,071**	**15,787**	**0.4**

<£10,000 consists of £29.9m in total costs which has been rounded down to £0.0bn.

Exit package cost band 2019-20 for Local Government

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	4,751	9,767	14,518	0.2
£40,000-£60,000	260	1,411	1,671	-
£60,000-£100,000	225	732	957	0.1
>£100,000	162	553	715	0.1
Total	**5,398**	**12,463**	**17,861**	**0.4**

£40,000 - £60,000 consists of £50m in total costs which has been rounded down to £0.0bn.

Exit package cost band 2018-19

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total Cost £bn
<£10,000	2,956	4,177	7,133	-
£10,000-£50,000	9,393	17,777	27,170	0.5
£50,000-£100,000	660	1,931	2,591	0.2
>£100,000	301	824	1,125	0.2
Total	**13,310**	**24,709**	**38,019**	**0.9**

WGA is presenting more granular information on exit packages, consisting of a breakdown of central government and local government. This will be established for future years.

Note 8. Purchase of goods, services and other expenditure

	2019-20 £bn	2018-19 £bn
Central government		
Department of Health and Social Care	66.1	62.9
Ministry of Defence	15.9	15.5
Academies	5.8	5.7
Scottish Government	6.7	5.1
Department for Transport	4.1	2.9
Welsh Government	3.8	3.5
Ministry of Justice	3.3	3.2
Home Office	2.5	2.7
Department for Education	2.1	2.3
Department for Business, Energy & Industrial Strategy	3.7	2.2
Other	18.2	14.8
Total Central government	132.2	120.8
Local government	82.4	77.6
Public Corporations		
British Broadcasting Corporation	3.0	2.8
Other	6.0	5.3
Total Public Corporations	9.0	8.1
Total purchases of goods, services and other expenditure	223.6	206.5

Total purchases of goods, services and other expenditure increased by £17.1 billion (8.3%) in 2019-20.

The key categories of expenditure are shown in the table below:

	2019-20 £bn	2018-19 £bn
Facilities costs	8.1	7.7
Accommodation costs	10.0	10.3
Medical goods and services	52.1	51.2
ICT outsourcing and support	4.9	3.6
Travel costs	3.8	3.8
Other goods and services	60.7	57.5
Other expenses	52.9	44.3
Rental and PFI costs	8.0	7.9
Audit costs	0.2	0.2
Loss on disposal of assets	2.3	3.8

The figures shown in the above tables are after elimination of intra-government transactions and WGA accounting adjustments, so will not be reconcilable to individual departmental accounts. The figures have been split between Central government, Local government and Public Corporation entities.

Total Central government balances increased by £11.4 billion (9.4%) in 2019-20. The main elements of the increase relate primarily to expenditure on healthcare services by the Department for Health and Social Care of £3.2 billion and by the Scottish Government of £1.6 billion, increase of £1.5 billion due to the recognition of Capacity Market Payments by the Department for Business, Energy and Industrial Strategy due to the suspension of the Capacity Market in 2018-19, election and referendum costs incurred by the Cabinet Office of £0.3 billion in 2019-20 and other expenditure of £4.8 billion.

Local government balances increased by £4.8 billion (6.2%) in 2019-20 representing an overall increase in spending across local government entities.

Total Public Corporations balances increased by £0.9 billion (11.1%) in 2019-20, mainly relating to programme-related expenditure incurred by the British Broadcasting Corporation.

Note 9. Grants and subsidies

	2019-20 £bn	2018-19 £bn
Further and higher education sector grants	19.8	19.6
Contribution to the EU budget	12.9	12.9
EU grants and subsidies to the private sector	3.4	4.1
Overseas assistance and contributions	8.8	9.1
Scottish Government grants	3.5	2.9
Welsh Government grants	1.6	1.6
Northern Ireland government grants	0.6	0.7
Cultural, heritage and sports grants	2.0	2.1
Transport grants and subsidies	2.0	1.4
Other grants and subsidies	7.6	4.4
Total grants and subsidies	**62.2**	**58.8**

Further and higher education grants are paid to colleges and universities; and includes the funding for Science and Research.
The UK's contribution to the EU budget is the amount payable to the EU after the UK's rebate has been applied, and prepayment to the EU budget removed.

EU grants and subsidies to the private sector relate to projects which have been approved and funded by the EU but are administered by government, such as agricultural support, maritime and fisheries, and funding by region. The EU reimburses the UK for this expenditure and the corresponding income is included in Note 5.

Overseas assistance and contributions include contributions (91%) made by the Department for International Development (DFID). DFID leads the UK's work to end extreme poverty. DFID's Secretary of State has overall oversight for the Sustainable Development Goals (SDGs), and the department is responsible for tackling global challenges, in line with the government's UK Aid Strategy.

The Scottish Government provides a range of grants to deliver their policies as reported in the portfolio outturn statements in their consolidated accounts.

The Welsh Government provides a range of grant schemes to deliver their policies and create a fairer, more prosperous Wales. This includes funding to businesses and third sector organisations in order to improve the economy, encompassing a wide range of activities such as business start-ups, regeneration, energy saving initiatives, training and tourism.

Grants issued by **Northern Ireland Government Departments** are mainly for educational purposes. This includes funding and support to students; educational and training institutions; funding for EU programmes; and grants for educational initiatives to a wide range of organisations. In additional to educational grants there are many small grants to community groups, charities, and local businesses.

Other grants and subsidies includes any other grant or subsidy type not separately broken out above. This includes housing grants, which cover a range of initiatives to improve the supply and quality of housing. More specifically, Department of Business, Energy and Industrial Strategy (BEIS) contributes to other grants and subsidies due to science and research grants being introduced within universities. Ministry of Housing, Communities and Local Government (MHCLG) also contribute to other grants and subsidies due to the Adult Social Care Fund and the Independent Living Fund.

Note 10. Depreciation and impairment

	Note	2019-20 £bn	2018-19 £bn
Depreciation of property, plant and equipment	12	31.9	31.1
Amortisation of intangible assets	14	3.7	3.5
Impairments and revaluations		15.9	13.3
Total depreciation and impairment		**51.5**	**47.9**

Impairments refers to the impairment of property, plant and equipment, intangible assets, trade receivables, financial assets and losses on revaluation.

Impairments have increased by £2.6 billion in 2019-20. Academies were the main driver of this increase with £2.5 billion impairments as the result of changing market prices, particularly for land, combined with an increase in the number of valuations conducted in 2019-20 and a refined valuation methodology.

Note 11. Finance expense

	2019-20 £bn	2018-19 £bn
Gilts	28.5	28.7
National Savings and Investment products	2.5	2.5
Treasury bills	0.7	0.4
Bank deposits and other	0.1	0.0
Total interest costs on government borrowing	31.8	31.6

Interest costs on government borrowing

In 2019-20, interest costs on government borrowing have increased by 0.6% (£0.2bn). This is stable with a 0.7% decrease in interest on gilts (£0.2bn). This is offset by a small increased cost of £0.3bn from financing Treasury Bills.

	Note	2019-20 £bn	2018-19 £bn
Pension financing costs	24	61.9	47.3
Provision financing costs	22	(8.2)	(115.8)
Other finance expense		12.3	11.9
Total financing costs of long-term liabilities		66.0	(56.6)

Financing costs of long-term liabilities

Other finance expense mostly consists of interest payable to the private sector and has increased in 2019-20 by £0.4bn. This is largely driven by the Non-Private Finance Initiative (PFI) finance leases within Bank of England of £3.7bn (2018-19: £3.2bn).

Pension financing costs have increased in 2019-20 by £14.6bn (30.9%). The variance is primarily due to an increase in the expense cost for National Health Service Pension Scheme (£2.0 billion), the Teachers' Pension Scheme (England & Wales) Civil Superannuation (£1.2 billion), Civil Superannuation (£1.0 billion) and Armed Forces Retired Pay Pensions (£0.7 billion). The variance is due to a change in actuarial assumptions. Further details can be found in Note 24.

Provisions financing includes the impact of changes of discount rates for provisions. In 2018-19 there was an increase in long term discount rates that led to provisions decreasing. The Treasury changed policy on the selection of long-term discount rates for 2019-20, allowing discount rates for longer term provisions to be selected individually. This has led to an increase in discounted provisions. Further details can be found in Note 22.

Note 12. Property, plant and equipment

Property, plant and equipment 2019-20

	Infrastructure assets	Land and buildings	Assets under construction	Military equipment	Other assets	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:						
At 1 April 2019	885.4	494.2	72.3	81.1	118.2	1,651.2
Additions	13.2	11.9	26.2	2.9	5.8	60.0
Revaluations	12.9	10.9	0.2	2.9	2.0	28.9
Impairments	-	(8.0)	(0.3)	(0.1)	(0.4)	(8.8)
Reclassifications and transfers	6.2	9.2	(21.8)	3.2	1.0	(2.2)
Disposals	(0.9)	(5.9)	(0.1)	(4.2)	(5.7)	(16.8)
At 31 March 2020	**916.8**	**512.3**	**76.5**	**85.8**	**120.9**	**1,712.3**
Depreciation:						
At 1 April 2019	(228.7)	(51.5)	-	(43.3)	(59.7)	(383.2)
Charged in year	(10.7)	(11.3)	-	(3.1)	(6.8)	(31.9)
Revaluations	(1.4)	5.6	-	(1.2)	(0.2)	2.8
Impairments	-	0.4	-	-	0.2	0.6
Reclassifications and transfers	(0.4)	2.1	-	1.4	1.0	4.1
Disposals	0.3	1.6	-	1.7	5.0	8.6
At 31 March 2020	**(240.9)**	**(53.1)**	**-**	**(44.5)**	**(60.5)**	**(399.0)**
Carrying amount at 31 March 2019	656.7	442.7	72.3	37.8	58.5	1,268.0
Carrying amount at 31 March 2020	**675.9**	**459.2**	**76.5**	**41.3**	**60.4**	**1,313.3**
Asset financing:						
Owned	666.0	414.1	76.4	41.3	56.2	1,254.0
Finance leased	-	12.2	-	-	0.3	12.5
On balance sheet PFI contracts	9.9	32.9	0.1	-	3.9	46.8
Carrying amount at 31 March 2020	**675.9**	**459.2**	**76.5**	**41.3**	**60.4**	**1,313.3**

Infrastructure assets include the following:

- Railway network as reported by the Department for Transport and managed by Network Rail of £332.3 billion (2018-19: £328.8 billion)
- Strategic road network assets as reported by the Department for Transport and managed by Highways England of £128.5 billion (2018-19: £121.2 billion)
- Road network assets held by the Scottish Government of £20.9 billion (2018-19: £20.6 billion)
- Networked assets held by Scottish Water of £63.1 billion (2018-19: £61.2 billion)
- Infrastructure assets held by the Department for Infrastructure – Northern Ireland of £28.4 billion (2018-19: £28.0 billion)
- Networked assets held by the Welsh Government of £19.6 billion (2018-19: £16.8 billion)
- Networked assets held by local authorities of £75.1 billion (2018-19: £72.2 billion restated), which includes £19.0 billion (2018-19: £19.1 billion) attributable to Transport for London

The value of **infrastructure assets** has increased by £19.2 billion during 2019-20 reflecting new additions, indexation adjustments and the completion of assets under construction. These included investments in the rail and road networks by the Department for Transport and investment in transport infrastructure by Transport for London and Transport for Wales - a consolidated Welsh Government subsidiary - acquiring the Core Valley Lines from Network Rail. Further information on the valuation of infrastructure assets is included in the critical accounting estimates and judgements in Note 2.

Land and Buildings has increased by £16.5 billion during 2019-20 reflecting new additions, indexation adjustments, reclassifications and completion of assets under construction. £74.8 billion of the total carrying amount of £459.2 billion is attributable to Land, and £384.4 billion is attributable to Buildings.

Reclassifications and transfers include assets reclassified from assets under construction to other types of assets and transfers to and from intangible assets. Of the £21.9 billion outflow (including disposals) from assets under construction, £6.9 billion (2018-19: £4.0 billion) relates to the Ministry of Defence.

Other assets consist of:

	Plant and machinery £bn	Transport equipment £bn	IT equipment £bn	Furniture, fittings and other £bn	Total other assets £bn
Carrying amount at 31 March 2019	18.5	15.6	5.2	19.2	58.5
Carrying amount at 31 March 2020	19.2	15.3	5.3	20.6	60.4

Some heritage assets are not recognised on the Statement of Financial Position or in this note, as the costs of valuing these unique assets are not commensurate with the benefits. Many of these assets are held by the Department for Digital, Culture, Media & Sport (DCMS) and its arm's length bodies. For details see Note 8 of the DCMS Annual Report and Accounts 2019-20.

Property, plant and equipment 2018-19

	Infrastructure assets	Land and buildings	Assets under construction	Military equipment	Other assets	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Cost or valuation:						
At 1 April 2018	827.3	482.4	65.2	79.1	115.1	1,569.1
Additions	4.8	10.9	34.8	0.7	4.9	56.1
Revaluations	43.8	3.6	(3.5)	4.0	0.4	48.3
Impairments	-	(4.6)	(0.2)	-	(0.5)	(5.3)
Reclassifications and transfers	9.8	10.9	(23.6)	(0.1)	3.0	-
Disposals	(0.3)	(9.0)	(0.4)	(2.6)	(4.7)	(17.0)
At 31 March 2019	**885.4**	**494.2**	**72.3**	**81.1**	**118.2**	**1,651.2**
Depreciation:						
At 1 April 2018	(210.7)	(51.2)	-	(41.4)	(57.4)	(360.7)
Charged in year	(10.5)	(11.2)	-	(2.8)	(6.6)	(31.1)
Revaluations	(7.6)	6.2	-	(2.5)	0.6	(3.3)
Impairments	(0.1)	0.3	-	0.1	0.2	0.5
Reclassifications and transfers	-	1.0	-	1.6	0.3	2.9
Disposals	0.2	3.4	-	1.7	3.2	8.5
At 31 March 2019	**(228.7)**	**(51.5)**	**-**	**(43.3)**	**(59.7)**	**(383.2)**
Carrying amount at 31 March 2018	616.6	431.2	65.2	37.7	57.7	1,208.4
Carrying amount at 31 March 2019	**656.7**	**442.7**	**72.3**	**37.8**	**58.5**	**1,268.0**
Asset financing:						
Owned	647.3	398.2	71.6	37.8	53.3	1,208.2
Finance leased	-	11.5	-	-	0.9	12.4
On balance sheet PFI contracts	9.4	33.0	0.7	-	4.3	47.4
Carrying amount at 31 March 2019	**656.7**	**442.7**	**72.3**	**37.8**	**58.5**	**1,268.0**

Note 13. Investment properties

	2019-20 £bn	2018-19 £bn
As at 1 April	22.9	20.0
Additions	1.1	3.0
Revaluations and impairments	0.4	0.4
Disposals	(0.3)	(0.5)
As at 31 March	**24.1**	**22.9**

Investment properties are comprised mainly of land and buildings owned by local authorities. They provide rental income for the funding of services, as part of a financial strategy to minimize the use of general reserves to meet ongoing expenditure. Of the £24.1 billion total balance, £22.9 billion (2018-19: £21.6 billion) sits within the local government sector.

Note 14. Intangible assets

Intangible assets 2019-20

	Military equipment	Development expenditure	Software	Licences and other	Total
	£bn	£bn	£bn	£bn	£bn
Cost or valuation:					
At 1 April 2019	35.4	12.7	9.3	11.7	69.1
Additions	2.0	1.0	0.6	1.5	5.1
Revaluations and impairments	1.0	0.3	0.1	-	1.4
Reclassifications and transfers	(0.6)	(0.3)	2.0	0.2	1.3
Disposals	-	(0.2)	(0.7)	(0.8)	(1.7)
At 31 March 2020	**37.8**	**13.5**	**11.3**	**12.6**	**75.2**
Amortisation:					
At 1 April 2019	(10.8)	(6.1)	(6.9)	(7.9)	(31.7)
Charged in year	(0.9)	(0.5)	(1.0)	(1.3)	(3.7)
Revaluations and impairments	(0.4)	(0.2)	(0.1)	-	(0.7)
Reclassifications and transfers	-	-	(0.4)	(0.1)	(0.5)
Disposals	-	0.1	0.7	0.8	1.6
At 31 March 2020	**(12.1)**	**(6.7)**	**(7.7)**	**(8.5)**	**(35.0)**
Carrying amount at 31 March 2019	24.6	6.6	2.4	3.8	37.4
Carrying amount at 31 March 2020	**25.7**	**6.8**	**3.6**	**4.1**	**40.2**

Intangible assets have increased by 7.5% (£2.8 billion) from £37.4 billion in 2018-19 to £40.2 billion in 2019-20. This is driven by movements in software which has increased by £1.2 billion and military equipment which has increased by £1.1 billion. The military equipment balance relates to assets held within the Ministry of Defence, and is made up of Single Use Military Equipment and Assets Under Construction (AUC) as per the Ministry of Defence published accounts.

Intangible assets 2018-19

	Military equipment £bn	Development expenditure £bn	Software £bn	Licences and other £bn	Total £bn
Cost or valuation:					
At 1 April 2018	37.4	11.7	8.8	10.6	68.5
Additions	1.6	1.3	0.3	1.4	4.6
Revaluations and impairments	0.4	(0.1)	0.1	-	0.4
Reclassifications	0.3	(0.3)	0.6	-	0.6
Disposals	(4.3)	0.1	(0.5)	(0.3)	(5.0)
At 31 March 2019	**35.4**	**12.7**	**9.3**	**11.7**	**69.1**
Amortisation:					
At 1 April 2018	(13.5)	(5.6)	(6.2)	(7.2)	(32.5)
Charged in year	(1.0)	(0.5)	(0.8)	(1.2)	(3.5)
Revaluations and impairments	(0.4)	(0.4)	(0.1)	-	(0.9)
Reclassifications	-	0.3	(0.2)	0.2	0.3
Disposals	4.1	0.1	0.4	0.3	4.9
At 31 March 2019	**(10.8)**	**(6.1)**	**(6.9)**	**(7.9)**	**(31.7)**
Carrying amount at 31 March 2018	23.9	6.1	2.6	3.4	36.0
Carrying amount at 31 March 2019	**24.6**	**6.6**	**2.4**	**3.8**	**37.4**

Note 15. Trade and other receivables

	2019-20 £bn	2018-19 £bn
Non-current:		
Taxation and duties due	5.5	5.6
Trade receivables	2.0	1.8
Other receivables	13.3	8.5
Prepayments and accrued revenue	1.6	1.4
Welfare overpayments	2.3	2.1
Contract assets	1.7	1.8
Total before impairment	26.4	21.2
Less: provision for impairment of receivables	(4.1)	(3.3)
Total non-current trade and other receivables	**22.3**	**17.9**
Current:		
Accrued tax revenue receivable	101.6	116.9
Taxation and duties receivable	35.5	28.2
Trade receivables	11.8	14.4
Other receivables	13.0	12.9
Prepayments and accrued revenue	13.6	12.8
Welfare overpayments	0.3	0.4
Court fines	3.4	3.2
Contract assets	3.7	3.9
Total before impairment	182.9	192.7
Less: provision for impairment of receivables	(23.2)	(20.3)
Total current trade and other receivables	**159.7**	**172.4**
Total trade and other receivables	**182.0**	**190.3**

Non-current other receivables have increased due to new receivables recognised when the EU Withdrawal Agreement came into force on 1 February 2020. The Consolidated Fund has recognised a non-current receivable for £2.3 billion of European Investment Bank paid-in capital which will be returned, and HM Treasury has recognised receivables of £1.6 billion relating to the EU Financial Settlement.

Accrued tax revenue receivable represents amounts of taxes and duties relating to 2019-20 that were not yet due or received from taxpayers at year end, where these have not been included in taxation and duties due and collection is reasonably certain. A change in legislation for very large companies brought forward payment instalment periods so a greater proportion of corporation tax was received before the year end.

Taxation and duties receivable represents all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received by HMRC. The VAT payment deferral scheme introduced in response to the COVID-19 pandemic has driven much of the increase in this figure.

The provision for impairment of receivables is analysed below:

	Non-current £bn	Current £bn	2019-20 £bn	2018-19 £bn
Taxation and duties due	11.9	2.2	14.1	11.6
Welfare payments	0.4	1.6	2.0	1.4
Court fines	2.8	-	2.8	2.6
Other trade and other receivables	8.1	0.3	8.4	8.0
Total provision for impairment of receivables	**23.2**	**4.1**	**27.3**	**23.6**

Note 16. Other financial assets

	2019-20 £bn	2018-19 £bn
Non-current:		
Loans and deposits	126.0	140.7
Student loans	76.5	74.3
Equity investments	36.1	55.4
IMF quota subscription	22.3	21.4
Derivatives and other financial assets	38.3	28.8
Total non-current other financial assets	**299.2**	**320.6**
Current:		
Debt securities	118.1	105.0
Loans and deposits	71.8	64.6
Student loans	2.6	2.6
Equity investments	1.0	0.9
IMF Special drawing rights	12.9	11.8
Derivatives and other financial assets	10.6	9.4
Total current other financial assets	**217.0**	**194.3**
Total other financial assets	**516.2**	**514.9**

Non-current Loans and deposits decreased by £14.7 billion during 2019-20. Primarily due to the winding down of the Term Funding Scheme (TFS) Loan which are cash loans made to eligible participants financed by the issuance of central bank reserves secured against eligible collateral, was moved from non-current loans and deposits to current loans and deposits as they become payable. Originally these loans were made by Bank of England Asset Purchase Facility Fund (BEAPFF) Ltd (a subsidiary of the Bank of England) to counterparties but were subsequently transferred to the Bank of England.

Current Loans and deposits increased by £7.2 billion during 2019-20, due to an increase in other loans held within the Bank of England and also a rise in reverse sale and repurchase agreements held within the Exchange Equalisation Account and the Debt Management Account.

Loans and deposits comprise:

	Non-current £bn	Current £bn	2019-20 £bn	2018-19 £bn
Loans	122.2	4.9	127.1	141.1
Deposits	3.8	9.7	13.5	14.1
Repurchase agreements	-	57.2	57.2	50.1
Total loans and deposits	**126.0**	**71.8**	**197.8**	**205.3**

Loans include £4.7 billion (2018-19: £5.5 billion) of mortgage loans provided by UK Asset Resolution Limited (UKAR). The value of loans held by UKAR continues to decrease through redemptions and repayments. In 2018-19, there were sales of Bradford & Bingley (B&B) Plc and Northern Rock Asset Management's (NRAM) mortgage assets and commercial loans as part of an on-going programme aimed at returning UKAR's B&B and NRAM mortgage books to the private sector.

Deposits include those made by local government at commercial banks of £12.0 billion (2018-19: £11.9 billion).

Repurchase agreements are funds advanced to banks under reverse repurchase agreements, where securities are held as collateral and returned when the funds are repaid.

Student loans increased by £2.2 billion as a result of new loans being higher than repayments and valuation changes. A summary of changes for 2019-20 is shown below:

	2019-20 £bn	2018-19 £bn
As at 1 April	76.9	70.0
New loans issued (net of impairment)	18.9	17.0
Repayments	(2.4)	(2.0)
Fair value movement	(14.3)	(4.9)
Impairment adjustments	-	(3.2)
Total fair value movement as at 31 March	**79.1**	**76.9**

Under IFRS 9, student loans are recognised at fair value. In determining the fair value of student loans, a discounted cash flow model has been used (see table below) which includes all expected cash flows, including the interest that is expected to be received. As a result, a single fair value movement is recognised in the statement of revenue and expenditure and the Department for Education's statement of comprehensive net expenditure.

	2019-20 £bn	2018-19 £bn
Deferral of the difference in fair value and amount advanced to students on new loans	(8.9)	(7.4)
Changes made to student loan valuation model	(7.2)	(0.6)
Interest	1.7	2.0
Operational costs	(0.2)	0.1
Other fair value movement	0.3	1.0
As at 31 March	**(14.3)**	**(4.9)**

The **equity investments** held by the government comprise:

	2019-20 £bn	2018-19 £bn
RBS	8.5	18.6
European Investment Bank	-	9.9
Other	28.6	27.8
Total equity investments	**37.1**	**56.3**

The value of RBS ordinary shares decreased by £10.1 billion (2018-19: £3.2 billion decrease). The decrease in fair value in the RBS shareholding is due to unfavourable market moves, which saw the share price decrease from 247.0p on 31 March 2019 to 112.9p on 31 March 2020. The governments' remaining shareholding in RBS remain at 62% as at March 2020.

The government’s shareholding in the European Investment Bank (EIB) when the UK was a Member State was a non-current investment valued at £9,862 million as at 29 March 2019. On 31 January 2020 the UK left the EU under the terms of the Withdrawal Agreement. Article 150 of the Withdrawal Agreement provides for the return of the UK's paid-in capital in the EIB, as it stood at the point of withdrawal. The resulting asset has been recognised as a receivable and as a result the EIB asset has been reclassified from non-current investment to receivable. This has also led to a change in the measurement basis of the asset, reflecting that the government's interest is no longer in the performance of the net assets of the EIB but rather in the reimbursement of historic contributions. The loss of £7,340 million was expensed as a decrease in fair value in ‘financial assets held at fair value through the Statement of Comprehensive Income’.

The three largest contributors to 'Other' equity include: Department for International Development investment portfolio £5.2 billion (2018-19: £4.9 billion), Pension Protection Fund £4.4 billion (2018-19: £4.6 billion) and Commonwealth Development Corporation equity investment £3.9 billion (2018-19: £3.7 billion).

The IMF quota subscription and Special Drawing Rights (SDRs) relate to the UK’s investments in the IMF. On becoming a member of IMF in 1944, the UK was required to pay a quota subscription to the IMF in a mixture of SDRs, the IMF’s unit of account, and other widely accepted currencies. The UK’s quota subscription of 20.2 billion SDRs was equivalent to £22.3 billion at 31 March 2020, an increase of £0.9 billion compared to the prior year.

Debt securities primarily relate to securities issued or guaranteed by the governments of the United States, Euro-area countries and Japan, which are used to manage the government’s foreign currency reserves. The government’s increase in debt securities of £13.1 billion during the year is primarily due to increase in purchases and exchange rate related gains as most reserve currencies appreciated against sterling.

Note 17. Inventories

	Raw materials and consumables	Other	2019-20 Total	2018-19 Total
	£bn	£bn	£bn	£bn
As at 1 April	6.2	3.5	9.7	9.9
Additions	12.2	4.8	17.0	16.2
Disposals/Consumed	(11.9)	(4.1)	(16.0)	(15.0)
Write on / (offs)	0.1	(0.1)	-	-
Revaluation and reclassification	-	(0.1)	(0.1)	(1.4)
As at 31 March	**6.6**	**4.0**	**10.6**	**9.7**

The majority of raw materials and consumables are held by two government departments: Ministry of Defence (MoD) and Department of Health and Social Care (DHSC). The MoD figure of £3.8 billion (2018-19 £3.7 billion) mainly consists of engineering and technical stock (£2.3 billion) and munitions (£0.9 billion). DHSC inventories of £1.5 billion are mainly in relation to drugs and consumables.

Other inventories of £4.0 billion relate to a wide range of different stocks and supplies across the public sector. The largest component is Ministry of Housing Communities and Local Government property and development land assets of £1.2 billion.

Note 18. Cash and cash equivalents

	2019-20 £bn	2018-19 £bn
Balance at 1 April	44.2	34.3
Net change in cash and cash equivalent balances	(6.6)	9.9
Balance at 31 March	**37.6**	**44.2**
The following balances at 31 March were held at:		
Government Banking Service	(4.4)	(2.3)
Commercial banks and cash in hand	19.9	29.3
Short term investments	22.1	17.2
Balance at 31 March	**37.6**	**44.2**

Overall, Cash and Cash Equivalents decreased by £6.6 billion (14.9%) to £37.6 billion (2018-19 £44.2 billion). The Covid-19 pandemic affected the 2019-2020 cash position of public entities as public spending significantly increased towards the end of the financial year. As such, cash held by commercial banks on behalf of public sector entities dropped by £9.4 billion.

There was a £4.9 billion (28.5%) increase in short-term investments held by a range of public sector bodies including local government, the National Loans Fund, and the Bank of England which can be attributed to an increase in cash deposits as National Savings and Investment products (NS&I) were viewed more favourably by investors due to the reduced base rate.

Cash held at the Government Banking Service shows a balance of negative £4.4 billion. This consists of positive balances held by government departments as part of the Government Banking Scheme, offset by a negative balance of £25.2 billion held by the National Loans Fund. The overall balance is negative due to the way that government undertakes cash management.

Note 19. Trade and other payables

	2019-20 £bn	2018-19 £bn
Non-current:		
Trade and other payables	5.6	6.0
Accruals and deferred income	10.9	9.9
Imputed finance lease element of on-balance sheet PFI contracts	35.0	36.2
Obligations under finance leases	4.7	4.7
Contract liabilities	1.7	1.8
Total non-current trade and other payables	**57.9**	**58.6**
Current:		
Trade and other payables	49.7	43.4
Accruals and deferred income	55.5	50.9
Refunds of taxation and duties payable	33.8	34.7
Imputed finance lease element of on-balance sheet PFI contracts	1.7	1.7
Obligations under finance leases	0.3	0.3
Contract liabilities	2.2	2.3
Total current trade and other payables	**143.2**	**133.3**
Total trade and other payables	**201.1**	**191.9**

Trade and other payables and **accruals and deferred income** were held across a wide range of public sector entities and relate to both day-to-day business delivery costs and other financial obligations. There has been a significant year on year increase in this category. £3.1 billion of this increase relates to HM Revenue & Customs' Corporation Tax reliefs accrual. The main reason for this is improvements made to the models which are used to estimate these accruals balances. More information on this can be found within the 2019-20 HMRC accounts. This remainder of the rise is made up of increases across a large number of WGA entities.

Refunds of taxation and other **duties payable** relates mainly to council tax and business rates owed to the taxpayer, amounts due to VAT traders where their claim was received after the end of the year and amounts in respect of Corporation Tax, Income Tax and other small taxes expected to be repayable by HMRC pending finalisation of taxpayer liabilities.

Contract liabilities are recognised where an entity has received consideration from a customer prior to the transfer of goods and services. The largest balance of contract liability are the sums received on account by the Nuclear Decommissioning Authority relating to income from long term contracts.

Further information on **obligations under finance leases** can be found in Note 26 while further information on **PFI commitments** can be found in Note 27.

Note 20. Government borrowings

	2019-20 £bn	2018-19 £bn
Non-Current:		
Gilts	1,100.7	1,100.0
Total non-current government borrowings	**1,100.7**	**1,100.0**
Current:		
National Savings and Investment products (NS&I)	179.2	167.6
Treasury bills	83.7	79.7
Gilts	81.8	59.9
Total current government borrowings	**344.7**	**307.2**
Total government borrowings	**1,445.4**	**1,407.2**

The Government borrows to make up the shortfall between income and expenditure (including any capital expenditure). The National Accounts show a clearer picture of government borrowing used for the financing of deficits, and more detail on this can be found in Chapter 1.

NS&I products are a range of secure savings and investments offered to the public, that are backed by the Exchequer. They provide the government with a source for financing public spending. Further details of these products, and NS&I's 2019-20 accounts, can be found on the NS&I website.

There has been significant year-on-year increase of £11.6 billion in the NS&I balance, with the 2019-20 balance being £179.2 billion (2018-19: £167.6 billion). There was a similarly significant increase that existed in the previous year too (2017-18: £156.7 billion). This is due to increased customer investment in NS&I products. £38.2 billion (2018-19: £37.3 billion) was received from investors whilst payments to investors during the financial year totalled £29.2 billion (2018-19: £28.9 billion). This accounts for a large proportion of the year-on-year increase.

Treasury bills are issued by the Debt Management Office (DMO) and, along with other money market operations, are used by the DMO to meet the government's daily cash requirements. Further details on these operations can be found in the Debt Management Report 2019-20.

Gilts are UK government sterling denominated listed bonds that are fixed rate or index-linked with the return linked to movements in the Retail Price Index. As the government's debt manager, the DMO sells gilts to the market to ensure sufficient funding is available to meet the government's financial commitments. Gilts held by public sector entities are eliminated on consolidation and removed from the balance above, with the exception of gilts held by funded public sector pension schemes. The reason gilts held by funded public sector pensions schemes are not eliminated on consolidation is because funded public sector schemes are disclosed in the WGA as a single net liability figure. IAS 19 Employee Benefits states that plan assets exclude non-transferable financial instruments issued; therefore, it is permissible to include gilts and other transferable financial instruments issued. Further information regarding funded public sector pension schemes is provided in Note 24 Public Sector Pensions. Further details regarding gilts are available in the 2019-20 Debt management report and the 2019-20 accounts of the National Loans Fund.

There has been significant year-on-year increase of £21.9 billion in Current Gilts, with the 2019-20 balance being £81.8 billion (2018-19: £59.9 billion). The increase reflects significant inflows from Premium bonds and Direct saver accounts. Further information on the government's financial risk, including liquidity and funding risk, is included in Note 23.

Note 21. Other financial liabilities

	2019-20 £bn	2018-19 £bn
Non-current:		
Deposits by banks	4.0	2.8
Bank and other borrowings	69.8	70.3
Debt securities	3.2	4.5
Derivatives	26.7	19.3
Financial guarantees	0.4	0.3
Other financial liabilities	1.0	0.9
Total non-current other financial liabilities	**105.1**	**98.1**
Current:		
Deposits by banks	555.6	554.0
Banknotes in circulation	74.4	74.2
Bank and other borrowings	7.8	7.3
IMF Special Drawing Rights liability	11.1	10.8
Debt securities	1.6	0.9
Derivatives	6.3	4.9
Total current other financial liabilities	**656.8**	**652.1**
Total other financial liabilities	**761.9**	**750.2**

Deposits by banks mainly consist of deposits held by the Bank of England. The deposits are the reserves held for banks and building societies, that are repayable on demand, and are the means by which banks and building societies settle transactions.

Banknotes are issued by the Bank of England. In 2019-20 there has been a small rise in the value of notes in circulation in line with the slight increase in the prior year.

Bank and other borrowings include loans and overdrafts. The largest element in this category is the £24.7 billion (2018-19: £24.2 billion) of Network Rail total outstanding debt; as reported by the Department for Transport. Other material balances include £17 billion (2018-19: £17 billion) of non-interest bearing securities in the National Loans Fund and £7.9 billion (2018-19: £7.9 billion) in the form of loans from PWLB, the EIB and EDC and Medium Term Notes under the Euro Medium Term Note Programme, and Short Term Commercial Paper under the Euro Commercial Paper Programme in Transport for London. The Greater London Authority borrowed an extra £1.2 billion to finance Crossrail under a revised funding package bringing the overall level of debt to £5.5 billion at 31 March 2020.

The **International Monetary Fund (IMF) Special Drawing Rights (SDRs)** liability has increased slightly in 2019-20 to £11.1 billion (2018-19: £10.8 billion) due to exchange rate changes. This relates to the UK's participation in the Special Drawing Rights Agreement. A corresponding asset of £12.9 billion for the UK's actual holdings of SDRs is included in Note 16.

Derivatives include the £16.5 billion (2018-19: £12.9 billion) liability held by the Department for Business, Energy and Industrial Strategy (BEIS) relating to contracts for difference (CfDs). Contracts for difference are a mechanism used to support investment in UK low carbon energy generation projects.

Other derivatives relate to the Pension Protection Fund of £8.8 billion (2018-19: £4.9 billion) which are interest rate swaps, options, credit default swaps and forward foreign exchange contracts to support liability-driven investment.

Debt securities comprise securitised notes and covered bonds issued by HM Treasury group and the Bank of England to securitise loans to customers and to raise unsecured medium-term funding.

Note 22. Provisions for liabilities and charges

Provisions for liabilities and charges

	Nuclear decommissioning	Clinical negligence	EU liabilities	Pension Protection Fund (PPF)	Other provisions	2019-20 Total	2018-19 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
At 1 April	152.2	85.3	-	26.1	47.8	311.4	422.5
Provisions utilised in year	(3.1)	(2.5)	-	(1.0)	(8.6)	(15.2)	(13.3)
New provisions or increase in expected future pay-outs	8.6	15.1	38.7	6.0	26.3	94.7	33.3
Change in discount rate	0.2	(9.4)	-	-	0.1	(9.1)	(101.5)
Discount rate unwind	-	0.5	-	-	0.4	0.9	(14.3)
Provisions not required written back	(0.9)	(2.9)	-	-	(3.2)	(7.0)	(14.4)
Transfers to/from payables and other movements	-	-	-	-	(0.9)	(0.9)	(0.9)
At 31 March	157.0	86.1	38.7	31.1	61.9	374.8	311.4

Provision movement

	2019-20 £bn	2018-19 £bn
Provision movement		
Amounts included in the Statement of Revenue and Expenditure:		
Increase in provisions	74.3	21.0
Provision expense in cost to public services	**74.3**	**21.0**
Discount rate changes	(9.1)	(101.5)
Discount rate unwind	0.9	(14.3)
Provision financing costs	**(8.2)**	**(115.8)**
Total expenditure recognised in the Statement of Revenue and Expenditure	**66.1**	**(94.8)**
Amounts included in the Statement of Financial Position	12.5	(3.0)
Pay-outs made in year	(15.2)	(13.3)
Total provision movement	**63.4**	**(111.1)**

Provision profile

	Nuclear decommissioning	Clinical negligence	EU liabilities	Pension Protection Fund (PPF)	Other provisions	2019-20 Total	2018-19 Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Within one year	3.3	3.3	-	2.7	21.1	30.4	17.7
Between one and five years	14.0	13.1	27.6	3.9	16.3	74.9	46.3
Thereafter	139.7	69.7	11.1	24.5	24.5	269.5	247.4
Total provision liability	**157.0**	**86.1**	**38.7**	**31.1**	**61.9**	**374.8**	**311.4**
Current provisions	3.3	3.3	-	2.7	21.1	30.4	17.7
Non-current provisions	153.7	82.8	38.7	28.4	40.8	344.4	293.7

Total provision liability increased by £63.4 billion as of 31 March 2020 from £311.4 billion in 2018-19 to £374.8 billion in 2019-20. Of the total provision liability:

- £157.0 billion (2018-19: £152.2 billion) is for nuclear decommissioning
- £86.1 billion (2018-19: £85.3 billion) is for clinical negligence
- £31.1 billion (2018-19: £26.1 billion) is for the Pension Protection Fund

Inflation assumptions

In using nominal rates there is a need to inflate cashflows as such rates do not take a measure of inflation into account unlike real discount rates. HM Treasury provides the Office of Budget Responsibility (OBR) Consumer Price Index (CPI) forecasted inflation rates to be employed to expected cash flows, except where an entity has judged there is a reasoned basis for alternative rates to be employed. They are based on what is judged to be the most statistically reliable measure of inflation.

Impact of changes in discount rate

Some of government priorities carry obligations that are very long-term and will involve expenditure over decades to come. The eventual costs of these long-term projects are uncertain, but entities are required to present a single number in the annual accounts. This single number is based on best estimate of costs, technology, and other relevant factors, adjusted to reflect the changing value of money over time. The worth of future cash flows is calculated at present value in accordance with accounting standards. Provision discount rates set by HM Treasury are updated annually and have a material effect on liabilities.

Previously HM Treasury issued real rates based upon the real yield of UK index-linked gilts. From 2018-19 onwards, HM Treasury issued nominal rates that do not take account of inflation, unlike real rates. Using these nominal rates, the cash flows are inflated using inflation rates provided by HM Treasury except where a more appropriate forecast has been identified for specific provisions.

Summary table of general provisions discount rates applied for the last five years	2019-20 Nominal rate	2018-19 Nominal rate	2017-18 Real rate	2016-17 Real rate	2015-16 Real rate
Short-term	0.51%	0.76%	-2.42%	-2.70%	-1.55%
Medium-term	0.55%	1.14%	-1.85%	-1.95%	-1.00%
Long-term	1.99%	1.99%	-1.56%	-0.80%	-0.80%
Very long-term	1.99%	1.99%	-	-	-

Provision for nuclear decommissioning

Department for Business, Energy & Industrial Strategy (BEIS) £135.9 billion

The nuclear provision represents the discounted estimated cost of the decommissioning mission over approximately 120 years. Provisions for the Nuclear Decommissioning Authority and the Coal Authority relate to the expected future cost of managing the energy legacy. The Coal Authority provision relates predominantly to the Coal Authority’s responsibilities for mine water treatment, public safety and subsidence, and subsidence pumping stations. The Nuclear Decommissioning Authority’s management’s best estimate of the future costs of the estate is based on an assumed inventory of materials, using strategies for retrieval and disposal over several decades. Each of these elements (quantity, method, and time to treat) is uncertain, as is the cost of developing the necessary technology and plans to deal with these activities. The quality of the forecast becomes less certain the longer the projection.

The Nuclear Decommissioning Agency (NDA) calculates its provision based on management’s best estimate of the future costs of the decommissioning programme, which is expected to take until 2137 to complete. In preparing the estimate, the NDA has focused on the first 20 years which represent £56.0 billion out of the total £134.0 billion provision (31 March 2019: £50.0 billion out of £130.0 billion). The estimates are necessarily based on assumptions about the processes and methods likely to be used to discharge the obligations and reflect the latest technical knowledge, existing regulatory requirements, Government policy and commercial agreements. Given the very long timescale and the complexity of the plants and material being handled, considerable uncertainty remains in the cost estimate, particularly in the later years. The NDA also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. Sellafield has always been the NDA’s largest area of spend and has been increasingly prioritised in recent years as funding is directed towards the estate’s highest hazards. Sellafield represents activities associated with operation of the site, reprocessing and eventual decommissioning, and includes all site overheads.

For 2019-20, general provisions were subject to four separate nominal discount rates as prescribed by HM Treasury, according to the expected timing of cashflows.

Real Discount Rates	2019-20	2018-19	2017-18	Period from consolidated position
Short-term	-1.36%	-1.22%	-2.42%	0 to 5 years
Medium-term	-1.43%	-1.31%	-1.85%	5 to 10 years
Long-term	-1.42%	-0.94%	-1.56%	10 to 40 years
Very long-term	-0.01%	-0.11%	-1.56%	Over 40 years

The impact of the change in the discounting approach is included in the "Change in discount rate" movement of provisions. Where expenditure in settlement of a provision is expected to be recovered from a third party, the recoverable amount is treated as a separate asset. Provision charges in the Statement of Comprehensive Net Expenditure are shown net of changes in these recoverable amounts.

Ministry of Defence (MOD) £11.7 billion

Provisions have been made for the cost of the treatment, storage and disposal of the nuclear materials, Irradiated Fuel and Radioactive Waste arising from the Defence Nuclear Programme as well as for the decommissioning of sites, facilities and 31 out of service and operational submarines for which the MOD is ultimately responsible. The totality of nuclear provisions addresses a programme of work which is currently expected to extend over the next 118 years. In estimating the value of the provision required to settle the Department's obligations, there remains a significant degree of inherent uncertainty in the future cost estimates and the assumptions that underpin them. The quality of the forecast becomes less certain the longer the projection. Some of the nuclear provisions are based on best estimate of future costs over the next 100+ years. Should outcomes differ from assumptions in any of the following areas this may require material adjustments to the value of the nuclear decommissioning provisions and related assets and liabilities:

The time over which the work will be delivered with the programme of work not scheduled to conclude until well into the next century.

- Interdependencies between programmes of work, for example, a Geological Disposal Facility (GDF) is assumed to be the end point for MOD's higher activity waste. If the assumptions underpinning a GDF were to change, this would have a direct impact on the provisions held by the Department.
- Uncertainty over future Government policy positions and potential regulatory changes.
- Possible technological advances which could impact the work to be undertaken to decommission and clean up the sites.

Nuclear Liabilities Fund (NLF) £9.37 billion

The provision represents the fund's future potential liability to the Licensee (EDFE) at the date of the statement of financial position. In accordance with the Nuclear Liabilities Funding Agreement (NLFA), the liability of the fund in respect of qualifying liabilities will at all times be limited to the assets available to it. The Secretary of State for the Department for Business, Energy and Industrial Strategy has undertaken that HM Government will be responsible for meeting qualifying liabilities to the extent that the fund does not have sufficient assets available to it. The provision has been set so that the total provisions for qualifying liabilities equal the total net assets less current liabilities and called up share capital of the fund. The process by which Energy Nuclear Generation Limited (EDFE) determines its qualifying liabilities is prescribed by the

NLFA. Under its terms, EDFE is required to prepare and update full life plans for decommissioning their power stations every five years, or three years prior to station closure, or in the event legislation or government policy changes, whichever occurs first. These plans are required to contain the most recent estimates of the costs of decommissioning.

Provision for EU Liabilities Funding

HM Treasury (HMT) £38.7 billion

EU Financial Settlement: Article 140 – Reste a Liquider (RAL)
Under Article 140 of the Withdrawal Agreement "Outstanding Commitments", the UK remains responsible for its share of the EU Budget commitments made during the UK's participation in the EU Budget over the 2014-20 MFF (ending December 2020). The RAL represents EU budgetary commitments that have been made and are expected to result in payments by the EU in the future. Budgetary commitments that are subsequently decommitted, for example where the underlying programme does not go ahead, are removed from the RAL. The UK is only liable to pay a share of RAL at the end of 2020 to the extent it crystallises as payments by the EU. The UK's liability under Article 140 will be reduced by a number of items, including: the amount of net financial corrections; the proceeds of any Member State Making Available Resources infringements; and Traditional Own Resources adjustments.

EU Financial Settlement: Article 142 – Union Liabilities at End 2020
Under Article 142 of the Withdrawal Agreement "Union Liabilities at End 2020", the UK will pay a share of the EU's payments for the employment and other related benefits accrued by EU employees up to the end of 2020. Specifically, these benefits are materially comprised of pensions schemes and the Joint Sickness Insurance Scheme (JSIS). The EU has always been due to pay these benefits. Expenditure to settle in-year benefits is incurred by the EU and accordingly by all Member States as part of their budget contributions. As an ongoing member of the EU, and in accordance with generally accepted accounting practice for pensions and similar benefits, no provision was recognised by the UK in previous years. As the UK has now left the EU, the Withdrawal Agreement in effect crystallises a liability for the UK and HM Treasury is required to make provisions for the future cash outflow.

Provision for clinical negligence

Department of Health and Social Care (DHSC) £83.77 billion

The Department of Health and Social Care provides for future costs in several cases where it is the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence. NHS England, NHS Foundation Trusts and NHS Trusts retain legal responsibility for all liabilities covered by the clinical negligence schemes: The Ex-Regional Health Authority Scheme (ex RHA), Existing Liabilities Scheme (ELS) and Clinical Negligence Scheme for Trusts (CNST), but NHS Resolution (NHSR) accounts for all the liabilities under these separate schemes. Actuaries appointed by NHSR undertake regular reviews to identify movements in the value of likely future settlements under these schemes, and these are recorded in the NHSR's annual accounts.

Additionally this year, the provision includes liabilities relating to the Clinical Negligence Scheme for General Practice (CNSGP) which covers clinical negligence claims for incidents occurring in general practice on or after 1 April 2019 and the Existing Liabilities for General Practice (ELGP) under which NHS Resolution carry out the Secretary of State's oversight and governance responsibilities, under the interim arrangements relating to existing liabilities agreed with two medical defence organisations (MDOs).

A new scheme, the Clinical Negligence Scheme for Coronavirus (CNSC), was launched on 3 April 2020 in response to the need for government to provide indemnity cover for clinical negligence arising from the NHS healthcare arrangements put in place to respond to the COVID-19 pandemic. Any clinical negligence liabilities arising prior to or after this date from these coronavirus-related NHS activities are covered by CNSC by direction from Secretary of State under section 11 of the Coronavirus Act 2020 or, prior to the commencement of that section, under general powers to provide indemnity for clinical negligence. No provision is made in the 2019-20 financial accounts for additional liabilities arising under these indemnity arrangements. This is due to the proximity of these activities to year end where the volume of COVID-19 related hospital admissions increased during March 2020, and elective activity was scaled back or cancelled from 17 March 2020.

The majority (approximately 70%) of the CNST provision is because of claims arising from the brain damage of babies at birth from negligent care. The Early Notification scheme requires the notification by providers of maternity care of cases where there is a risk of brain damage at birth. The number of cases reported to the scheme was lower for March 2020 compared to the same time in previous years. However, this may be due to extended time lags in reporting of incidents because of the impact of the pandemic on frontline priorities, and because of the changes in reporting requirements for the maternity incentive and Early Notification schemes during March and April 2020 respectively. At the point of DHSC signing the accounts, it was therefore too early to assess whether there will be a change in the level of risk in relation to brain damage at birth cases, the most significant factor in the provision valuation. Consequently, it is considered that the likely impact of the pandemic on the incidence of claims on or before 31 March 2020 is immaterial to the 2019-20 accounts.

Clinical negligence claims which may succeed, but are less likely or cannot be reliably estimated, are accounted for as contingent liabilities. Known reported claims are individually valued using likely costs to resolve the claim and probability factors to take account of the potential of a successful defence, whilst Incurred But Not Reported (IBNR) claims are valued using actuarial models to predict likely values. The value of the provision increased by £0.69 billion in 2019-20 from £83.1 billion on 31 March 2019 to £83.7 billion on 31 March 2020. £9.4 billion of this (a decrease) is related to a change in the provision for discounting (mainly due to the impact of changing inflationary expectations over the year), and a £10.1 billion (increase) is net movement on provisions created and written back in the year, utilised, and unwinding of discount. Of the overall increase of £0.7 billion, £1.31 billion relates to liabilities arising from the general practice indemnity arrangements put in place during the financial year.

These provisions represent the English element of the clinical negligence provision shown in the accounts and is the value in today's prices of the cost of claims arising from harm that occurred up to 31 March 2020. In 2019-20 NHSR received 11,682 new clinical negligence claims and reported incidents, compared to 10,684 in 2018/19, an increase of 998 (9.3%). This includes 401 claims and incidents for the new CNSGP scheme. The number of new non-clinical claims, typically employers' and public liability claims, rose from 3,585 received in 2018-19 to 3,744 in 2019-

20, an increase of 159 (4.4%). As many claims are not paid out immediately but instead involve payments over many years, the liability includes determined claims as well as claims that are considered likely to be determined in the claimant's favour.

The HM Treasury PES discount rate note from December 2019 states that all cash flows should be assumed to increase in line with the Office for Budget Responsibility (OBR) Consumer Price Index (CPI) inflation rates unless three specific conditions are met. NHS Resolution have determined that in relation to Clinical Negligence the three conditions have been met and have therefore used alternative inflation measures for the IBNR provision and settled PPO claims. Further information including additional detail regarding key assumptions and areas of uncertainty is available in NHSR's Annual Report and Accounts.

Welsh Government Clinical Negligence £1.2 billion

NHS Wales organisations provide for legal or constructive obligations for clinical negligence, personal injury and defence costs that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Claims are funded via the Welsh Risk Pool Services (WRPS) which receives an annual top-slice allocation from Welsh Government.

Significant estimations are made in relation to on-going clinical negligence and personal injury claims. Assumptions as to the likely outcome, the potential liabilities and the timings of these litigation claims are provided by independent legal advisors.

Scottish Government Clinical Negligence £0.81 billion

Clinical and medical negligence costs included within provisions totals £0.81billion (2018-19: £0.78 billion) which represents the national liability for the Scottish Government.

Other provisions

Other provisions include a wide range of provisions across all parts of the public sector. These include provisions in relation to injury benefits, medical costs, criminal injuries compensation, legal costs, compulsory purchases, concessionary fuel allowance to ex-miners, mine water treatment, public safety and subsidence, subsidence pumping stations and tip management, claims in respect of structural damage and diminution of value of properties affected by transport schemes, and compensation payments for termination of employment. The most significant provisions included in this balance are:

Financial Assistance Scheme £5.49 billion (2018-19: £5.7 billion)

This is held by the Department for Work and Pensions (DWP) for the Financial Assistance Scheme (FAS). FAS aids members of defined benefit occupational pension schemes that were wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005. The FAS provision is to provide for the liabilities arising from any qualifying schemes once the assets from such schemes have transferred to government. The provision is an estimate of the current value of the liability to make payments to pensioners under the FAS scheme. The provision is calculated by using a long-term cash forecast model provided by Pension Protection Fund (PPF) who are responsible for the administration of FAS. The cash flows are then discounted, at rates provided by HM Treasury, to give their present value at the year end. The impact of COVID-19 on the wider economy has the potential to affect asset values, but any impact is expected to be relatively immaterial in the context of the wider DWP accounts. Due to the nature of the assets, which are low value and largely held as annuities, any market volatility arising because of COVID-19 is immaterial. Due to the long-term nature of the liabilities and the assumptions on which the estimate of the provision is based, which could potentially be impacted by the wider economic effects of COVID-19, some uncertainty about the value of the liability remains.

Pension scheme claims £31.1 billion (2018-19: £26.1 billion)

This is amount held by the Pension Protection Fund relating to liabilities to pay compensation to members and claims from pension schemes. The Pension Protection Fund retains the assets of the pension plans it rescues and generates investment growth to support the obligations it acquires. At 31 March 2020, it had £42.8 billion of assets under management, £5 billion in excess of its liabilities.

Oil and gas field decommissioning costs £9.4 billion (2018-19: £8.3 billion)

Oil and gas field decommissioning costs, where companies decommissioning oil and gas infrastructure in the North Sea are entitled to recover tax previously paid in relation to profits from those oil and gas fields. As of 31 March 2020, HMRC estimates that it will have to repay £9.4 billion (2018 -19: £8.3 billion) of tax in relation to oil and gas field decommissioning. This is the estimated amount that HMRC will repay based on the estimated tax repayments of PRT £3.6 billion (£2.9 billion in 2018 -19) and offshore CT £5.8 billion (£5.4 billion in 2018-19) to companies incurring losses from decommissioning expenditure over the period to 2065. The key determinants of the provision estimate are future decommissioning costs from the Oil and Gas Authority's (OGA) Asset Stewardship Survey, economic determinants (including oil & gas prices, production, and the US Dollar/ Sterling exchange rate) from the Office for Budget Responsibility's (OBR) July 2020 Fiscal Sustainability Report (FSR) as well as the discount rates from HM Treasury. There has been a £1.1 billion increase in the overall provision since last year. The impact of the lower forecast oil and gas prices used this year was to increase the provision due to increased forecast repayments, but this effect was partially offset by reduced decommissioning costs in nominal terms.

The largest impact on the size of the provision, and biggest source of uncertainty in estimating it, is future decommissioning costs. Annually, the OGA estimates the total costs of remaining oil and gas decommissioning for the UKCS, including newly sanctioned projects, and changes to the portfolio of potential, as yet unsanctioned projects. Recognising the uncertainty around this, the OGA gives a range for expected decommissioning costs for UKCS oil and gas infrastructure over the remaining life of the North Sea basin. The £9.4 billion provision is calculated using the OGA's central estimate for decommissioning costs of £51 billion in 2019 prices. The main economic determinant which drives the provision are oil and gas prices. The provision is also impacted by interest rate and foreign exchange rates.

Tax Cases Legal claims £4.9 billion (2018-19: £4.7 billion)

Legal claims, where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. Due to the inherent uncertainty in the estimate of the provision, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations, and possible settlement discussions. Provisions were reviewed during 2019 to 2020; discounting has not been applied on the basis of materiality.

Note 23. Financial instruments

WGA adopted IFRS 9 'Financial Instruments' from 1 April 2018. This financial instrument note has two parts. The first part provides information on the significance of financial instruments on the government's balance sheet. The second part provides information about the nature and extent of risks arising from financial instruments and what the government does to manage and mitigate these risks.

Financial assets by category 2019-20

	Note	Cash and cash equivalents	Amortised Cost	Fair Value Through Profit or loss (FVTPL)	Fair Value Through Other Comprehensive income (FVTOCI)	2019-20 Total
		£bn	£bn	£bn	£bn	£bn
Cash and cash equivalents	18	37.6	-	-	-	37.6
Trade and other receivables	15	-	182.0	-	-	182.0
Debt securities	16	-	-	118.1	-	118.1
Loans and deposits (including REPOS)	16	-	176.9	15.9	5.0	197.8
Student loans	16	-	-	79.1	-	79.1
Equity investments	16	-	-	19.3	17.8	37.1
IMF quota subscription	16	-	-	22.3	-	22.3
IMF Special Drawing Rights	16	-	-	12.9	-	12.9
Other	16	-	4.4	44.2	0.3	48.9
Total financial assets		**37.6**	**363.3**	**311.8**	**23.1**	**735.8**

Most **debt securities** (£92.2 billion, 2018-19: £81.0 billion) are held in the EEA, and comprise the UK's official holding of international reserves. The government holds foreign currency reserves on a precautionary basis to meet current policy objectives to regulate the exchange value of sterling and any potential future changes in policy.

Other significant financial assets include those lent under the Funding for Lending Scheme (FLS). Under FLS participating banks and building societies can borrow Treasury Bills from the Bank of England in exchange for eligible collateral. As at 31 March 2020, on an amortised cost basis, £3.2 billion (2018-19: £23.2 billion) of Treasury Bills issued for the FLS were outstanding; further details are available from the accounts of both the National Loans Fund and the Bank of England.

Balances with the IMF are made up of the IMF quota subscription (£22.3 billion, 2018-19: £21.4 billion) and IMF Special Drawing Rights (SDRs) (£12.9 billion, 2018-19: £11.8 billion). SDRs are an international reserve asset created by the IMF. SDRs represent a claim to currency held by IMF member countries for which they may be exchanged. The government's holdings result from SDR allocations made by the IMF, any subsequent purchases and sales of SDRs from or to other IMF members and fair value changes.

The largest balance within **other financial instruments** is derivatives (£11.9 billion, 2018-19: £8.2 billion). Of the derivatives balance the largest individual material balances are with the Pension Protection Fund (PPF) (£9.3 billion, 2018-19: £5.4 billion), and EEA (£1.7 billion, 2018-19: £1.7 billion). The PPF manage the risks associated with this by using counterparties rated at least A- (or subject to increased collateral) and are subject to overall exposure limits. The EEA manage the risks associated with this by counterparty and issuer limits and collateralisation. Further details can be found in the PPF and EEA accounts.

The government also has gold holdings which are treated as being like a financial asset and are reported at fair value based on the sterling equivalent of the dollar denominated spot bid price as at 31 March 2020. During 2019-20, the price of gold rose from £994 to £1,296 per ounce, an increase of 30% giving rise to a revaluation gain of £2.9 billion.

Financial liabilities by category 2019-20

	Note	Carried at amortised cost	Fair Value Through Profit or Loss (FVPL)	2019-20 Total
		£bn	£bn	£bn
Trade and other payables	19	201.1	-	201.1
Government borrowings	20	1,445.4	-	1,445.4
Deposits by banks	21	522.2	37.4	559.6
Banknotes in circulation	21	74.4	-	74.4
Bank and other borrowings	21	77.6	-	77.6
Derivatives	21	-	33.0	33.0
Debt securities	21	4.8	-	4.8
IMF Special Drawing Rights liability	21	-	11.1	11.1
Financial guarantees	21	0.2	0.2	0.4
Other	21	0.2	0.8	1.0
Total financial liabilities		**2,325.9**	**82.5**	**2,408.4**

Following the adoption of IFRS 9 in 2018-19, there have been no substantive changes to the disclosure of financial liabilities under IFRS 9 within the 2019-20 WGA.

In most cases the value of assets and liabilities shown on the statement of financial position either equals or is a reasonable approximation of fair value. The main exceptions are government borrowings and the Contracts for Differences (CfD) liability (included in derivatives in the table above). Gilt-edged securities have a carrying amount of £1,182.5 billion (2018-19: £1,160.0 billion) and a fair value of £1,639.1 billion (2018-19: £1,496.1 billion), reflecting the higher amount that investors are willing to pay in order to secure a certain level of interest payment. The CfD liability has a carrying value of £16.5 billion (2018-19: £12.9 billion) and a fair value of £89.6 billion (2018-19: £35.2 billion). The increase of £54.4 billion in fair value is mainly due to revisions to the wholesale price electricity forecasts that are expected to be achieved by generators and payments made during the 2019-20 year and the exclusion of liability for Hinkley Point C (HPC) in the comparative figure. The best estimate of fair value as at 31 March 2020 for the HPC CfD liability is £50.8 billion (2018-19: £30.3 billion). It should be noted that this liability was not recognised in the 2018-19 WGA financial statement due to the unavoidable uncertainties in creating a fair value estimate for HPC. However, this CfD has been recognised in the current year. Further details can be found in the Department for Business, Energy and Industry Strategy (BEIS) annual report and accounts, and in Note 2 of WGA.

Fair value hierarchy

Assets and liabilities carried at fair value are valued using a 'fair value hierarchy' which gives highest priority to quoted prices in active markets for identical instruments (level 1 inputs), second priority to valuation techniques based on observable inputs (level 2) and lowest priority to valuation techniques using unobservable inputs. Where valuation techniques are based on unobservable inputs (level 3) then the appropriate valuation technique is chosen, including use of discounting of future cash flows and the use of the net asset values underlying the unquoted equity investment. The table below summarises asset and liability fair values based on the valuation technique used.

Fair value hierarchy 2019-20

	Level 1 £bn	Level 2 £bn	Level 3 £bn	2019-20 Total £bn
Financial assets at fair value:				
Debt securities	106.7	8.0	3.4	118.1
Equity investments	21.1	1.2	14.8	37.1
IMF quota	-	22.3	-	22.3
IMF Special Drawing Rights	12.9	-	-	12.9
Loans and deposits (including REPO)	0.7	14.4	5.8	20.9
Student loans	-	-	79.1	79.1
Other	3.2	32.4	8.9	44.5
Financial liabilities at fair value:				
Deposits by banks	(3.7)	(33.7)	-	(37.4)
IMF SDR allocation	(11.1)	-	-	(11.1)
Other	(0.5)	(16.1)	(17.4)	(34.0)

The most significant individual level 3 assets balance is student loans which is not observable market data. Further details can be found in the annual report and accounts of the Department for Education. Second is the CfD contracts which use a discounted cash flow methodology, further details can be found in the annual report and accounts of BEIS.

The most significant level 1 asset within equity investments is in the Royal Bank of Scotland (RBS) relating to HMT's holding of RBS ordinary shares. The valuation of this asset changes based on the movement of the market. Further details can be found in the accounts of the HMT.‡

Liquidity risk

The government's objective when funding its activities is to minimise, over the long term, the costs of meeting the government's financing needs considering risk, while ensuring that debt management policy is consistent with the aims of monetary policy.

Each year, the government assesses the costs and risks associated with different possible patterns of debt issuance, considering the most up-to-date evidence and information about market conditions and demand for debt instruments. This information is used to set the Debt Management Office's (DMO's) financing remit which is published alongside the Budget and updated during the year to reflect changes to the government's cash requirements.

‡https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/922357/HMT_Group_Annual_Report_and_Accounts_2019-20__003__for_web_accessible.pdf

There is a risk that the government will need to roll over high levels of debt continuously, or redemptions will be concentrated in particular years; this risk is mitigated by taking decisions which spread gilt issuance along a maturity spectrum. The issuance profile used in 2019-20 is summarised below:

	Short conventional (0-7 years)	Medium conventional (7-15 years)	Long conventional (over 15 years)	Index linked	Unallocated
2019-20 debt issuance %	31%	25%	27%	17%	0%

Local authorities adopt independent liquidity risk management, and this is done within a statutory framework. Local authorities are required by the Local Government Finance Act 1992 to provide a balanced budget, which ensures enough funds are raised to cover annual expenditure. Medium term plans generally set targets for liquidity ratios, which are approved as part of the annual budget setting process. To manage liquidity risk, local authorities can access borrowings from the money markets to cover any day-to-day cash flow need and can access longer term funds from financial institutions or from the government's Public Works Loan Board. Balances between the Public Works Loan Board and local authorities are eliminated on consolidation within WGA.

Interest rate risk

At present, annual debt management decisions are made in the context of an elevated level of debt relative to gross domestic product (GDP), high government borrowing and fiscal consolidation. The government takes annual decisions that enhance fiscal decisions by a) mitigating refinancing risk, that is, the need to roll over high levels of debt continuously and to avoid concentrating redemptions in particular years, by taking decisions which spread gilt issuance along the maturity spectrum, b) encouraging the liquidity and efficiency of the gilt market and c) maintaining a diversity of exposure, both real and nominal, across the maturity spectrum, reflecting its preference for a balanced portfolio. As a result, subject to cost-effective financing, the government has decided to maintain a relatively long average maturity in the debt portfolio to limit exposure to refinancing risk and has also issued an appropriate balance of conventional and index-linked gilts over a range of maturities, taking account of structural demand, the diversity of the investor base and the government's preferences for inflation exposure. The government is exposed to cash flow interest rate risk on its remaining floating-rate investments and borrowings.

The most significant floating rate investments and borrowings are index-linked gilts and National Savings & Investments (NS&I) products, debt issued by Network Rail and student loans. Other central government departments do not invest or access funds from commercial sources, so have negligible exposure to interest rate risk Index-linked gilts expose the government to both interest rate risk and inflation risk whereby interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in RPI. If interest rates were to increase by 100 basis points then this would increase the government's borrowing costs by £2.2 billion (2018-19: £1.4 billion) and if RPI were to increase by 100 basis points then the government's borrowing costs would rise by £5.1 billion (2018-19: £4.8 billion). An element of this would be eliminated within the government boundary.

Network Rail has a combination of fixed, floating and index-linked debt issuances. As with the government's gilt portfolio, this gives rise to interest rate risk and inflation risk. Considering the impact on fair-valued debt issuances and the derivatives Network Rail uses to manage interest rate risk, if interest rates were to increase by 100 basis points then this would decrease Network Rail's net expenditure by £0.3 billion (2018-19: £0.5 billion decrease) and if the RPI were to increase by 100 basis points then Network Rail's net expenditure would increase by £0.2 billion (2018-19: £0.2 billion increase).

The interest rate on pre 2012 student loans is the lower of RPI and the Bank of England base rate plus 1%. The amount of interest repayable is therefore subject to fluctuations in base rates and RPI. The impact of the interest rate risk for student loan issued under the pre 2012 scheme is factored into the carrying value as the student loan repayment model calculates the impact of the interest rate on expected future cash flows. There is inherent risk in forecasting the amount of interest payable and if the UK experiences base rates that are lower than RPI the future cash flows will be impaired further. It would require a change in RPI of +3.7% (2018-19: +3.2%) to decrease the value of the pre 2012 loan book by 1%. The same change in the post 2012 undergraduate full time loan book would require a 3.8% (2018-19: 4.1%) decrease in RPI to increase the value of the loan book by 1%, with a 3.8% (2018-19: 4.1%) increase in RPI to decrease the value of loan book by 1%.

Credit risk

The categories of financial assets with inherent significant credit risks are: loans and deposits (£197.8 billion) and student loans (£79.1 billion).

Loans and deposits mainly comprise loans provided through the Term Funding Scheme (TFS) of £107.2bn (2018-19: £121.4bn). The Bank of England manages credit risk by ensuring that exposures are fully backed by collateral, with appropriate adjustments made between the asset market value and the value that can be used for collateral purposes. The range of collateral can include mortgage-backed securities, covered bonds with preferential terms backed by a pool of mortgages or public sector securities, or portfolios of loans in unsecured form. The collateral must meet published eligibility criteria. A summary of eligible criteria is available on the Bank of England website, and further details can be found in the Bank of England annual report and accounts.

A further £57.2 billion (2018-19 £50.1 billion) of loans and deposits arise from reverse sale and repurchase agreements (REPOS). These agreements are mainly entered into by the Bank of England, DMA, and EEA. Exposures to credit risk are fully collateralised and assets held as collateral are revalued daily. The government returns collateral to the provider of collateral, or requests additional collateral, depending on whether the value of collateral has risen or fallen. Details on collateral held under these agreements can be found in the accounts of the Bank of England, the DMA and the EEA.

Loans and deposits also include mortgage loans made by UKAR (£5.0 billion, 2018-19: £5.5 billion) which are not rated but are assessed for expected credit loss. Details on the credit quality of these mortgage loans can be found in UKAR's accounts.

Student loans are a source of a credit risk. Eligible students can get loans regardless of their credit rating in order to support the policy aim of encouraging students to enter higher and further education. There is no obligation to repay the loan until the borrower's income reaches a certain income threshold and there are other circumstances when the loan will be written off, for example based on the age of the student. Therefore, even though most repayments are collected by HMRC as part of the tax collection process, not all the loans will be repaid.

The total balance sheet value of student loans provided by government, including those via the devolved administrations, is £79.1 billion (2018-19: £76.9 billion). The Department for Education, representing English students, holds £69.2 billion (2018-19: £67.9 billion). The face value of the Department for Education's loan book was £137.7 billion (2018-19: £116.8 billion face value). In March 2020, the Chancellor announced that the government would not pursue future student loan sales following a review which determined that sales no longer aligned with fiscal policy. The pre-sale costs were written off in the DfE Statement of Comprehensive Net Expenditure (SoCNE). The loan book continues to be accounted for under fair value per IFRS 9. In determining the fair value of student loans, DfE has used a discounted cash flow model and this includes all expected cash flows and recognised credit losses, including the interest that is expected to be received. As a result, a single fair value movement is now recognised in the DfE statement of comprehensive net expenditure.

Impact on scope of modelling assumptions and COVID-19

The OBR published new macroeconomic scenarios for three COVID-19 scenarios in mid-July 2020. Of these, determinants from the upside and downside scenarios have been used to compare the resulting student loan forecasts to those obtained using the central scenario which has been used to calculate the closing valuation. Note 11.3 of the DfE accounts provide more details on the modelling assumptions used to calculate the closing value of student loans. COVID-19 could cause a significant increase to unemployment as part of its wider economic effects. However, the impact on graduates forecast to make repayments on their loans is unknown. The current DfE model does not allow for unemployment to be flexed as a model input in the same way as other factors such as discount rate and RPI. The increased focus on unemployment following COVID-19 is why the absence of the input has been identified as a model weakness in 2019-20. This remains a risk.

The impact of credit risk and policy decisions on repayment conditions on all Department for Education student loans are shown by the following table of fair value assets:

	2019-20 Balance sheet value	2019-20 Face Value	2019-20 closing FV adjustment under IFRS 9	2018-19 Balance sheet value	2018-19 Face Value	2018-19 closing FV adjustment under IFRS 9
	£bn	£bn	£bn	£bn	£bn	£bn
Pre-2012 higher education loans	19.5	33.2	13.7	22.8	34.2	11.4
Post-2012 higher education loans	49.7	104.4	54.7	45.1	82.5	37.4
Total student loans held by Department for Education	**69.2**	**137.6**	**68.4**	**67.9**	**116.7**	**48.8**

Following the adoption of IFRS 9 **expected credit loss** (ECL) "forward-looking model", it is no longer necessary for a loss event to have occurred before credit losses are recognised. As in 2018-19, WGA entities are required to recognise either a 12- month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to both debt instruments accounted for at amortised cost and at FVTOCI. The figures below do not include financial assets with an ECL of zero and therefore do not match those presented elsewhere in this note.

	Expected Credit Loss for assets held at amortised cost					
Financial assets impaired	Gross financial assets	Stage 1	Stage 2	Stage 3	Simplified Impairment rule	Net financial assets
	£bn	£bn	£bn	£bn	£bn	£bn
Trade and other receivables	31.5	-	-	-	(27.3)	4.2
Loans held at amortised costs	127.1	0.1	(0.0)	(0.0)	-	127.2
Total financial assets	**158.6**	**0.1**	**(0.0)**	**(0.0)**	**(27.3)**	**131.4**

Stage 1: assets for which there has been no significant increase in credit risk since the asset's origination the impairment provision reflects the next 12 months' ECL.

Stage 2: assets for which there has been a significant increase in credit risk since the asset's origination the impairment provision reflected full lifetime ECL.

Stage 3: assets which are in default, interest income is recognised only in respect of the balance net of impairment.

The above table illustrates:

- The WGA note most affected by the changes to the impairment of financial assets, under IFRS 9, is Note 15 (Trade and other receivables).

- Entities should apply the simplified expected credit loss model approach to trade receivables. Contract assets and lease receivables, when they meet certain criteria, shall always measure the loss allowance at an amount equal to lifetime expected credit loss. WGA entities can select their own accounting policy for trade receivables, lease receivables and contract assets independently. In 2019-20, WGA entities have £27.3 billion expected credit loss under trade and other receivables.

- Most of loans held at amortised cost consist of Term Funding Scheme loans (TFS) of £107.2 billion. The Bank of England manages credit risk associated with these loans by ensuring that exposures are fully backed by collateral.

- Most of the loan liabilities held at amortised cost of £0.1bn are classified as Stage 1, which means these assets have had no significant increase in credit risk since the asset's origination.

Foreign currency assets inevitably carry some element of credit risk. In order to keep this risk at a low level, the government predominantly invests in securities issued, or guaranteed by, the national governments of the United States, Euro area countries and Japan. The EEA debt securities are held at an equivalent external rating of AA and above (£86.5 billion, 2018-19: £76.2 billion) and A to AA (£5.7 billion, 2018-19: £4.8 billion) and were held within Europe (£38.4 billion, 2018-19: £30.3 billion), North America (£48.7 billion, 2018-19: £45.9 billion), and Asia-Pacific (£5.0 billion, 2018-19: £4.7 billion). Further details on the government's credit risk management of foreign currency reserves can be found in the 2019-20 Exchange Equalisation Account.

Foreign exchange rate risk

The government is mainly exposed to foreign exchange risk on the UK's official holdings of international reserves ('the Official Reserves'). Foreign currency reserves are held on a precautionary basis that could be used, when necessary, to regulate the exchange value of sterling, and is the mechanism through which any UK government exchange rate intervention would be conducted, for example in the event of any unexpected shocks.

The **Official Reserves** comprise two components: reserves that are hedged for currency and interest rate risk ('the hedged reserves'), and the remaining reserves which are unhedged for currency and interest rate risk ('the unhedged reserves'). The Official Reserves comprises assets held by the Exchange Equalisation Account (EEA) consisting of the UK's reserves of gold, foreign currency assets, and IMF SDRs, and assets held in the National Loan Fund (NLF) comprising the UK's Reserve Tranche Position at the IMF and lending to the IMF.

The Treasury has appointed the Bank of England to act as its agent in the day-to-day management of the EEA in accordance with an agreed framework and to manage the foreign currency assets and liabilities associated with the reserves of the NLF. The Bank of England monitors and controls market risk primarily by using a Value at Risk (VaR) model. This estimates a loss level that will not be exceeded at a specified confidence level, over a defined period, so that losses will not exceed the VaR figure in 99 out of 100 two-week periods.

The Bank reports the VaR on a benchmark reserve on a six-monthly basis. The values of the benchmark reserves are based on market-to-market prices at the end of the period.

Benchmark reserves

	2020 $ Million	2019 $ Million
Hedged reserves		
Value at Risk (VaR) as at 31 March	73	72
Unhedged Reserves		
Value at Risk (VaR) as at 31 March	2,973	1,875

In addition to foreign currency reserves, the government is exposed to foreign exchange risk through the UK's transactions with the IMF. The UK's quota subscription and lending to the IMF are both denominated in SDR and are subject to valuation adjustments by the IMF. The UK's liabilities to the IMF, although denominated in sterling, are also subject to valuation adjustments by the IMF.

In 2018-19, investments in financial institutions primarily related to the value of the UK's capital investment in the European Investment Bank (EIB) of £9.9 billion as based on the UK's share of the EIB's net assets in euros. Therefore, the government was exposed to foreign exchange rate risk on the fair value of this equity investment. On 31 January 2020 the UK left the EU under the terms of the Withdrawal Agreement. Article 150 of the Withdrawal Agreement provides for the return of the UK's paid-in capital in the EIB, as it stood at the point of withdrawal. The resulting asset is recognised as a receivable. As a result, the EIB asset has been reclassified from non-current investment to receivable. This has also led to a change in the measurement basis of the asset, reflecting that the UK 's interest is no longer in the performance of the net assets of the EIB but rather in the reimbursement of historic contributions. The UK's paid-in capital was valued at £3.1 billion at the point of withdrawal and no repayment had been made at 31 March 2020.

Price Risk

The government is exposed to price risk on its shareholding in Royal Bank of Scotland (RBS). The fair value of these UK listed shares fluctuates as a result of changes in market prices. Market prices for a share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market. UK Government Investments (a wholly owned subsidiary of HM Treasury) is responsible for the development and execution of an investment strategy for disposing of the investments in RBS in an orderly and active way, within the context of protecting and creating value for the taxpayer.

Note 24. Public sector pensions

Pension liabilities

The public sector pension liabilities are summarised in the following table with figures separated out for each of the workforces. The table also shows the percentage change in the net liabilities between 2018-19 and 2019-20.

	Scheme liabilities £bn	Scheme assets £bn	2019-20 Net liabilities £bn	2018-19 Net liabilities £bn	Change in scheme liabilities %
Unfunded schemes					
NHS	760.1	-	760.1	620.1	22.6
Teachers	490.4	-	490.4	411.0	19.3
Civil Service	308.6	-	308.6	261.1	18.2
Armed Forces	233.1	-	233.1	195.3	19.4
Police	165.7	-	165.7	171.6	(3.4)
Royal Mail	49.0	-	49.0	44.0	11.4
Fire	30.8	-	30.8	31.4	(1.9)
Other unfunded	24.2	-	24.2	21.6	12.0
	2,061.9	**-**	**2,061.9**	**1,756.1**	**17.4**
Funded schemes					
Local government	359.2	(253.5)	105.7	119.5	(11.5)
Other funded	105.9	(84.0)	21.9	18.3	19.7
	465.1	**(337.5)**	**127.6**	**137.8**	**(7.4)**
Total	**2,527.0**	**(337.5)**	**2,189.5**	**1,893.9**	**15.6**

The Local Government Pensions Scheme (LGPS) is the largest funded scheme. There are over 100 LGPS funds across the UK with 88 funds in England and Wales, 14 in Scotland and 1 in Northern Ireland. The individual local authority employers that contributed to these funds recognised their proportion of the scheme liabilities in their statement of accounts. The local government funded schemes balance disclosed above includes the portion of the pension liability of the LGPS that was reported in the financial accounts of the individual local authority employers.

Other unfunded schemes include schemes within the UK Atomic Energy Authority Pension Scheme £8.6 billion (2018-19: £7.5 billion); and the Research Councils Pension Scheme (RCPS) £6.2 billion (2018-19: £5.2 billion).

Other funded schemes comprise largely of net liability balances reported by Academy schools £11.1 billion (2018-19: £6.6 billion); Department for Transport - including Network Rail £4.1 billion (2018-19: £4.9 billion); and Transport for London £4.0 billion (2018-19: £5.3 billion). It also includes other pension scheme liabilities for bodies within the WGA boundary which are not local authorities.

In addition to updates provided in annual accounts, public sector pension schemes carry out periodic full actuarial valuations which are used to set employer contribution rates. The last actuarial valuations for the majority of the unfunded pension schemes were carried out as at 31 March 2016, which set the employer contribution rates for a 5 year period from 1 April 2019. The next actuarial valuation will be carried out as at 31 March 2020 and will reflect new cost control reforms proposed by the government.

Increase in pension liabilities

The table below breaks down the changes in the present value of gross scheme liabilities over the financial year.

	Unfunded	Funded	Total 2019-20
	£bn	£bn	£bn
Gross liability at 1 April	1,756.1	488.3	2,244.4
Current service costs (net of participants' contribution)	50.4	16.2	66.6
Past service costs	(1.6)	1.0	(0.6)
Settlements/curtailments	0.1	(1.5)	(1.4)
Interest on scheme liabilities	49.8	12.1	61.9
Contribution by scheme participants	9.8	3.3	13.1
(Gains)/Losses on revaluation:			
Experience (gains) and losses arising on liabilities	(17.5)	(7.7)	(25.2)
Changes in assumptions underlying the value of liabilities	259.3	(32.2)	227.1
Benefits paid	(45.3)	(13.1)	(58.4)
Transfers in/(out)	0.8	(1.3)	(0.5)
Gross liability at 31 March	**2,061.9**	**465.1**	**2,527.0**

Overall, the net public sector pension liability increased by £295.6 billion during the year. This is broken down as follows:

	2019-20 £bn	2018-19 £bn
Net liability at 1 April	1,893.9	1,865.3
Net (gains)/losses on revaluation	220.6	(70.0)
Current service costs (net of participants' contributions)	66.6	62.2
Net interest costs	53.9	47.5
Unfunded schemes benefits paid	(45.3)	(43.3)
Past service costs	(0.6)	31.8
Net settlements/curtailments	(0.6)	(0.2)
Contribution by unfunded scheme participants	9.8	9.5
Contribution by funded scheme employers	(8.4)	(8.9)
Net transfers in/(out)	(0.4)	0.0
Net liability at 31 March	**2,189.5**	**1,893.9**

As summarised in the above tables, the change in the net pension liability is largely dictated by four factors:

- the revaluation gain or loss, which at this year-end increases the liability as a loss was recognised
- the current service costs which increase the liability
- the net interest costs which increase the liability
- the benefits paid from the unfunded schemes which reduce the liability

This volatility in the revaluation gain or loss is predominantly due to the change in assumptions, in particular the discount rate net of inflation and demographic assumptions. The discount rate for central government unfunded schemes is based on yields of high quality (AA) corporate bonds. The return on corporate bonds is only used to discount the future benefit payments to the present day, therefore whilst movement in the assumption has a significant impact on the liability figure in the accounts from year to year, as shown by the sensitivity analysis, it does not influence the level of benefits received by the members.

The key financial assumptions are shown in Note 2.6 and show that, for the central government unfunded schemes, the (net of CPI) discount rate decreased from 0.29% in 31 March 2019 to (0.50)% in 31 March 2020. The decrease in discount rate increases the present value of liabilities. This actuarial loss from the discount rate is recognised in other comprehensive income rather than against net expenditure. The increase in liability from the change in discount rate was accompanied by other changes in other assumptions, leading to an overall revaluation loss that increased the liability.

The table below shows the approximate sensitivity of the **unfunded liability** to changes in key assumptions. Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability. The sensitivity will be broadly similar for the gross liability of the funded schemes.

	% change in value of unfunded liability	£bn change in unfunded liability
Increasing the assumption by 0.5% a year:		
Discount rate	(11.0%)	(219.0)
Rate of increase in pensions	9.0%	36.0
Rate of increase in Salaries	2.0%	185.0
Increasing assumed life expectancy in retirement by 1 year	4.0%	77.0

The **current service cost** is an estimate made by scheme actuaries of the benefits earned by employees in the year.

The **net interest cost** reflects the increase in the present value of the pension liability during the year because the benefits are one period closer to settlement. The financing cost is based on the discount rate (including inflation) at the start of the year and is calculated on the net liability. The expense from unwinding the discount rate is recognised against net expenditure.

Past service costs reflect changes in the present value of scheme liabilities related to employee service in prior periods that arise in the current period as a result of changes to retirement benefits.

Pension assets

Funded pension schemes hold the following assets:

	Local government £bn	Other funded £bn	2019-20 Total £bn	2018-19 Total £bn
Equity investments	140.0	30.7	170.7	181.9
Bonds	42.7	28.0	70.7	71.8
Other	70.8	25.3	96.1	96.8
Total market value	253.5	84.0	337.5	350.5

The 'other' balance consisted of property, cash and other alternative assets, such as hedge funds and private equity, diversified growth funds, or infrastructure investments, which have varying levels of performance.

Decrease in pension assets

The table below breaks down the decrease in the fair value of funded scheme assets over the financial year.

	2019-20 £bn	2018-19 £bn
Gross assets at 1 April	350.5	330.7
Interest on scheme assets	8.0	8.8
Actual return less interest on scheme assets	(18.7)	13.1
Contributions by employers	8.4	8.9
Contributions by scheme participants	3.3	2.3
Benefits paid	(13.1)	(12.5)
Assets distributed on settlements	(0.9)	(0.4)
Transfers in/out	0.0	(0.4)
Gross assets at 31 March	**337.5**	**350.5**

Amounts recognised in the financial statements

Amounts recognised in the Statement of Revenue and Expenditure are as follows:

	Unfunded £bn	Funded (net) £bn	2019-20 Total £bn	2018-19 Total £bn
Current service cost	50.4	16.2	66.6	62.2
Past service cost	(1.6)	1.0	(0.6)	31.8
Settlements/curtailments	0.1	(1.5)	(1.4)	(0.3)
Net financing cost	49.8	12.1	61.9	47.3
Total recognised in the Statement of Revenue and Expenditure	**98.7**	**27.8**	**126.5**	**141.0**

Note 25. Capital commitments

	2019-20 £bn	2018-19 £bn
Capital commitments at year end	57.7	53.2
Total capital commitments	**57.7**	**53.2**

Capital commitments are future commitments to capital expenditure that are contracted for but not provided for in the financial statements and in 2019-20 totalled £57.7 billion (2018-19: £53.2 billion).

The most significant capital commitments in 2019-20 include those reported by the Ministry of Defence of £23.8 billion (2018-19: £24.4 billion), Department for Transport of £5.7 billion (2018-19: £5.1 billion) and the Scottish Government of £4.5 billion (2018-19: £3.6 billion).

Note 26. Commitments under leases

Operating leases

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

	2019-20 £bn	2018-19 £bn
Obligations under operating leases comprised:		
Total payments within one year	3.1	2.8
Total payments between one and five years	7.9	7.1
Total payments thereafter	12.0	11.4
Total future minimum lease payments under operating leases	**23.0**	**21.3**

There has been an overall increase of £1.7 billion, from £21.3 billion in 2018-19 to £23.0 billion in 2019-20. The most significant operating leases relate to the Department of Health and Social Care at £3.3 billion (2018-19: £3.2 billion), HMRC at £1.9 billion (2018-19: £1.9 billion), Transport for London at £2.1 billion (2018-

19: £1.8 billion), Ministry of Justice at £1.6 billion (2018-19: £1.6 billion) and the Department for Work and Pensions at £1.6 billion (2018-19: £1.4 billion). In general, the majority of entities have reported increases in lease commitments.

Finance leases

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

	2019-20 £bn	2018-19 £bn
Obligations under finance leases comprised:		
Total payments within one year	0.7	0.6
Total payments between one and five years	2.5	1.8
Total payments thereafter	21.6	21.3
Total	**24.8**	**23.7**
Less interest element	(16.7)	(18.3)
Total present value of obligations	**8.1**	**5.4**

There has been an overall increase of £2.7 billion, from £5.4 billion in 2018-19 to £8.1 billion in 2019-20. The most significant finance leases relate to those entered into by the Ministry of Defence at £1.6 billion (2018-19: £1.8bn).

Note 27. Commitments under Private Finance Initiative (PFI) contracts

PFI contracts recognised on the Statement of Financial Position

PFI assets are recognised on the Statement of Financial Position where the government controls or regulates the services, to whom they are provided, the price, and any significant residual interest in the asset at the end of the contract.

The net book value of PFI assets included in the Statement of Financial Position was £46.8 billion (2018-19: £47.4 billion) as at 31 March 2020. The PFI liability for the present value of capital amounts payable was £36.7 billion (2018-19: £37.9 billion).

The substance of PFI contracts is that they have three elements: repayments of capital and interest (together representing a finance lease liability), and annual service charges.

Details of the underlying finance lease liability are given in the table below:

	2019-20 £bn	2018-19 £bn
Obligations for future periods arise in the following periods:		
No later than one year	4.5	4.5
Later than one year and not later than five years	16.8	17.2
Later than five years	45.4	47.7
Gross present value of future finance lease obligations	**66.7**	**69.4**
Less interest charges allocated to future periods	(29.6)	(30.9)
Net present value of future finance lease obligations	**37.1**	**38.5**

Details of the minimum annual service charge are given in the table below:

	2019-20 £bn	2018-19 £bn
Obligations for future periods arise in the following periods:		
No later than one year	5.3	5.2
Later than one year and not later than five years	19.2	19.3
Later than five years	54.0	56.9
Total annual service charges	**78.5**	**81.4**

The PFI obligations by segment of government were:

	2019-20 £bn	2018-19 £bn
Central government departments and entities within the NHS	37.8	39.3
Local authorities	27.9	29.0
Public corporations	1.0	1.1
Gross present value of future finance lease obligations	**66.7**	**69.4**

The net present value of PFI obligations represents the liability for capital repayments. The most significant net present value of future finance lease obligations balance of £10.6 billion (2018-19: £10.9 billion) are held by the Department of Health and Social Care and £4.3 billion (2018-19: £4.7 billion) are held by the Ministry of Defence. The overall liability for capital repayments decreased by £1.4 billion in 2019-20 in line with repayments made in year.

The most significant total annual service charges balance of £22.6 billion (2018-19: £23.4 billion) are held by the Department of Health and Social Care, £12.0 billion (2018-19: £11.3 billion) are held by the Ministry of Defence and £7.9 billion (2018-19: £8.2 billion) are held by the Department for Transport.

The net present value of PFI obligations is recognised as a liability on the Statement of Financial Position, albeit at £36.7 billion rather than at £37.1 billion as reported above. This is because interest charges and annual service charges are not recognised as liabilities in the Statement of Financial Position and are disclosed as commitments. These amounts will be recognised in the Statement of Revenue and Expenditure in the year they become due.

PFI contracts not recognised on the Statement of Financial Position

During the 2019-20 financial year, some WGA entities had PFI contracts which were not recognised on the Statement of Financial Position. This is because the private sector contractor was, on balance, considered to have greater control over the use of the asset.

HM Treasury has considered whether assets not recognised on the Statement of Financial Position of any one entity should be consolidated as a shared ownership asset. It concluded that there are none with a significant value that should be included in the 2019-20 WGA that are not already consolidated.

Note 28. Other financial commitments

Commitments from other non-cancellable contracts that are not leases or PFI contracts are as follows:

	2019-20 £bn	2018-19 Restated £bn
Financial commitments expiring in future years:		
No later than one year	26.4	21.5
Later than one year and not later than five years	31.2	31.3
Later than five years	13.3	12.5
Total other financial commitments	**70.9**	**65.3**

Other commitments increased by £5.6 billion from £65.3 billion in 2018-19 to £70.9 billion in 2019-20. £2.0 billion of the increase relates to MoD, who have restated their 2018-19 other commitments figures following a review of contracts. £3.6 billion of the increase relates to UKRI (within BEIS group) due to multi-year grants made.

Note 29. Contingent liabilities disclosed under IAS 37

Quantifiable contingent liabilities

Total quantifiable contingent liabilities are as follows:

	2019-20 £bn	2018-19 £bn
Export guarantees and insurance policies	16.6	15.7
Clinical negligence	49.7	50.8
Taxes subject to challenge	2.2	2.3
Transport infrastructure projects	2.1	3.5
EU related quantified contingent liabilities	1.0	-
Pension Protection Fund	3.7	1.0
Department for Work and Pensions	2.3	0.1
Other	7.0	6.7
Total quantifiable contingent liabilities	**84.6**	**80.1**

Individually significant contingent liabilities are detailed below:

Entity	Contingent liability	2019-20 £bn	2018-19 £bn
Department of Health and Social Care	The Department of Health and Social Care is the actual or potential defendant in a number of actions regarding alleged clinical negligence. Part of this liability has been recognised as a provision (please see Note 22 for further details), and the contingent liability of £48.2 billion (2018-19: £49.3 billion) reflects cases where there is a large degree of uncertainty as to the department's liability and amounts involved.	48.2	49.3
UK Export Finance	UK Export Finance supports exports and investments through issuing and renewing guarantees and insurance policies. It issues guarantees and insurance against loss for, or on behalf of, exporters of goods and services from the UK and overseas investors, and supports the provision of fixed-rate export finance. This value is net of reinsurance. Gross value before reinsurance is £21.8 billion (2018-19: £21.5 billion).	16.6	15.7
Department for Transport (DfT)	DfT holds a number of contingent liabilities. The main element of the £2.1 billion disclosed for 2019-20 relates to a £1.4 billion commitment (2018-19: £1.4 billion) to fund any shortfall of toll revenue from the Mersey Gateway bridge. During 2019-20 Highways England changed its policy with regards to the disclosure of contingent liabilities relating to land and property acquisitions. In the 2018-19 accounts Highways England was disclosing potential claims before a preferred route has been announced. An equivalent contingent liability, which had contributed £1.1 billion to DFT's prior year total of £3.5 billion, has not been included for 2019-20.	2.1	3.5

HM Revenue & Customs (HMRC)	HMRC is engaged in a number of legal and other disputes which can result in claims by taxpayers against HMRC. This covers a range of cases, including Corporation Tax, income tax and VAT. As at 31 March 2020 HMRC had five cases estimated to have a value of £2.2 billion (2018-19: 6 cases estimated at £2.3 billion) where potential tax repayment before losses, capital allowances and other tax reliefs is over £100 million.	2.2	2.3
Department for International Development (DFID)	DFID holds a number of contingent liabilities, but the largest of £0.4 billion (2018-19 £1.0 billion) are liabilities in respect of contributions due to international organisations. There are also separate guarantee arrangements relating to loans made by the International Bank for Reconstruction and Development. The UK parts of guarantees in respect of loans made to the Republic of Iraq (£0.4 billion) the Hashemite Kingdom of Jordan (£0.3 billion) and the Government of Egypt (£0.2 billion) are also included in this £1.4 billion total.	1.4	1.7
HM Treasury	HM Treasury has provided certain market standard time and value capped warranties confirming regulatory, legislative and contractual compliance to purchasers of UK Asset Resolution's Northern Rock Asset Management (NRAM) and Bradford and Bingley assets (2019-20: £1.4 billion, 2018-19: £1.6 billion). The largest of these is a £1 billion warranty (2018-19: £1 billion) for the sale of NRAM together loans in March 2019.	1.4	1.6
Department for Work and Pensions	The Department for Work and Pensions (DWP) holds an estimated £2.3 billion in contingent liabilities relating to ongoing legal cases (2018-19: £0.1 billion). These judicial reviews and appeals may lead to possible obligations where the Department is facing legal challenge, through the courts, to the policy behind legislation and the outcomes depend on court rulings. This represents a significant increase from the previous year. However, in line with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), further details are not provided as DWP consider that the disclosure of individual values for any legal contingent liabilities could be expected to seriously prejudice on-going litigation.	2.3	0.1
Welsh Government	Contingent liabilities are in place relating to Legal Claims for alleged medical / employer negligence (2019-20: £1.1 billion, 2018-19: £1.0 billion). This reflects that under the Wales Act 2006, the Welsh Government must meet the liabilities of the Welsh Risk Pool should the NHS bodies cease to exist.	1.1	1.0
Birmingham City Council	The Council has an on-going accountable body role for a range of grant funding regimes, both historical and current, which include supporting programmes and projects under its direct control as well as managing programmes involving wider partnerships with external organisations. The prior year equivalent total was £1.0 billion in the 2018-19 Birmingham City Council accounts, but was not included in the 2018-19 WGA. This is not material to the WGA and the prior year figures have not been restated in this respect. This amount contributes to the "Other" line total in the table above.	1.1	0.0
EU related quantified contingent liabilities	The Contingent liability is split between the Scottish Government (£0.7 billion) and HM Treasury (£0.3 billion).	1.0	0.0

Pension Protection Fund	Pension Protection Fund steps in to cover pension schemes from companies which are insolvent. The total value of claims on the PPF identified by their Actuary as reasonably foreseeable was £3.7 billion for 2019-20 (2018-19: £1.0 billion). This figure is net of the value of related scheme assets, and its net value has also been included in the table above. The large increase in contingent liabilities since 31 March 2019 is mainly due to the sponsors of a small number of large schemes having experienced deteriorating credit scores over the year. In addition to additional claims on the fund, there are a number of recent court judgments that may increase PPF's liabilities in the future.	3.7	1.0

Non-quantifiable contingent liabilities

Commitments in relation to pension scheme deficits

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

Ministry of Defence

The Ministry of Defence has a number of non-quantifiable contingent liabilities which include: third party indemnities for damage caused by live missile firing on overseas ranges; potential costs of decontamination work on sites yet to be identified; potential liabilities that arise from in-service mortality rates in excess of those covered by the Service Life Insurance scheme; potential liabilities related to employment legislation and pensions; and losses or claims in relation to the International Ocean Towage Agreement. Further details of these non-quantifiable contingent liabilities can be found in the Ministry of Defence's 2019-20 annual report and accounts.

Legal claims

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

Ongoing litigation

In March 2018, a formal notice of infraction was received from the European Commission alleging that over the period 2011-2017, the UK did not take adequate steps to prevent losses to the EU budget from customs undervaluation fraud, and that €2.7 billion of customs duty is owed. Following correspondence between the UK and the Commission, the Commission referred the case to the European Court of Justice (CJEU). The government does not agree with the Commission's estimate of evaded duty and does not accept liability, and fully contested the case. Subsequent to the period covered by these accounts, the case has now concluded. However, uncertainty remains as to the exact quantum and timings of any required payments.

Civil nuclear liabilities

The Department for Business, Energy & Industrial Strategy has a range of civil nuclear liabilities arising from the United Kingdom Atomic Energy Authority, British

Nuclear Fuels Limited and obligations under international nuclear agreements and treaties.

Quantifiable Contingent Assets

IAS 37 – Provisions, contingent liabilities and contingent assets – requires the disclosure of contingent assets, defined as:

- A possible asset that arises from past events, and
- Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent assets are not recognised but are disclosed where an inflow of economic benefit is probable. Once the realisation of income is certain, the asset is no longer a contingent asset and is recognised at this time.

Individually significant Contingent Assets reported by WGA entities in 2019-20 are detailed below:

Entity	Contingent asset	2019-20 £bn	2018-19 £bn
HM Treasury	As a result of the UK's withdrawal from the European Union, a number of items within the Withdrawal agreement are considered by HM Treasury to meet the definition of a contingent asset. The most significant element of this (£1.6 billion) relates to fine income. Under Article 141 of the Withdrawal Agreement the UK is entitled to a share of EU fine income that relates to activity up to the end of 2020 (and in some cases after this period) including where collection of the fine income arises post UK exit. While it is likely that the UK will receive fine income under Article 141, HM Treasury considers the best indicator of certainty over this income to be the fines meeting the definition of "definitive" and the European Union 'EU' notifying the United Kingdom 'UK' of the value under Article 148 of the Agreement (which covers payments after 2020). Notifications under Article 148 are due from the EU in each April and September from 2021.	1.9	0.0
Department for Business, Energy and Industrial Strategy (BEIS)	BEIS holds a contingent asset of £1.8 billion is relation to the British Coal Staff Superannuation Scheme (BCSSS). Within 12 months of 31 March 2033, the trustees of the BCSS shall pay the Secretary of State any surplus remaining on the scheme, net of any amount retained for the obligation. Based on the Government Actuary's estimate of a £1.8 billion surplus as at 31 March 2018, BEIS considers a receipt from the scheme to be probable.	1.8	1.7
Other	Other Contingent Assets	0.4	0.2
Total Quantifiable Contingent Assets		**4.1**	**1.9**

Note 30. Remote contingent liabilities reported to Parliament

In addition to the contingent liabilities reported in Note 29, government departments additionally disclose contingent liabilities where the risk of the liability crystallising is remote. These remote contingent liabilities are not required to be disclosed under accounting standards but are reported here on the basis that guarantees, indemnities and letters of comfort are a source of financial risk.

Quantifiable remote contingent liabilities

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

	1 April 2019 Restated	Increase/ (decrease) in year	Liabilities crystallised in year	Obligations expired in year	31 March 2020
	£bn	£bn	£bn	£bn	£bn
PPF remote contingent liabilities	180.0	76.8	(3.4)	(3.4)	250.0
Guarantees (excluding EIB)	38.3	3.9	(0.9)	(0.7)	40.6
Indemnities	33.0	0.1	-	(0.6)	32.5
Letters of comfort	23.8	1.0	-	-	24.8
EIB Guarantees	31.6	-	-	-	31.6
Total	**306.7**	**81.8**	**(4.3)**	**(4.7)**	**379.5**

The Indemnities opening balance has been restated to include £9.3 billion of Indemnities relating to the Department for Education.

The Guarantees opening balance has been adjusted to remove £31.6 billion related to European Investment Bank (EIB) related guarantees which are now shown on their own line.

Individually significant remote contingent liabilities are detailed below:

Entity	Contingent liability	2019-20 £bn	2018-19 Restated £bn
Pension Protection Fund (PPF)	**Pension Protection Fund (PPF) contingent liabilities** Pension Protection Fund (PPF) contingent liabilities Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2020 is estimated at £250 billion, calculated on the same basis as for the PPF 7800 index. The PPF 7800 Index is an established official statistic which has been published by the PPF since 2007. It indicates the latest estimated funding position for the defined benefit (DB) pension schemes in the PPF's eligible universe. The size of the Remote contingent liability, as determined by the PPF7800 index, will depend on how the assets and liabilities of the schemes in the universe who are in deficit perform over the period. Over the year fixed interest yields fell significantly (between 65 and 75 basis points depending on the term). This decrease in yields resulted in higher liabilities. At an aggregate level, liabilities increased and schemes with equities will have seen a decrease in their asset values, which results in a larger Remote contingent liability.	250.0	180.0
HM Treasury (Consolidated Fund Account)	**Guarantees** The UK is liable for callable capital to the European Investment Bank (EIB). Under Article 5 of the EIB Statute, the Board of Directors may call upon each member state to pay its share of the balance of the subscribed capital should the bank have to meet its obligations. Under Article 150 of the Withdrawal Agreement the UK left the EIB on 31 January 2020. As the Article sets out, the UK will maintain its existing contingent liability for its callable capital to the EIB as it stood at the point of withdrawal.	31.6	30.6
Department for International Development	**Guarantees** £16.3 billion of this Contingent liabilities total (2018-19: £14.3 billion) relates to callable capital on investments in international financial institutions (IFIs). These are subject to call only when required and to the extent necessary to meet the obligations of the IFIs on borrowings of funds or guarantees. No call has ever been made on the IFIs' callable capital stock to date.	16.6	14.5
HM Treasury (Consolidated Fund Account)	**Guarantees** This represents the UK's maximum liability from outstanding loans to EU member states, third countries and private sector entities for which the risk is ultimately borne by the EU Budget. Loans have been issued under the following initiatives: the European Financial Stabilisation Mechanism (contributing £6.6 billion in contingent liabilities out of this £10.6 billion total); the Guarantee Fund to Third Countries (£2.1 billion), and the European Fund for Strategic Investments (£1.4 billion).	10.6	9.9
HM Treasury (Consolidated Fund Account)	**Guarantees** The Consolidated Fund holds a remote contingent liability for the value of UK coins in circulation. This potential liability relates to returned and damaged coins, and if coins are redeemed. The value of returned, damaged and redeemed coins paid in 2019-20 was £33.7 million (2018-19 £188.6 million). The probability of a material liability in respect of coinage is considered remote.	4.7	4.7

Ministry of Housing, Communities and Local Government	**Guarantees** The department operates a guarantee scheme for the affordable housing sector, the Affordable Homes Guarantee Scheme (AHGS). At the accounting date, £3.2 billion has been drawn down and is covered by the guarantee scheme. The AHGS closed to applicants in March 2016 and the programme is now in the portfolio management and monitoring phase, meaning there will be no new applicants or approvals. Therefore, there will be no further drawing against this scheme.	3.2	3.2
Department for Transport	**Guarantees** Contingent liabilities arising from the signing of new, replacement and extended passenger rail franchise agreements, along with other agreements to encourage railways investment. The value of this liability is based on the remaining value of rolling stock and depots, which tend to decrease over time. It could however increase in future if new rolling stock or depots are introduced.	1.3	1.9
HM Treasury	**Guarantees** The Asian Infrastructure Investment Bank (AIIB) was set up in December 2015 with the UK as a shareholder (along with many other countries) to support financing for infrastructure projects across Asia. The AIIB would be able to call on the shareholders (including the UK) if the bank was not able to meet its obligations.	1.9	1.5
HM Treasury	**Guarantees** The Help to Buy Scheme was launched to address the shortage of high loan-to-value mortgages. The scheme closed to new loan applications on 31 December 2016. 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 22 successful claims totalling £250,000.	0.4	1.4
HM Treasury	**Guarantees** The UK Guarantee scheme was set up to support infrastructure projects that may have stalled due to adverse credit conditions.	0.7	1.0
Department for Education (DFE)	**Indemnities** The figures shown relate to Academy-sector PFI contracts. These contingent liabilities arise as a result of DFE agreeing to provide an indemnity to local authorities for potential costs on buildings they own but manage through existing PFI arrangements. The properties are used by academies.	9.3	9.3
Department for Transport	**Indemnities** In 2012 the Secretary of State at the Department for Transport agreed to quantifiable (disclosed) and unquantifiable assurances, warranties, indemnities and potential losses under the Inter City Express Rolling Stock contracts with Agility Consortium and Network Rail. These decrease steadily until they expire in 2043.	5.9	6.0
Department for Transport	**Indemnities** The High Speed 1 (HS1) concession agreement specifies that compensation will be paid if the contract were terminated due to legal or governmental changes. The amount payable is formalised in the agreement, but depends on the cause of the termination, and includes capital expenditure, increases in operating costs and losses of revenue.	4.7	4.8

Department for Transport	**Indemnities** To support the Thameslink programme there are a series of assurances, warranties, indemnities and potential losses.	0.8	1.0
Ministry of Defence	**Indemnities** Under contract terms the Ministry of Defence may indemnify or limit a contractor's liability in relation to a specific area. These include damage to government property, damage to issued property, default, deferment, termination and indirect and consequential losses. This value covers the potential value relating to damage caused on government property.	1.6	1.6
Department for Digital, Culture, Media and Sport	**Indemnities** The Government Indemnity Scheme indemnifies lenders to museums, galleries and other institutions when mounting exhibitions or taking long-term loans for study or display. This figure also includes non-statutory indemnities granted in respect of art on loan from the Royal Collection.	8.2	8.5
HM Treasury - Letters of Comfort - UKAR, B&B, Northern Rock	**Letters of comfort** To facilitate each sale of UK Asset Resolution (UKAR's) Bradford and Bingley (B&B) and Northern Rock Asset Management (NRAM) assets, HM Treasury has offered certain market standard warranties that have created remote contingent liabilities. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their nature, such occurrence is considered remote.	24.8	23.8

Non-quantifiable remote contingent liabilities

Remote contingent liabilities can also be unquantifiable. The most significant liabilities are detailed below:

Notification to leave the EU – Article 50

In last year's WGA, a non-quantifiable remote contingent liability was disclosed relating to the UK's submission, at that point in time, of its notification to leave the EU in accordance with Article 50. The impact of these events was not reflected in the 2018-19 WGA, as the UK remained a member of the EU during the 2018-19 financial year.

Subsequently, the Withdrawal Agreement was signed on 24 January 2020. This put the financial agreement, as detailed in the December 2017 Joint Report from the Negotiators of the EU and the UK government, into legal form. The Joint Report sets out the scope of the EU obligations covered by the settlement and the methodology for calculating the UK’s share, as well as a payment schedule. The European Union (Withdrawal Agreement) Act 2020 implements the Withdrawal Agreement.

Given the above developments, EU Exit related contingent liabilities are now reported as quantifiable:

- £31.6 billion of European Investment Bank callable capital is reported as remote contingent liabilities - HM Treasury (Consolidated Fund Account) – in this note.
- A further £1.0 billion (of which £0.3 billion relates to HM Treasury) is included in ‘Note 29 - Contingent Liabilities’ on the ‘EU related quantified contingent liabilities’ line.

Unquantifiable contingent liabilities in respect of EU exit also remain across WGA entities due to potential changes in areas including legislation, regulation and funding arrangements.

Further information on the financial impact of EU withdrawal, and the treatment of the financial settlement in government accounts, is included in Annex E of the "European Union Finances" publication series.

Please also see the Performance Report, in this 2019-20 WGA, for more information.

Regional development banks and funds

The Department for International Development has entered into non-quantifiable contingent liabilities relating to the maintenance of the value of subscriptions paid to the capital stock of regional development banks and funds.

National Health Service

The Department of Health and Social Care has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 9 unquantifiable indemnities. None of these are a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote.

Nuclear matter

Indemnities have been given to UK Atomic Energy Authority by the Department for Business, Energy and Industrial Strategy to cover indemnities given to carriers and British Nuclear Fuels plc against certain claims for damage caused by nuclear matter in the course of carriage.

Decommissioning offshore installations

Under the United Nations Convention on the Law of the Sea (UNCLOS) 1982, OSPAR decision 98/3, the Energy Act 2004 and the Petroleum Act 1998, the government would become responsible for decommissioning most oil, gas and renewable energy installations in the event that operators are unable to fulfil their decommissioning commitments.

Hinkley Point C

A remote contingent liability provides protections in certain scenarios where the Hinkley Point C nuclear plant is shut down for reasons that are political or certain changes in law and insurance contracts.

UK Space Agency

UK Space Agency has an unquantifiable contingent liability arising from the international United Nations convention which requires the UK government to be ultimately liable for third party costs from accidental damage arising from UK space agencies.

Student loans sale

Each sale of student loans necessitated separate but similar warranties and indemnities to secure interest and obtain value for money from investors into the securitisation transactions. Further details can be found in the accounts of the Department for Education.

Department of Transport

The Department of Transport is party to a North Atlantic Treaty Organisation (NATO) agreement relating to indemnification of civil aircraft in respect of their use on NATO tasks in times of crisis and war.

The department has a statutory responsibility for the maintenance of all railway structures. The contingent liability for this responsibility applies to structures that have been sold to, and are controlled by, third parties. There have been no claims and there is no reasonable basis under which to quantify this risk.

Ministry of Defence

Indemnities have been provided to several companies relating to the handling of fissile materials, nuclear risk and risks under the Nuclear Installations Act 1965.

British Telecom (BT) pension scheme

When BT was privatised in 1984, the government gave a guarantee (contained in the Telecommunications Act 1984) in respect of certain liabilities of the privatised company. Following High Court and Court of Appeal proceedings on the terms and scope of the Crown Guarantee, which would only apply if BT were to enter insolvent winding-up, the contingent liability is approximately the size of the BT pension scheme (BTPS) deficit. The last triennial actuarial valuation of the pension scheme as at 30 June 2017 valued the deficit at £11.3 billion. BT decided to close the BTPS for future accruals of benefit from 1 June 2018, as a result the liabilities covered by the Crown guarantee will be limited to those relating to benefits accrued before that date (together with indexing and any legally required increments). These liabilities remain with BT plc and so legislation is no longer required on the scope of the guarantee. The contingent liability largely consists of the considerable deficit on the BTPS fund, however providing BT takes steps to reduce that, possible growth in the liability should now be limited.

Underwriting the Commonwealth Games

The UK government was successful in its bid for the 2022 Commonwealth Games. As part of the successful bid to host the Games, the Department for Digital, Culture, Media and Sport has taken on a contingent liability by guaranteeing to financially underwrite the organisation and staging of the Games.

Contingent liabilities for reinsurance arising from acts of terrorism

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. HM Treasury carries the contingent liability for the risk that the losses incurred by Pool Re or Pool Re (Nuclear) exceed their available resources. These arrangements are set out in the

Reinsurance (Acts of Terrorism) Act 1993. Maximum potential liabilities under this arrangement are considered unquantifiable.

State pension age changes

Women born after 5 April 1950 are affected by changes in State Pension age introduced by the Pensions Act 1995. Some of those women are also affected by further changes made in subsequent Acts. These changes have given rise to litigation with some women born in the 1950s arguing they have been discriminated against and that they received a lack of appropriate notification.

On 3 October 2019, the High Court gave judgement on a claim for judicial review based on discrimination on grounds of age and/or sex as well as appropriate notification. The court dismissed the claim on all grounds and granted leave to appeal in January 2020.

As at 31 March 2020 the quantification of this remote contingent liability was dependent on the court ruling in this case.

Note 31. Related party transactions

Related parties in the context of WGA are public sector entities that have not been consolidated into the 2019-20 WGA. Further information regarding non-consolidated entities can be found in Annex 2 and Annex 3 to the account.

Royal Bank of Scotland Group (RBS) is the most significant WGA related party. RBS's share capital is partially owned by HM Treasury but not consolidated into WGA. Dividends and other income received from RBS are material and are recorded in the Statement of Revenue and Expenditure (SoRE). A dividend of £826 million was paid to HM Treasury in April 2019 (dividends of 3.5p (Ordinary) and 7.5p (Special) per share), based on the government's shareholding as of 22 March 2019. In addition, a dividend of £1.05 billion was paid to HM Treasury in September 2019 (dividends of 2.0p (Ordinary) and 12.0p (special)), based on the government's shareholding as of 16 August 2019. In February 2020, RBS announced dividends of 3.0p (Ordinary) and 5.0p (Special) per share. However, following a Prudential Regulation Authority letter to the largest deposit-takers in response to COVID-19 (published March 2020), RBS agreed to suspend dividends for the remainder of 2020 and cancel payments of any outstanding 2019 dividends.

In addition, during normal business, WGA entities entered arms-length banking transactions with this institution, including loans, deposits, reimbursement of related expenses, payment of management fees, interest receipts and dividends. The volume and diversity of these transactions make comprehensive disclosure impractical. Where possible, transactions with these entities have been eliminated during the preparation of the accounts.

The following WGA related party entities were not consolidated into the group accounts as the turnover and assets were not deemed material. They include British

Hallmarking Council, British Technology Investments Limited, Committee on Climate Change, Daresbury SIC (PubSec) LLP, Daresbury Science & Innovation Campus Limited, East Midlands Early Growth Fund Limited, Groceries Code Adjudicator, NDA Archives Limited, NW VCLF HF LLP, Pubs Code Adjudicator, and Small Business Commissioner. Part of the NDA (Nuclear Development Authority) – Research Sites Restoration Limited was not consolidated into the group accounts because no costs or activities were incurred in 2019-20 as the activities transferred to Magnox in 2016-17. Magnox Ltd became a wholly owned subsidiary of the Nuclear Decommissioning Authority (NDA) on 1 September 2019.

Local government entities are consolidated into WGA. However, there are some local government entities that were unable to submit their financial data for consolidation in time. Overall, 21 entities did not submit their financial data for consolidation, only 6 of which are above the audit threshold. In-year transactions between these entities and consolidated entities are deemed to be immaterial. However, there are some outstanding loan liabilities between these local government entities and the Public Works Loan Board (PWLB), which is consolidated into WGA. These receivables totalled £3.1 billion as at 31 March 2020, with the largest balance of £1.3 billion relating to Woking Borough Council. As these local government entities are treated as external to WGA, the relating assets held by PWLB are not eliminated and therefore remain in the reported WGA totals.

Furthermore, local government entities also had transactions with municipal ports, airports, and parish councils, primarily through the provision of funding. They also had transactions with local government pension schemes and record their share of the scheme's assets and liabilities in their accounts.

Note 32. Events after the reporting period

The following events that have occurred after the reporting period have been identified as significant to WGA. The Government Financial Reporting Manual (the FReM) modifies financial reporting requirements for the purposes of WGA in that the requirement that the financial statements be adjusted for events that provide evidence of conditions that existed at the reporting date do not apply, and therefore all such events are non-adjusting.

Merger of Central Government Departments

On 16 June 2020 the Prime Minister announced that the Department for International Development (DFID) and the Foreign and Commonwealth Office (FCO) would merge, uniting development and diplomacy in one new department that brings together Britain's international effort. The new Department, called the Foreign, Commonwealth and Development Office, was established on 2 September 2020 and is led by the Foreign Secretary.

Bank of England Asset Purchase Facility Fund Limited

At its special meeting on 19 March 2020 the Monetary Policy Committee voted to approve the proposition that the Bank of England should, as soon as was operationally possible and consistent with improved market functioning, increase the stock of asset purchases, financed by the issuance of central bank reserves, by £200 billion to a total of £645 billion. The company began purchases on 25 March 2020. The maximum authorised purchase limit was extended by £100 billion in June 2020 and a further £150 billion expansion in November 2020, taking the total maximum stock of gilt and corporate bond purchases to £895 billion.

Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME)

At its special meeting ending 10 March 2020, the Monetary Policy Committee voted to reduce the Bank Rate and for the Bank of England to introduce a new Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). The TFSME opened for drawings on 15 April 2020 and allowed eligible banks and building societies to access four-year funding at rates very close to Bank Rate. The scheme was designed to incentivise eligible participants to provide credit to businesses and households to bridge through the period of economic disruption caused by the outbreak of COVID-19, and includes additional incentives to provide credit to SMEs.

Royal Bank of Scotland

On 22 July 2020, Royal Bank of Scotland Group plc changed its name to NatWest Group plc. This will not have any financial effect on WGA, but all references to the government's shareholding in RBS within WGA become references to the shareholding in NatWest in future.

On 29 March 2022 the government announced the disposal of £1.2 billion worth of government-owned NatWest Group plc (formerly RBS) shares, representing approximately 4.9% of the company. The government's remaining shareholdings represents approximately 48.1% of voting rights in the company, meaning that for the first time since the financial crisis NatWest is no longer under majority public ownership. This is the fifth large block sale of NatWest shares undertaken by the government, following previous disposals in August 2015, June 2018, March 2021 and May 2021.

Details of sales since March 2020 are summarised below:

Date of sale	28 March 2022	11 May 2021	19 March 2021
Total proceeds	£1.2 billion	£1.1 billion	£1.1 billion
Government stake post-sale (as % of total voting rights)	48.1%	54.8%	59.8%

UK Infrastructure Bank

On 17 June 2021, the UK Infrastructure Bank was launched to catalyse private investment in projects across the UK. In total, the Bank will have £22 billion of financial capacity to deliver on its objectives, consisting of £12 billion of equity and debt capital and the ability to issue £10 billion of guarantees. The Bank will be able to recycle capital and reinvest returns. This will enable the Bank to scale up its balance sheet over time.

Ukraine

On 24 February 2022 Russia launched a large scale invasion of Ukraine. A number of government departments have implemented measures to support Ukrainians impacted by the war. These measures include medical donation supplies, special reserve equipment and urgent economic and humanitarian support. This includes the 'Homes for Ukraine', a new sponsorship humanitarian visa scheme to provide Ukrainians with a route to safety. Any financial implications of the war on the UK public sector are not included within WGA 2019-20.

McCloud remedy

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes. The cost of providing the additional pension benefits under the Government's remedy proposals is estimated at £17 billion for the unfunded schemes (excluding administration costs), based on 2016 valuation data.

Academy school buildings

The Department for Education published a new policy paper in April 2022 - Sustainability and climate change: a strategy for the education and children's services systems – which is expected to have a significant impact on build costs going forwards. This will impact costs for new academy school buildings, but as valuation is undertaken on a DRC basis, it is also anticipated to have a wider impact on the valuation of the existing estate. The effect on WGA has not been quantified but is expected to be material.

COVID-19 Pandemic

The government implemented a number of measures to support the economy, business, individuals, and vital public services through the COVID-19 pandemic. As measures to prevent further spread of the virus evolved, government responded with adapted support. Total support for the economy, which includes significant capital investment, amounts to £407 billion. Many of these measures came into effect after 31 March, or related to ongoing spending that was not recognised in the 2019-20 accounts.

The main announced measures, and their financial impact, are set out below.

Support for business

The government launched several temporary schemes to help businesses deal with cashflow problems resulting from COVID-19 pressures by providing additional finance:

Coronavirus Business Interruption Loan Scheme (CBILS) - CBILS provided nearly 110,000 facilities worth £26 billion to eligible UK-based businesses with turnover under £45 million. The scheme provided loans of up to £5 million with an 80% government guarantee to the lender, giving lenders the confidence to provide finance to SMEs. The government does not charge businesses for this guarantee and also covers the first twelve months of interest payments and fees. The application period ended on 31 March 2021.

Coronavirus Large Business Interruption Loan Scheme (CLBILS) - CLBILS has provided 753 facilities worth £5.5 billion to eligible UK-based businesses with turnover above £45 million. The scheme provides loans of up to £200 million (to a maximum of 25% of turnover), with an 80% government guarantee to the lender. The application period ends on 31 March 2021.

Bounce Back Loan Scheme (BBLS) - BBLS has provided over £45 billion of finance through one and a half million loans to small businesses. Loans are between £2,000 and £50,000, capped at 25% of turnover, with a 100% government guarantee to the lender. The borrower does not have to make any repayments for the first twelve months, with the government covering the first twelve months' interest payments. The application period ended on 31 March 2021.

COVID Corporate Financing Facility (CCFF) - CCFF has provided over £38 billion of support to some of the UK's largest firms with short-term cash-flow problems since March 2020. £1.9 billion of this total was issued during March 2020 and is recognised in WGA. Applications closed on 31 December 2020 for this scheme, and CCFF closed to new issuance from 23 March 2021. All commercial paper matured by March 2022.

The Small Business Grant Fund, **the Retail, Hospitality and Leisure Grant Fund**, and the **Local Authority Discretionary Grant Fund** - Between April and September 2020, the government provided over £11.6 billion worth of grants to around a million business properties in England. These schemes were designed to support small businesses and businesses in the sectors hit hardest by COVID-19. As the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund were announced during March 2020, WGA recognises a provision of £10.8 billion for these grants.

Trade Credit Reinsurance scheme - In June 2020, the government entered into a reinsurance agreement with trade credit insurers to ensure coverage for vulnerable businesses and protect against the impact of insolvency. Under the scheme, the government assumed the majority of losses arising from insurance claims between 1 April 2020 and 30 June 2021, up to a total of £10 billion in insurance claims. Up to £190 billion of cover on businesses has been provided under the scheme.

VAT deferral - In July 2020, the government announced that UK VAT-registered businesses did not need to pay any VAT due with VAT returns from 20 March through to the end of June 2020 before the end of March 2021. Around 600,000 businesses deferred a total of £34 billion of VAT under the scheme. In September 2020 the government announced that any business which took advantage of the original VAT deferral would not have to pay the full deferred VAT outstanding by 31 March 2021 but instead could spread what they owed over up to 11 smaller monthly payments. This service opened on 23 February 2021 and closed on 21 June 2021. The majority of the VAT deferrals have now been paid.

Targeted business rates holidays - In March 2020 the government announced that eligible businesses would pay no business rates for 12 months from 1 April 2020. This amounted to support of £18.2 billion.

Support for individuals

Coronavirus Job Retention Scheme (CJRS) - A total of 1.3 million employers have made a claim in CJRS (also known as the furlough scheme) since it started in March 2020, totalling £69.5 billion claimed.

Self-Employed Income Support Scheme (SEISS) - In March 2020, the government announced the SEISS to support self-employed individuals whose businesses had been impacted by COVID-19. Through the three grants provided under the scheme, the government supported 2.7 million people, with claims totalling £19.7 billion.

Support for public services

In 2020-21, the government provided over £100 billion of support to public services across the UK, including £63 billion for frontline health services and £14 billion for public transport services.

The support for frontline health services included:

- around £22 billion for the Test and Trace programme;
- around £18 billion to support the NHS;
- almost £15 billion for the procurement of Personal Protective Equipment (PPE); and
- around £5 billion to support the procurement and deployment of vaccines.

At Spending Review 2020 the government announced a further £55 billion to support the public services response to COVID-19 in 2021-22. This expenditure is being reported in component accounts and will be reflected in WGA 2020-21 and 2021-22.

Note 33. Prior period adjustments

In the 2018-19 WGA accounts, there was a reclassification adjustment of £30.2bn between the Revaluation reserve and the General reserve in relation to IFRS 9 implementation. This was not necessary and as such this original adjustment has been reversed. A summary of the adjustments to WGA is provided below.

Statement of Financial Position (excerpt)

As at 31 March 2019

	2018-19	Restatement	2018-19 Restated
	£bn	£bn	£bn
Net liabilities	(2,455.8)		(2,455.8)
Financed by taxpayers' equity:			
General reserve	(3,018.6)	(30.2)	(3,048.8)
Revaluation reserve	558.6	30.2	588.8
Other reserves	4.2		4.2
Total liabilities to be funded by future revenues	(2,455.8)		(2,455.8)

Statement of Changes in Taxpayers Equity (excerpt)

As at 31 March 2019

	General reserve 2018-19	Revaluation reserve 2018-19	General reserve restatement	Revaluation reserve restatement	General reserve Restated 2018-19	Revaluation reserve Restated 2018-19
	£bn	£bn	£bn	£bn	£bn	£bn
At 1 April 2018	(3080.1)	510.8	(30.2)	30.2	(3,110.3)	541.0
Net income/(expenditure) for the year ended 31 March 2019	1.5	-			1.5	-
Net gain/(loss) on:						
Revaluation of property, plant and equipment	-	49.8			-	49.8
Revaluation intangible assets	-	0.1			-	0.1
Revaluation of available For sale financial assets	-	(3.3)			-	(3.3)
Revaluation of pension scheme liabilities	71.1	-			71.1	-
Other reserves movements including transfers	(11.1)	1.2			(11.1)	1.2
Balance at 31 March 2019	(3018.6)	558.6	(30.2)	30.2	(3048.8)	588.8

Note 34. Gold holdings

	2019-20 £bn	2018-19 £bn
Opening balance	9.9	9.4
Additions	-	-
Impairments	-	-
Revaluations	2.9	0.5
Disposals	-	-
Total gold	**12.8**	**9.9**

The Exchange Equalisation Account (EEA) is an account that holds the UK's reserves of gold, foreign currencies and IMF Special Drawing Rights. During the 2019-20 financial year the EEA had revalued the monetary value of gold from £994 to £1,296 per ounce, a 30% increase. This has in turn given rise to a £2.9 billion gain in revaluation and increased the total holdings of gold.

Note 35. Assets held for sale

	Property, plant & equipment £bn	Other non-financial assets £bn	2019-20 £bn	2018-19 £bn
Value as at 1 April	1.3	0.2	1.5	2.8
Reclassifications	1.0	0.2	1.2	0.8
Disposals	(0.7)	(0.2)	(0.9)	(2.1)
Revaluations	(0.1)	-	(0.1)	-
Balance at 31 March	**1.5**	**0.2**	**1.7**	**1.5**

IFRS 5 requires a non-current asset to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction instead of through continuing use. Depreciation of an asset ceases when it is classified as held for sale.

Note 36. Date authorised for issue

The financial statements were authorised for issue on the date of the Comptroller & Auditor General's report.

Chapter 5

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

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

Qualified opinion on financial statements

I certify that I have audited the financial statements of the Whole of Government Accounts (WGA) for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the consolidated Statements of Revenue and Expenditure, Comprehensive Income and 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.

In my opinion, except for the effects and possible effects of the matters described in the Basis for qualified opinion on financial statements paragraph:

- the financial statements give a true and fair view of the state of the whole of government's affairs as at 31 March 2020 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Basis for qualified opinion on financial statements

Qualification arising from disagreements on the definition and application of the accounting boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the accounts should present a true and fair view and conform to generally accepted accounting practice, subject to such adaptations as are necessary. HM Treasury has adopted a framework for the accounts which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.3 to the accounts, HM Treasury defines the accounting boundary with reference to those bodies classified as being in the public sector by the Office for National Statistics. It is my view that it would be more accurate to assess the accounting boundary with reference to the accounting standards which require the inclusion of bodies that are subject to control.

I also consider that HM Treasury's accounting policy regarding the basis of consolidation has not been applied consistently in 2019-20. A number of significant bodies, including the Royal Bank of Scotland Group plc (as of 22 July 2020 now called NatWest Group plc), have not been included in the accounts, even though they are classified by the Office for National Statistics as being in the public sector, which I also consider should be included in the accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the accounts with certainty, as I do not have the information needed to identify the transactions that require elimination in order to produce a consolidated view of the accounts, I consider that significant transactions and balances have been omitted from the WGA. Most significantly affected would be the Statement of Financial Position. The following categories of bodies have been excluded from the WGA accounts; their financial positions for 2019-20 illustrate the potential impact such omissions have on the WGA:

- Royal Bank of Scotland Group plc, which, as at 31 December 2019, had gross assets of £714.6 billion and gross liabilities of £679.5 billion;
- other bodies which have estimated gross assets of £30.8 billion and gross liabilities of £20.2 billion. These other bodies include those not consolidated on the basis of size, those that

have not provided financial data for consolidation, and bodies where HM Treasury's assessment of the boundary diverges from that of the accounting standards.

Qualification arising from a disagreement relating to inconsistent application of accounting policies

The financial reporting framework that the WGA must follow is set out in the Government Financial Reporting Manual which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, a number of bodies consolidated in the WGA do not adopt the same framework. These bodies fall under the following categories:

- bodies in the local government sector follow the Code of Practice on Local Authority Accounting in the UK;
- bodies that follow either pure IFRS or UK Generally Accepted Accounting Practice (UK GAAP); and
- bodies that follow the Charities Statement of Recommended Practice.

Accounting standards require that where the effect of such inconsistent accounting policies is material, adjustments should be made on consolidation. HM Treasury has not provided a full analysis of these differences and has not been able to quantify fully the impact of the different accounting frameworks or accounting policies on the WGA, but that impact is known to be material in some areas. The most significant example of inconsistent accounting policies concerns assets included in the WGA which have not been valued on a consistent basis, for example infrastructure assets held by local authorities are required to be valued at depreciated replacement cost (DRC) in the WGA but are valued at historic cost by local authorities under the IFRS-based Local Authority Code. In 2019-20 I estimate the value of this impact to be at least £71.8 billion (£58.8 billion in 2018-19).

My qualification also extends to infrastructure assets that the Environment Agency uses to manage flood and coastal erosion risks. These assets typically include barriers, pumping stations and water monitoring assets, such as telemetry stations and boreholes. As I reported in my audit of the Environment Agency these assets were not valued, as required, at depreciated replacement cost (DRC). These assets are valued in the accounts at £2.72 billion (£2.73 billion in 2018-19) but I am unable to quantify the correct valuation.

Qualification arising from underlying statutory audits of bodies falling within the accounts

The external auditors of the financial statements of a number of bodies that are consolidated into the WGA accounts qualified their audit opinions. Of these, only one is individually significant to the WGA; the qualification of the accounts of the Ministry of Defence.

The Ministry of Defence has not undertaken sufficient work to enable compliance with the financial reporting framework and to account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17 'Leases'. Consequently, I am unable to quantify the impact on the financial statements in this respect.

Qualification arising from disagreement relating to the consolidation of components with non-coterminous year ends

International Financial Reporting Standard 10 'Consolidated financial statements' (IFRS 10) presumes that, in order to present a true and fair view, the accounting reference date for component bodies consolidated into group accounts should be no more than three months different from the date of the group accounts. Where the accounting reference date is different, IFRS 10 requires that component bodies should prepare, for consolidation purposes, additional financial information as at the same date as the group accounts.

In preparing the WGA accounts, HM Treasury has consolidated the Academies Sector Annual Report and Accounts (SARA) prepared by the Department for Education for the year to 31 August 2019. This represents a difference of seven months compared to the accounting reference date of 31 March 2020 for the WGA accounts.

HM Treasury has not complied with the requirements of IFRS 10 in consolidating the SARA. In my opinion, the extent of non-compliance has resulted in a level of misstatement and uncertainty which I consider to be material to the WGA and I have therefore qualified my opinion in that respect.

Qualification arising from limitation of scope relating to the consolidation of components whose accounts have not been audited

HM Treasury have included within the Whole of Government Accounts draft accounts data for 29 Local Authorities where the component audits have not yet concluded. The largest balances for these components are £31.8 billion of Property, Plant and Equipment and £4.7 billion of Investment Properties. My inquiries of component auditors have highlighted a large number of issues and queries to resolve in testing these two balances, and the presence of some unconfirmed uncorrected misstatements.

Given the materiality of these balances to the group and level of outstanding work within component audits I was unable to obtain sufficient appropriate audit evidence that the Property, Plant and Equipment and Investment Property balances are free from material misstatement.

My report includes further details of the matters leading to my qualified opinion.

Emphasis of matter – nuclear decommissioning provisions

I draw attention to the disclosures made in Notes 2.7 and 22 to the financial statements concerning the uncertainties inherent in the provisions relating to the costs of dealing with nuclear decommissioning liabilities. As set out in these notes, given the very long timescale involved and the complexity of the plants and material being handled, considerable uncertainty remains in the estimates of future costs, particularly in later years. Material adjustments could be made to the carrying amount of the nuclear decommissioning provision and related assets and liabilities in the future. My opinion is not modified in respect of this matter.

Basis of qualified 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 Bodies 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 2019. 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- HM Treasury's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- HM Treasury has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the appropriateness of the presentation of the WGA using the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 HM Treasury's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 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.
- conclude on the appropriateness of HM Treasury'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 appropriateness of the presentation of the WGA using a going concern basis of accounting. If I conclude that a material uncertainty exists, I am required to draw attention in my certificate 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 certificate. However, future events or conditions may cause HM Treasury to cease preparing the WGA using a going concern basis of accounting.

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Performance Report, the Statement of Accounting Officer's Responsibilities, the Governance Statement and Annex A, but does not include the financial statements and my auditor's certificate 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 concluded that there are actual and possible uncorrected material misstatements in the other information relating to the matters described in the Basis for qualified opinion on financial statements section above. I have nothing further to report in this regard.

Opinion on other matters

In my opinion, the information given in the Performance Report, the Statement of Accounting Officer's Responsibilities and Annex A for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

Arising solely from the limitation on the scope of my work relating to the consolidation of components whose accounts have not been audited (further details of which are set out in the Basis for qualified opinion on financial statements section above):

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; and
- I have not received all of the information and explanations I require for my audit.

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

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
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London
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1 June 2022

Report of the Comptroller and Auditor General

Introduction

1 **The Whole of Government Accounts (WGA) provides the most complete and accurate picture of the financial performance and position of the UK public sector.** The WGA, for the year ended 31 March 2020, consolidates the accounts of public bodies from across the United Kingdom including local and central government. The WGA delivers a global financial picture of the UK public sector as it has continued to do for the last decade since HM Treasury first published the WGA for the year ended 31 March 2010. The WGA is therefore in a unique position to provide an overview of public sector spending and how the public sector's financial landscape is evolving, offering an important tool not only for managing public finances but for ensuring transparency and accountability.

2 **In 2019-20, the UK public sector spent £918.7 billion on public services and collected revenue of £813.3 billion.** Of this, £240 billion (26.1%) of this expenditure, went towards social security benefits, representing an increase of almost £10 billion compared with the prior year. Central Government accounts for £709.0 billion (77.2%) of expenditure, with Local Government accounting for £189.1 billion (20.6%) and public corporations £20.6 billion (2.2%). Most of government expenditure is financed through taxation revenue, with £696.7 billion of tax collected over the twelve-month period, £11 billion more than in 2018-19. Most of this is paid by individuals, with Income tax and National Insurance Contributions together accounting for 46% of taxation revenue.

Key findings

My audit opinion on the WGA

3 **I have qualified my opinion on the WGA accounts for the eleventh consecutive year, with five separate bases for qualification for the year ended 31 March 2020.** Whilst an additional basis for qualification has arisen this year in the qualification over the consolidation of unaudited component accounts, and little progress made on some longstanding qualifications that will not be rectified for the foreseeable future, good progress has been achieved in some other areas.

4 **HM Treasury is selling its stake in NatWest which will reduce, but not remove, the impact of the misapplication of the accounting boundary on the accounts in the future.** My qualification covers a number of elements:

a) the most significant omission from the accounts is NatWest Group plc. The Government set out its intention to dispose of all its shares in NatWest Group plc (formally Royal Bank of Scotland Group plc) by 2025-26 in the March 2021 Budget. Government stopped being a majority owner of NatWest Group plc on 28 March 2022 following a £1.2 billion sale of the Government's shares. As a result, the requirement to consolidate NatWest Group plc, the most significant of the bodies currently excluded from the WGA, is expected to end in the coming years.

b) Train Operating Companies have been added to my qualification this year, for the first time, following the implementation of Emergency Measures Agreements in March 2020 but I anticipate that these companies will be consolidated in the 2020-21 WGA.

c) At present other bodies which are not consolidated, including Further Education Institutions and the number of bodies that do not submit data returns, are likely to remain a significant inconsistency for the medium-term future.

5 **The work being done by the Ministry of Defence to rectify the qualification of its accounts should resolve the corresponding qualification in the WGA by at least 2022-23.** The Ministry of Defence (MoD) does not currently comply with IAS 17 Leases but is preparing to adopt the new leases standard, IFRS 16, and has committed to improve its processes for assessing its contractual arrangements to support full IFRS 16 compliance in 2022-23. If the implementation process is successful, this would allow me to lift the qualification on the MoD accounts which underlies the associated qualification on the WGA.

6 **Inconsistencies in the application of accounting policies remain significant.** The main cause of this qualification is inconsistent approaches to valuing infrastructure assets in central and local government. There are currently no plans in place to resolve this inconsistency, and therefore HM Treasury expects it to remain in the "medium term". Additionally, my qualification of the Environment Agency's infrastructure assets, which is more fully explained in my report on the Agency's accounts, is new this year and will require significant work by the Agency to resolve the underlying issues. An area of increasing divergence is in relation to the adoption of the new accounting standard for leases - IFRS 16, with parts of Central Government increasingly adopting the standard early and a confirmation that Local Government will adopt the standard at a later date than the WGA. While HM Treasury were able to make an adjustment this year to materially address this difference in accounting policies, increasing divergence in coming years will make this significantly more challenging.

7 **There has been no progress towards resolving the qualification to my audit opinion resulting from the consolidation of the Academies sector and this issue is unlikely to be addressed for a number of years.** Given concerns over the reasonableness of the cost and effort associated with resolving the issue of the non-conterminous year ends, HM Treasury and the Department for Education are only considering options to remove this qualification without changing the financial reporting periods of academies (which are aligned with the academic year) and without commissioning additional audited information. They have made no progress on this matter during the period of the COVID-19 pandemic response. This makes it challenging to prepare sufficiently robust information to show the financial position and performance of academies as at the reporting date. Trend data that could have been used to support preparation of financial information for the academies sector as at 31 March each year may now be less relevant due to the disruption to the academy landscape as a result of the COVID-19 pandemic.

8 **Performance delivering timely Local Government accounts is deteriorating and increasing the extent of my qualifications of the WGA**. I qualify my accounts for misapplication of the accounting boundary in respect of Local Government bodies which have not submitted accounts data for consolidation. This is usually related to delays completing their statutory audits, with only 45% of Local Government audits published by the 30 November deadline for 2019-20 (57% by 31 July for 2018-19). The number of bodies, predominantly being Local Government bodies, that have been excluded from the WGA for this reason has increased to 24 in 2019-20 (15 in 2018-19). I have further qualified my opinion for 2019-20 regarding 29 Local Government bodies where the audit of the underlying accounts was not complete and therefore HM Treasury used draft accounts data. Due to the nature of queries remaining in the underlying audits for these bodies I was unable to gain sufficient assurance over the £31.8 billion of Property, Plant and Equipment and £4.7 billion of Investment Property balances within these bodies at this time. There is a risk of these elements of my qualifications worsening in future years, with performance in delivering Local Government accounts

continuing to deteriorate in 2020-21 when only 9% of bodies' completed their 2020-21 audits at the target date of 30 September 2021.

The preparation of WGA

9 **The timeliness of publication of the WGA accounts has deteriorated significantly since the 2018-19 WGA was published in July 2020.** The 2019-20 WGA is being published some 26 months after the year end and more than 5 months after the statutory publication deadline. The first complete draft of the accounts was provided to me in March 2022, some 13 months after the statutory deadline for doing so. These dates represent a significant deterioration compared to the 2018-19 accounts which were published in July 2020. The delay was caused by a combination of COVID-19 related delays to underlying accounts as well as problems implementing the new accounting system OSCAR II, which were not foreseen by HM Treasury.

10 **The timeliness of the WGA has been impacted by the COVID-19 pandemic.** Delays in component bodies' timetables for accounts preparation and audit completion has hindered the timely provision of underlying data needed for HM Treasury to produce the WGA. In Central Government the last major Department to be certified was the Department for Health and Social Care on 28 January 2021, some 7 months later than for 2018-19. In the Local Government sector, COVID-19 led to a 4-month extension of the deadline to publish accounts to 30 November 2020, with only 45% meeting this deadline. The late preparation and audit of accounts caused corresponding delays to the submission of data for consolidation into the WGA.

11 **Weaknesses in HM Treasury's implementation of its new IT system for producing the WGA has caused delays.** OSCAR II is HM Treasury's new system for collecting the data it needs to carry out its financial management functions across Government. One of the uses of OSCAR II is the production of the WGA. While I have not formally reviewed the implementation of OSCAR II, I have noted a number of issues through my audit, including:

a) Components experienced significant issues inputting data, which in some cases required system changes to be made and these took up to a year in the most extreme case.

b) Some reports provided by the system were not complete and accurate, including the auditor reports used by component auditors to validate data entry as well as some reports provided to me for audit.

c) There were significant performance issues with the reporting module, causing delays in the production of the accounts.

The system was however successful in improving the quality of data entered by components, resulting in a lower number of inconsistently reported intra-group transactions for HM Treasury to resolve.

12 **HM Treasury did not anticipate the extent of delays and was over optimistic when laying out account production and audit timelines.** HM Treasury first notified the Public Accounts Committee of delays to the accounts in January 2021, and at that stage anticipated that it would be able to begin producing the accounts in April 2021 and publish them in July or September 2021. HM Treasury have written to the Committee 3 further times setting out additional delays. Agreed dates for the provision of audit evidence to me and parts of the draft accounts were routinely missed. Changes to the OSCAR II system to resolve technical issues also took significantly longer for the contractor to implement than HM Treasury expected.

13 OSCAR II has the potential to deliver benefits long-term but the effects of the setbacks from implementation are unlikely to be fully overcome in 2020-21. The delays to data submissions in 2019-20 will have an ongoing impact. OSCAR II was not designed to allow components to submit data for the 2020-21 financial year while the 2019-20 audit was being completed. The required system change was only made in April 2022, with a deadline for auditors to submit assurance returns by the end of August 2022. As a result of this, HM Treasury has not met the statutory deadline to produce the accounts by February 2022 and is expecting to publish the accounts in March 2023, 3 months after the statutory deadline. HM Treasury has limited influence over the preparers and auditors of component returns, and a number of auditors have stated that this deadline will be challenging alongside competing demands. HM Treasury has ambitions to publish the 2021-22 accounts in November 2023 and although I fully support this aim it is vital that these plans are realistic and achievable.

The insight provided by WGA

14 Both the timeliness and completeness of the WGA are critical when aiming to provide valuable insight. The WGA is a key tool in managing public finances. Each year it brings together an unparalleled overview of public finances that offers both a summary of the year in public spending and the potential to gain insights from trends over time. The published accounts are used by key stakeholders including Parliament, and important fiscal bodies such as the International Monetary Fund and Office for Budget Responsibility. Underlying data is used by HM Treasury to help manage the public finances. In order to fully exploit this potential, the information provided must be complete, accurate and timely. Balancing these factors is essential if the WGA is to continue to be a valuable tool in managing public spending and this will present a challenge for HM Treasury as it attempts to return to pre-recess certification.

15 HM Treasury has brought out useful insights in its reporting on cross government initiatives. Within the 2019-20 annual report, HM Treasury has provided valuable overviews of the wider government impacts and actions surrounding both the COVID-19 pandemic and EU Exit. The potential for the WGA to present information of this sort is significant. If HM Treasury achieves its aims of restoring the timeliness of publication, the opportunity for the WGA to make a significant impact from the insights it presents will grow.

Recommendations

16 It is important that HM Treasury continues its efforts to secure progress minimising the extent of audit qualifications. In this regard I recommend that HM Treasury:

a) Re-engages with the Department for Education to develop a plan and timetable to resolve the assurance gap arising from the non-coterminous year end for the Academies Sector Annual Report and Accounts.

b) Considers ways to mitigate the impact of delays in the Local Government Audit market on the WGA, including:

   i) reducing the number of bodies that do not submit consolidation data; and

   ii) obtaining assurance over submissions that are based on unaudited accounts data

c) Develops an approach to ensure that the staggered adoption of IFRS 16 across Government does not result in a new qualification in future periods.

17 In order to support the more timely production of the WGA in future years I recommend that HM Treasury:

a) Reviews its processes for user acceptance testing, to reduce the number of defects in the live system and reports.

b) Develops a detailed and realistic delivery plan to support the high-level timetables for the 2020-21 and 2021-22 accounts production.

c) Works with its IT contractor to more clearly understand and agree what timescales are realistic for making system changes and resolving system issues.

d) Engages with the Department for Education to identify lessons that could be learned and applied from the Academies Sector Annual Report and Accounts project to the WGA, for example in relation to the structure of the team and engagement with preparers and auditors.

18 I recommend that HM Treasury considers what further areas it could usefully develop within the WGA to report on and provide cross-government insights. For example, the opportunity to highlight key fiscal risks within the Governance Statement, or introducing reporting on Government's spend and progress on its net-zero ambitions.

Gareth Davies **1 June 2022**

Comptroller and Auditor General

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Annex A

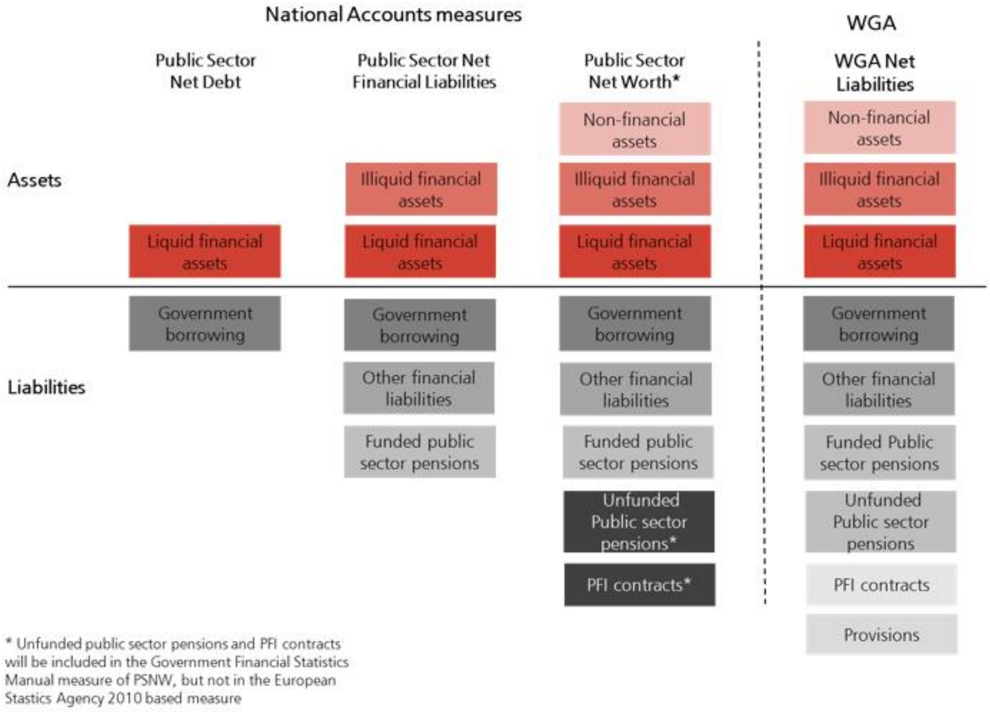
Comparison to the National Accounts

WGA and the National Accounts

5.1 WGA is comprehensive, but not without limitations. Box 1.I provides more information on what is not included in WGA. However, one of the key issues is that published financial statements, including WGA, are not published in a timely enough fashion to allow day-to-day control of the public finances. In order to understand and control the public finances, the government uses the National Accounts. These are statistical measures that do not include the full range of assets and liabilities that are included in WGA, but are much timelier.

5.2 In looking at the fiscal picture, there are various statistical measures available in the National Accounts providing a complementary perspective of the health of the government's balance sheet. **Public Sector Net Debt** (PSND) comprises government borrowings less liquid financial assets (such as bank deposits and foreign exchange reserves). PSND excluding the public sector banks is the government's preferred measure of fiscal health as it is consistent with the internationally agreed National Accounts framework. Public Sector Net Financial Liabilities expands on PSND to include all financial assets, such as loans, derivatives, and equity investments. The most comprehensive measure derived from National Accounts is **Public Sector Net Worth** which compares the government's debt with all its assets, including physical assets used to deliver services such as infrastructure, offices, hospitals, and schools.

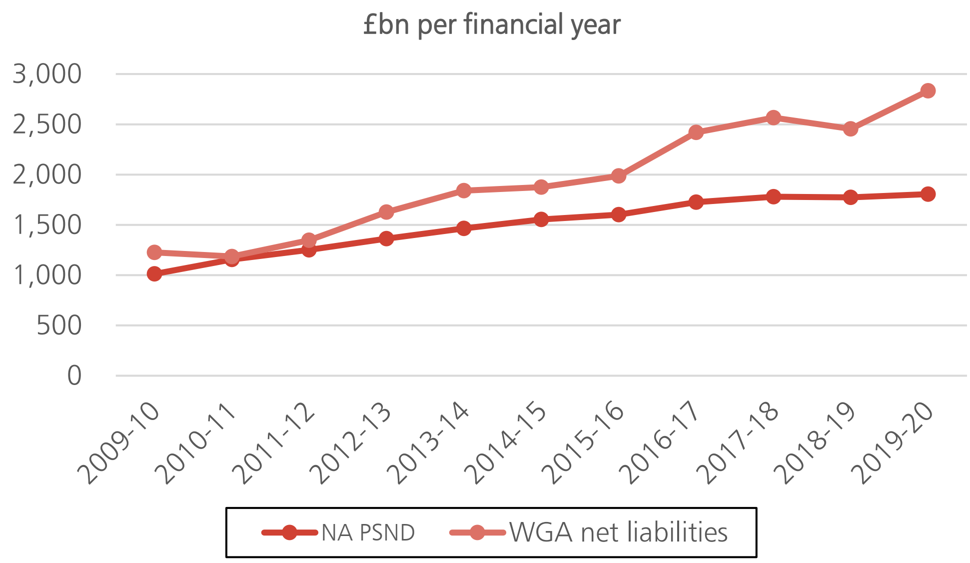
Chart 5.A: Comparison of National Accounts and WGA measures



Source: HM Treasury

5.3 **WGA Net Liabilities** is more comprehensive than Public Sector Net Debt, including non-financial assets and public sector pensions liabilities, provisions and PFI contracts. Further explanations of the differences between the WGA and National Accounts will be given later in this annex.

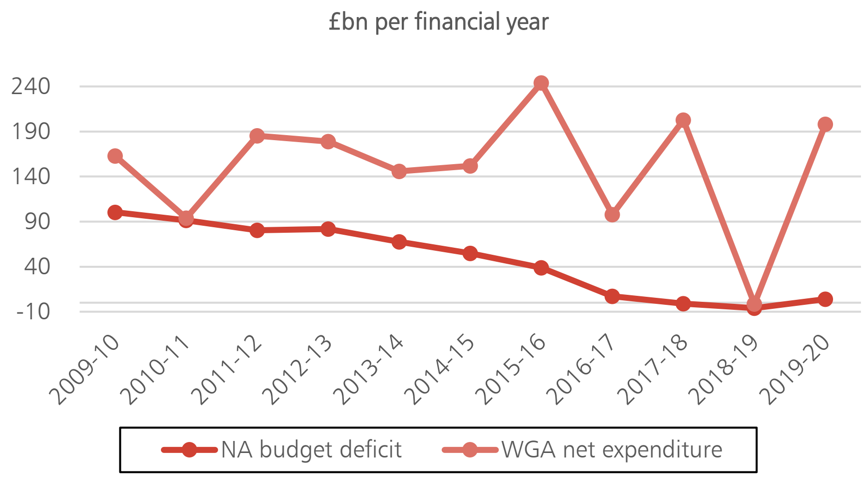
Chart 5.B: National Accounts (NA) PSND and WGA net liabilities



Source: HM Treasury and ONS data

5.4 Over the 11 years that the WGA has been published, the overall trend of the National Accounts PSND and the WGA net liabilities has generally been similar. There was a divergence for 2016-17 and 2017-18. This is because pension liabilities increased in value that year, which affects WGA net liabilities but not National Accounts PSND.

Chart 5.C: National Accounts (NA) Public Sector current budget deficit and WGA net expenditure



Source: HM Treasury and ONS data

5.5 Whilst the National Accounts and WGA show a similar balance sheet picture, there is greater difference on net expenditure. The National Account current budget deficit has been steadily reducing over the last 10 years. The WGA net expenditure series over the same period has shown greater volatility, mainly due to the expenditure for financing government's long-term liabilities which are included in the WGA but not in the National Accounts. The financing costs of long-term liabilities is affected significantly by changes to the discount rates used to discount future cash flows. This had a particular impact in 2015-16 and 2017-18, as there was a change in discount rates for certain provisions that impacted financing costs in WGA but did not affect the National Accounts deficit. Discount rates are looked at in more detail in Notes 2.6 to 2.7.

Box 5.A: Why does government use National Accounts?

WGA is prepared under International Financial Reporting Standards (IFRS). The standards are interpreted and adapted for the public sector context, but overall WGA is prepared on a similar basis to the private sector and is independently audited by the NAO. The benefits of WGA are that it provides a complete picture of the government's financial position, the future consequences of decisions already taken and financial commitments already entered into (for example pensions, PFI).

Public finances also apply internationally agreed standards, in this case the National Accounts rules (European System of National and Regional Accounts) which apply for measuring economic activity. Reporting is carried out by the independent Office for National Statistics. The benefit of the National Accounts is that they are available within a much shorter timescale than WGA.

There is more that is common than different between the two frameworks (for example the use of the accruals accounting concept, production of a balance sheet and production of an analysis of income and expenditure), allowing the two views to be combined. The UK goes further and reconciles WGA to the National Accounts to provide further transparency.

The government's preferred measure of Public Sector Net Debt excludes public sector banks. It equals external borrowings less liquid financial assets.

The rest of this chapter explains the differences between accounting standards and National Accounts rules and then provides a reconciliation from WGA to the National Accounts.

Comparison between accounting standards and National Accounts

The accounting standards followed by WGA are International Financial Reporting Standards (IFRS) and the statistical rules followed by the National Accounts are set out in the European System of Accounts (ESA). Both frameworks have core similarities:

- They are both prepared on an accruals basis (recognition of economic events regardless of when cash transactions occur)

- They each prepare a statement of financial position, income and expenditure analysis and details of other changes

- They both exclude future tax revenue, future assets, and liabilities that will be incurred in the future (such as future benefit and state pension payments).

Comparing WGA expenditure to the Public Sector current budget deficit

The public sector current budget deficit is an important balance in the fiscal framework. The current budget deficit is the difference in the financial year between accrued current revenue and expenditure as defined in the National Accounts.

One of the main differences between the current budget deficit used in National Accounts and total expenditure used in WGA is that the National Accounts exclude the financing costs of long-term liabilities. Instead, the National Accounts recognise these liabilities when they are due to be paid.

Comparison to Public Sector Net Debt

Public Sector Net Debt can be defined as the public sector's consolidated gross debt, less its assets that could be readily sold as defined in the National Accounts. The difference between the National Accounts and WGA measures of net debt and net liabilities is primarily due to differing treatments of the public sector pension liability, property, plant and equipment and provisions.

Differences between WGA and National Accounts

The differences between IFRS and ESA in how they recognise, and value certain assets, liabilities and items of expenditure are summarised below:

Differences between WGA (IFRS) and National Accounts (ESA)

Area	WGA treatment	National Accounts treatment
Grants to fund capital expenditure	Is recognised as an expense in-year as it does not result in an asset for government	Is always capitalised on the basis that it results in an asset in the wider economy
Research and development expenditure	Can be capitalised if it is likely to result in an asset but is frequently recognised as an expense in-year	Is capitalised more frequently on the basis that it is an investment lasting for more than one year
PFI	Most PFI assets and liabilities are recognised on balance sheet after assessing control of the assets. PFI payments are apportioned between repaying debt, paying interest, and paying for services	Most PFI assets and liabilities are not recognised on the balance sheet after assessing risks and rewards. Payments under PFI contracts are recognised as a current expense in-year for off balance sheet schemes and a capital expense in-year for on balance sheet schemes.
Depreciation of assets	Is calculated for each asset individually based on its estimated useful economic life and residual value	Is calculated using standard statistical models, high level data and asset life assumptions.
Revaluation and impairment of assets	Assets are revalued as set out in Note 1 of the WGA. Assets are assessed annually for impairment compared to their carrying value	Assets are recognised at cost less depreciation and are not revalued. Only impairments caused by obsolescence or accidental damage are recognised

Profit or loss on sale of assets	Recognised as income or expenditure	Proceeds of sale are recognised but not the profit or loss
Gilts	WGA bodies hold gilts at fair value, these are eliminated on consolidation and all the remaining gilts are held at amortised cost	Gilts are included based on their redemption price
Public sector pensions	Recognises expenditure when rights accrue to employees, even though payment is not due	Recognises expenditure as it is paid to retirees. The future liability for current employees is not recognised
Provisions	Recognises expenditure when it becomes probable that a payment will be needed because of past events	Recognises provisions only when they are settled (i.e., there are actual payments). Amounts expected to be paid out in future because of past events are not recognised
Effects of discounting future liabilities	Future cash flows are discounted to estimate the value of the liability. Changes to the cash flows and discount rate are recognised in-year	Not included
Transactions within government	Transactions are eliminated entity by entity in a process that takes several months. The residual elimination error is quantified and subject to audit	Transactions are eliminated using a quicker and higher-level approach. The residual elimination error cannot be quantified
Asset Purchase Facility	Shows gilt purchases at fair value	Records the gilt purchases at nominal value
UK Asset Resolution (UKAR)	Includes both the liabilities and the assets.	Includes UKAR's own debts to the private sector and excludes their non-liquid financial and other assets
Housing associations	Not included within the WGA boundary	Housing Associations used to be included in the National Accounts but are no longer

Reconciliation to Public Sector Net Debt

Public Sector Net Debt is a measure that is calculated from the National Accounts. The same figures can be compiled from WGA, but the total net liabilities recognised within WGA are more extensive than those recognised in Public Sector Net Debt. This is partly because Public Sector Net Debt is only part of the National Accounts balance sheet and partly because WGA recognises additional assets and liabilities which are not included on the National Accounts balance sheet.

Public Sector Net Debt compared to total WGA net liabilities

The reconciling amounts included in the table below are calculated as the difference between the value of a balance in WGA and the value of the same balance in the National Accounts. These amounts are therefore not directly comparable to the amounts included in the Financial Statements in Chapter 4.

Public Sector Net Debt compared to total WGA net liabilities

	2019-20 £bn	2018-19 £bn	2017-18 £bn
Public Sector Net Debt (National Accounts)	1,806	1,774	1,779
Add liabilities not recognised in National Accounts:			
Net public sector pensions liability	2,190	1,894	1,865
Provisions	375	311	422
PFI contracts	31	32	33
Adjust assets measured differently in national accounts:			
Asset Purchase Facility	(181)	(194)	(200)
Unamortised premia on gilts	62	56	54
UK Asset Resolution (UKAR) net impact on net debt	1	(2)	(10)
Add assets and liabilities excluded from measure of PSND:			
Property, plant and equipment	(1,313)	(1,268)	(1,208)
Investment property	(24)	(23)	(20)
Intangible assets	(40)	(37)	(36)
Trade and other receivables	(45)	(41)	(42)
Prepayments and accrued income	(88)	(108)	(103)
Inventories	(11)	(10)	(10)
Investments	(33)	(53)	(52)
Trade and other payables	56	51	53
Accruals and deferred income	66	61	62
Deduct liabilities not yet recognised in WGA			
Housing associations	0	0	
Other adjustments including eliminations	(18)	12	(22)
Net liabilities (WGA)	**2,834**	**2,456**	**2,565**

Reconciliation to Public Sector Current Budget Deficit

Public Sector Current Budget Deficit is also calculated from the National Accounts and the government's preferred measure excludes public sector banks. Total net expenditure in WGA is higher than the Public Sector Current Budget Deficit primarily because it includes expenditure on long-term liabilities.

Public Sector Current Budget Deficit

	2019-20 £bn	2018-19 £bn	2017-18 £bn
Public sector current budget deficit (National Accounts)	4	(6)	(1)
Add expenditure on liabilities excluded from National Accounts:			
Increase in provisions	74	21	5
Adjust expenditure calculated differently from National Accounts:			
Public sector pensions	(0)	0	(0)
Depreciation and amortisation	(19)	(15)	(10)
Impairments and revaluations of assets	16	13	25
Net (gains)/Losses on sale of assets	2	4	4
Capital grants	9	10	9
Research and development	2	2	2
Other adjustments	17	27	11
Net expenditure on public services (WGA)	**105**	**56**	**44**
Financing costs of long-term liabilities, including discounting	66	(57)	154
Revaluation of financial assets and liabilities	20	(1)	5
Total net expenditure (WGA)	**192**	**(2)**	**203**

The reconciling amounts included in the table above are calculated as the difference between the value of a transaction in WGA and the value of the same transaction in the National Accounts. These amounts are therefore not directly comparable to the amounts included in the Financial Statements in Chapter 4.