National Loans Fund Account 2021-22

HC 668

October 2022

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CONTENTS

Performance Report

Overview

Purpose and activities of the National Loans Fund

The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending which were until then accounted for as part of the Consolidated Fund (CF). The CF was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'. The NLF was set up in order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other. The accounts for the CF and NLF are published separately.

Both the CF and NLF are administered by the Treasury with the bank accounts maintained at the Bank of England. The CF can therefore be regarded as central government's current account whereas the NLF can be regarded as central government's main borrowing and lending account. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by the Debt Management Office (DMO) and National Savings and Investments (NS&I).

The DMO was established as an executive agency of the Treasury on 1 April 1998. Its remit is 'to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating in a risk appetite approved by Ministers in both cases'. Its operations are managed through the Debt Management Account (DMA) which is a bank account at the Bank of England linked closely with the NLF. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts on which the return is currently linked to movements in the Retail Prices Index (RPI). They are issued from the NLF and sold into the market by the DMO. In addition, the DMO issues Treasury Bills from the DMA and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt Management Report 2022-23[1] published by the Treasury in March 2022.

The Exchange Equalisation Account (EEA) was established in 1932 to provide a fund that could be used when necessary to regulate the exchange value of sterling. It holds the UK's reserves of gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights (SDR). Combined with the UK's Reserve Tranche Position (RTP) with the IMF, these assets comprise the UK's official holdings of international reserves. The RTP is an asset of the NLF. The Bank of England acts as the Treasury's agent in the day-to-day management of the EEA.

The NLF's main role is to meet the financing needs of the CF to the extent that taxation and other receipts are insufficient to meet the CF's outgoings. To this end the NLF undertakes borrowing and uses the proceeds to meet any deficits in the CF; conversely, any net surpluses in the CF are passed to the NLF to reduce the latter's need to borrow or to increase the amount that it can lend. The NLF finishes every day with a nil balance in its bank account because any cash surpluses or deficits are offset by transfers to or from the DMA.

The NLF's borrowing operations include the temporary borrowing of balances in various government bank accounts that are surplus to immediate requirements. Such borrowing minimises the amount that the NLF needs to borrow from other sources. Where the money borrowed in this way already counts as Exchequer money, interest is not paid. For the rest of its borrowing however the NLF normally has to pay interest. If the NLF's interest income is less than the interest it pays on its borrowings, which it generally is, the shortfall is met by a transfer from the CF.

The NLF provides finance for both the DMA and EEA, so surpluses and deficits of the DMA and EEA are income and expenditure of the NLF and their net assets are assets of the NLF. It also makes loans to various statutory

[1] https://www.gov.uk/government/publications/debt-management-report-2022-to-2023

public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB) for its loans to prescribed bodies, mainly local authorities. The profits of the Issue Department of the Bank of England are also paid to the NLF under section 9(1) of the National Loans Act 1968. The Issue Department is solely concerned with the issue of banknotes and the assets backing them. NS&I's savings products are liabilities of the NLF.

As the vast majority of the assets of the NLF comprise the advances to and net assets of the DMA and EEA and advances to the PWLB, the NLF is not exposed to significant credit risk. Further detail on how credit risk is managed is included in note 16 to the accounts. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts.

Key issues and risks

The key issues and risks facing the NLF are considered in the governance statement on pages 9 to 14. In addition, the financial risks related to the NLF are separately disclosed in note 16 on page 37 to 43.

Performance summary

The total comprehensive net expenditure of the NLF increased by £19.9 billion from £39.7 billion in 2020-21 to £59.6 billion in 2021-22 primarily due to an increase in Finance costs of borrowing of £27.3 billion from £41.7 billion in 2020-21 to £69.0 billion in 2021-22, partly offset by a decrease in Other expenditure of £4.5 billion from £4.6 billion in 2020-21 to £0.1 billion in 2021-22, and an increase in Other income of £2.3 billion from £3.8 billion in 2020-21 to £6.1 billion in 2021-22.

The NLF's total gross assets decreased by £19.2 billion from £316.6 billion in 2020-21 to £297.4 billion in 2021-22. Total gross liabilities increased by £137.5 billion from £2,420.4 billion in 2020-21 to £2,557.9 billion in 2021-22. As a result, net liabilities increased by £156.7 billion from £2,103.8 billion in 2020-21 to £2,260.5 billion in 2021-22. Further details can be found in the Performance analysis.

Performance analysis

International Support

The UK has continued to support the International Monetary Fund (IMF) through the NLF in 2021-22 in line with our commitments as an IMF member. The UK has provided such support through its quota subscription and other lending to the Fund. Under the IMF's Fifteenth General Review of Quotas (15th GRQ), it was agreed that IMF quota resources would remain unchanged. The UK's quota commitment to the IMF therefore remains fixed at SDR [2]20,155m (£21,227m at the 31 March 2022 exchange rate). However, alongside the 15th GRQ, in October 2019, the IMF membership endorsed a package of actions on IMF resources and governance reform. This included reforms to the Fund's New Arrangements to Borrow (NAB) and Bilateral Borrowing Agreements (BBAs) which are resources that the IMF can call upon to supplement permanent IMF quota resources, and which serve as the second and third lines of defence respectively. It was agreed that overall, the NAB would double in size, while the BBAs would be reduced, maintaining overall IMF resources at the same levels. The UK increased its commitment to the NAB from SDR 9,479m (£9,983m) to SDR 18,958m (£19,967m). The UK reduced its contribution to the BBAs from SDR 9,178m (£9,666m) to SDR 3,954 million (£4,164m). Overall, the UK's commitment to the IMF's general resources (quota, NAB and BBAs) therefore increased from SDR 38,812m (£40,876m) to SDR 43,067m (£45,358m). These changes became effective on 1 January 2021. UK contributions to the NAB and BBAs are contingent liabilities and will only show on the UK balance sheet if they are activated by the IMF board.

The NLF's net exposure to the IMF of £5.6 billion at 31 March 2022 (2020-21: £5.1 billion) is described in note 9 and comprises the reserve tranche position of £5.4 billion (2020-21: £4.8 billion) and loans of £0.2 billion (2020-21: £0.3 billion). The IMF maintains precautionary balances of retained earnings to absorb any losses it may incur. As at 31 March 2022, any losses that may be incurred by the IMF on loans to its member countries are not expected to result in losses to the NLF.

Asset Purchase Facility

The Asset Purchase Facility was set up in 2008-09 at the Bank of England and is authorised to purchase assets financed by the issuance of central bank reserves (a process known as 'quantitative easing'). As at 31 March 2022, on an amortised cost basis, £765.3 billion (2020-21: £692.1 billion) of gilts from the NLF were held by the Bank of England for quantitative easing. Under an indemnity provided by HMT excess cash held in the facility, which arises largely from coupons on these gilts, is transferred to the Exchequer via HM Treasury from where it is paid to the CF as Extra Receipts. These cash flows are expected to reverse as the scheme unwinds. More information on the scheme can be found on the Bank of England's website[3] and in HM Treasury's Annual Report and Accounts.

Funding for Lending Scheme (FLS)

The FLS was designed to incentivise banks and building societies to boost their lending to the UK real economy. It was launched in July 2012 and subsequently extended to allow participants to borrow from the FLS until January 2018. The NLF issued Treasury Bills for sale to the DMA which made them available to be borrowed by the Bank of England. Banks and building societies participating in the FLS could then borrow Treasury Bills from the Bank of England in exchange for eligible collateral. The final maturity of Treasury Bills issued under the scheme occurred in January 2022 and as a result the Statement of Financial Position shows a nil balance of Treasury Bills at 31 March 2022 (2020-21: £0.3 billion).

Outturn for 2021-22

The total comprehensive net expenditure of the NLF increased by £19.9 billion from £39.7 billion in 2020-21 to £59.6 billion in 2021-22 primarily due to an increase in Finance costs of borrowing of £27.3 billion from £41.7 billion in 2020-21 to £69.0 billion in 2021-22, partly offset by a decrease in Other expenditure of £4.5 billion from £4.6 billion in 2020-21 to £0.1 billion in 2021-22, and an increase in Other income of £2.3 billion from £3.8 billion in 2020-21 to £6.1 billion in 2021-22.

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[2] Special Drawing Rights (SDR) are an international reserve asset created by the IMF in 1969 as a supplement to the then existing reserve assets. It is currently valued in terms of a weighted basket of five currencies (US dollar, sterling, yen, euro and renminbi).

[3] https://www.bankofengland.co.uk/markets

The increase in Financing costs of borrowing was mainly as a result of £27.0 billion higher financing costs of gilts reflecting the increase in RPI, while the increase in Other income and decrease in Other expenditure are both primarily due to a £6.6 billion change in EEA's total comprehensive income/expenditure.

The total comprehensive net income from the DMA was £3.9 billion in 2021-22 and is reported against Other income in the Statement of Comprehensive Net Expenditure; this compares to net income of £3.7 billion in 2020-21. The total comprehensive net income from the EEA was £2.1 billion in 2021-22 (reported against Other income) compared to a net expenditure of £4.5 billion in 2020-21 (reported against other expenditure). The £6.6 billion difference was largely due to lower exchange rate related losses and a more favourable movement in the fair value of gold when compared to 2020-21. Further information on the DMA and EEA can be found in their respective accounts which are published separately.

Excluding the profits and total comprehensive net income/expenditure of other entities, the NLF's total comprehensive net expenditure was £26.9 billion higher at £65.8 billion in 2021-22 compared to £38.9 billion in 2020-21, primarily as a result of higher financing costs of gilts:

	Note	**2021-22 £m**	2020-21 £m
Total comprehensive net expenditure		**59,605**	39,658
EEA total comprehensive net income / (expenditure)	5	**2,111**	(4,539)
DMA total comprehensive net income	5	**3,915**	3,697
Profits of the Bank of England Issue Department	5	**122**	85
		65,753	38,901

Assets

The NLF's total gross assets decreased by £19.2 billion from £316.6 billion in 2020-21 to £297.4 billion in 2021-22. This was primarily due to a decrease in advances of £25.7 billion (consisting of a decrease in advance to the DMA of £30.0 billion, a decrease in advance to the EEA of £0.3 billion and an increase in advance to the PWLB of £4.6 billion) partly offset by an increase in other assets of £5.8 billion.

Liabilities

Total gross liabilities increased by £137.5 billion from £2,420.4 billion in 2020-21 to £2,557.9 billion in 2021-22. This is largely a result of gilt-edged stock increasing by £128.4 billion from £2,103.1 billion to £2,231.5 billion, NS&I liabilities increasing by £4.6 billion from £203.0 billion in 2020-21 to £207.6 billion in 2021-22 (reflecting significant inflows from Premium bonds and Direct saver accounts partly offset by net outflows on both guaranteed bonds and income bonds products) and liabilities to other public sector entities increasing by £4.7 billion from £98.2 billion to £102.9 billion.

Public Sector Net Debt

As a result of these changes, the net liabilities of the Fund increased by £156.7 billion from £2,103.8 billion in 2020-21 to £2,260.5 billion in 2021-22. This is matched by a corresponding claim on the CF. The NLF lends to and borrows from other parts of the public sector. For example, it makes advances to the PWLB and borrows directly from a range of public sector bodies (as described in note 12). In addition, some of the gilts it has issued are held in the public sector, including by the DMA which retains a portfolio of gilts for use as collateral for its money market activities and by the Bank of England under the Asset Purchase Facility. The DMA also has large advances to and from the NLF. Therefore, the NLF's net liabilities do not equate to the Public Sector Net Debt ("PSND"), which is a calculation of the net debt of the whole of the public sector after eliminating intra-public sector balances. Figures for PSND are published jointly by HM Treasury and the Office for National Statistics in the monthly *Public Sector Finances Statistical Bulletin* which can be found on the Office for National Statistics and GOV.UK websites.

Forward Look

Net financing requirement

The Debt Management Report which included the financing remit for 2022-23 was published by the Treasury alongside the Budget in March 2022 and subsequently revised following publication of the 2021-22 Central Government Net Cash Requirement (CGNCR) Outturn: Revision to the DMO's Financing Remit 2022-23[4]. Following the publication of the Government's Growth Plan on 23 September 2022, the remit was further revised[5], principally to reflect the funding required for all measures announced since the revision published in April 2022. On the basis of a CGNCR forecast for 2022-23 of £94.3 billion (excluding the self-financed elements of NRAM plc, Bradford and Bingley and Network Rail) and the additional financing for the Growth Plan, the revised Net Financing Requirement to be met by the DMO is £234.1 billion. The DMO will meet this requirement by gross gilt sales of £193.9 billion (gilts issued by the NLF) and a net contribution of £40.2 billion from net sale of Treasury Bills (through DMO).

Long-term expenditure trends

Since the function of the NLF is to account for government borrowing and lending, it has no long-term expenditure trends.

Catherine Little
Accounting Officer
HM Treasury

10 October 2022

[4] https://dmo.gov.uk/media/17968/pr260422.pdf
[5] https://www.dmo.gov.uk/media/navfleww/pr230922.pdf

Accountability Report

The accountability report contains a Corporate governance report and a Parliamentary accountability and audit report. The purpose of the Corporate governance report is to explain the composition and organisation of the National Loans Fund's governance structures and how they support the achievement of the National Loans Fund's objectives. It includes the Statement of Accounting Officer's responsibilities and the Governance statement. The Parliamentary accountability and audit report includes key Parliamentary accountability information on regularity of expenditure and remote contingent liabilities as well as the Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament.

Corporate governance report

Directors' report

Operationally, the NLF is managed by HM Treasury and staff charged with its oversight are employees of HM Treasury. The NLF itself therefore has no employees of its own.

Directors' conflicts of interest

In 2021-22, no material conflicts of interest have been noted by the senior management overseeing the NLF.

Personal data related incidents

The NLF does not hold any protected personal data.

Statement of Accounting Officer's responsibilities

Under section 21(1) of the National Loans Act 1968 HM Treasury is required to prepare an account relating to the National Loans Fund for each financial year in the form and on the basis considered appropriate by the Treasury. The Account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and of its Comprehensive Net Expenditure and cash flows for the financial year.

In preparing the Account the Accounting Officer is required to:

- observe the relevant accounting and disclosure requirements of the Government Financial Reporting Manual in so far as they are relevant to the Account and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- prepare the accounts on a going concern basis as defined in the Government Financial Reporting Manual; and
- confirm that the annual report and accounts as a whole are fair, balanced and understandable and take personal responsibility for the annual report and accounts and the judgements required for determining that they are fair, balanced and understandable.

The Treasury has appointed its acting Permanent Secretary, Catherine Little, as Accounting Officer of the National Loans Fund.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable and for keeping proper records, are set out in Managing Public Money published by the Treasury.

The Accounting Officer confirms that, as far as she is aware, there is no relevant audit information of which the NLF's auditors are unaware, and that she has taken all the steps that she ought to have taken as Accounting Officer to make herself aware of any relevant audit information and to establish that the NLF's auditors are aware of that information.

The Accounting Officer confirms that the annual report and accounts as a whole are fair, balanced and understandable and that she takes personal responsibility for the annual report and accounts and the judgements required for determining that they are fair, balanced and understandable.

Audit arrangements

The NLF accounts are audited by the Comptroller and Auditor General (C&AG) under the requirements of the National Loans Act 1968. The National Audit Office (NAO) bears the cost of all external audit work performed on the NLF. No non-audit work was undertaken by the NAO in relation to the NLF in 2021-22.

Governance Statement

1. Governance Framework

1.1 The National Loans Fund (NLF) is managed within the Treasury's overall risk and governance framework as set out in the Treasury's Annual Report and Accounts 2021-22[6]. This includes the Treasury Board's assessment of its compliance with the *Corporate Governance Code for Central Government Departments*.

1.2 The Chancellor of the Exchequer, as Minister in charge of the Treasury, is responsible and answerable to Parliament on all the policies, decisions and actions of the Treasury, and ultimately of the NLF.

1.3 The previous Permanent Secretary, Tom Scholar, was Accounting Officer for the NLF during 2021-22. Following his departure on 8 September 2022, I was appointed acting Permanent Secretary to the Treasury (alongside Beth Russell) and also Accounting Officer for the NLF. Although I was not Permanent Secretary and Accounting Officer for the NLF for the period that this report covers, Tom Scholar and I were both in post and we met regularly, and were therefore able to handover before he left the department. This has ensured appropriate assurances are in place to enable me to sign off this statement. As Accounting Officer for the NLF, I am personally responsible and accountable to Parliament for the organisation and quality of management of the NLF, including its use of public money and the stewardship of its assets, in line with those responsibilities assigned to me in *Managing Public Money*.

Audit and Risk Committee

1.4 The Audit and Risk Committee (ARC) supports me and the Treasury's additional accounting officers in their oversight responsibilities on financial reporting, systems of internal control as well as managing risk and governance in relation to the Treasury Group's Annual Report and Accounts, Central Funds (Consolidated Fund, National Loans Funds, Contingencies Fund and Exchange Equalisation Account) and Whole of Government Accounts. In accordance with the ARC Handbook, the Committee provides independent challenge on the robustness of the mechanisms in place, and the evidence provided, to deliver the assurance needed by the Board and Departmental Accounting Officers.

1.5 Details on the overall risk and governance structure of HM Treasury can be found in the Governance Statement in the Treasury's Annual Report and Accounts.

1.6 Members of the Committee are appointed by the Chair along with me as Principal Accounting Officer. The Chair of the Committee reports directly to me and is also a Non-Executive member of the Treasury Board

1.7 The membership of the ARC at the 31 March 2022 was:

- Zarin Patel (chair from 1 January 2022) – Zarin is a Qualified Chartered Accountant and brings broad experience, both executive and Non-Executive, from the public and private sectors. She is an experienced ARC Chair, Board Director, and a previous Chief Financial Officer with expertise in managing transformation within complex digital-centric businesses and broad experience across finance, investment, procurement, large capex, audit and corporate finance, as well as general management. Zarin's other roles include: NED and Chair of ARC, Member of Environment, Social and Governance Committee at Pets at Home Group PLC (2021 to date); NED, member of ARC, Senior Independent Director at Post Office (2019 to date); NED, Chair of ARC, Member of Nominations and Remuneration Committee of Anglian Water Services Limited (2018 to date); Trustee and Chair of ARC at National Trust, (2018 to date); Independent Member, ARC at John Lewis Partnership PLC, (2015 – 2021); Independent Governor and Chair of ARC at the University of Arts, London (2006 – 2012) and NED, Chair of Remuneration Committee and Chair of Audit Committee at BBC Worldwide Ltd (2005-2013).

- Sir Peter Estlin – Peter is an Alderman of the City of London Corporation. He is also an Independent Director at Rothschild & Co and Chair of the Association of Apprentices. Peter was also previously Group Financial Controller and acting Group CFO at Barclays.

[6] https://www.gov.uk/government/collections/hmt-annual-report

- Edward Braham - Edward is Chair of M&G, having previously been the Senior Partner of the international law firm, Freshfields and a leading international M&A lawyer., As the Senior Partner, his focus was particularly on strategic growth in the US, addressing all aspects of sustainability, including culture and diversity and building on the firms existing environmental, social and governance (ESG) commitments. Edward's other roles include: Director of TheCityUK, Chair of its International Trade and Investment Group and member of its Nominations and Remuneration Committee; for the City of London Corporation: Mayoral and Shrieval Independent Panel, Innovation and Growth Advisory Board and Lord Mayor's Appeal Advisory Board; Member of the Campaign Board at the Museum of London (2021 to date); Member of the Advisory Council at Capital as a Force for Good (2021 to date); Member of the Court of the Goldsmiths Company, Trustee of the Goldsmiths' Charity and Chair of the Goldsmiths' Centre, the leading educational and workshop charity for the UK trade.

The following members reached the end of their appointments in 2021-22:

- Richard Meddings CBE - Richard provided risk and banking experience having been at Standard Chartered plc from 2002 until 2014 as Group Executive Director responsible for Risk and as Group Finance Director for 8 years. He chaired ARCs for a number of FTSE 100 companies within the Financial Services sector. Richard served as a NED on the Boards of 3i plc, Legal & General plc, Deutsche Bank AG and Jardine Lloyd Thompson. He stepped down as Chair of TSB Bank in November 2021. Richard serves on a number of Boards including as a NED on the Board of Credit Suisse Group AG, as Deputy Chair of the charity Teach First and as Chair on the Hastings Opportunity Area. Richard has been appointed as Chair of NHS England, starting in March 2022.

- Tim Score - Tim's experience covered financial management and an in-depth knowledge of the technology sector. He was Chief Financial Officer of ARM Holdings plc from 2002 to 2015, Senior independent director, Chair of Audit and Interim Chairman at National Express Group (2005-2014), CFO of Rebus Group and William Baird PLC, and Group Financial Controller at BTR Plc and LucasVarity PLC. Tim's other roles include: Chair of The British Land Company plc. Member of the Board of Trustees of Royal National Theatre; Chair of the Audit Committee and interim independent NED of the Football Association; NED, Chair of Audit Committee and Senior Independent Director of Pearson plc; and NED and Chair of the Audit Committee of Bridgepoint Group plc.

1.8 The ARC met seven times during 2021-22. Pre-meeting discussions with the National Audit Office and Internal Auditors were held before each session. Attendance is outlined in the table below:

	Attendance
Zarin Patel[7]	7/7
Richard Meddings[8]	5/5
Tim Score[9]	5/5
Sir Peter Estlin	6/7
Edward Braham[10]	2/2

1.9 The ARC has a robust Conflicts of Interest Policy, which requires members to excuse themselves from discussions where potential conflicts may occur. Members are required to inform me about any potential conflicts and highlight these at the start of each meeting as appropriate.

1.10 In addition to the independent members, the appropriate Accounting Officers, HM Treasury's Group Director of Finance and the Treasury Accountant (or, in their absence, the Head of Exchequer Accounts) also attend ARC meetings. Members have the opportunity for a pre-committee discussion with the NAO, Group Head of Internal Audit for HM Treasury and Head of Exchequer Funds Internal Audit (EFIA).

[7] Zarin Patel, already a member of the ARC, was appointed as a NED and took over as chair of the ARC on 1 January 2022.
[8] Richard Meddings CBE appointment finished on 31 December 2021.
[9] Tim Score's appointment finished on 31 December 2021
[10] Edward Braham was appointed and began his first term on 1 January 2022

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

1.12 The external auditor is the Comptroller and Auditor General and the NAO attend all ARC meetings on his behalf.

1.13 The ARC receives all NAO reports and a summary of EFIA reports relating to the NLF, as well as underlying reports on internal audits where issues are identified leading to Red or Amber assessments (two such reports in 2021-22 and one in 2020-21).

Exchequer Funds Internal Audit (EFIA)

1.14 During 2021-22, Internal Audit for the NLF was provided by EFIA, whose services are provided by the internal audit function of the Debt Management Office. The Head of EFIA reports directly to both me and the Audit and Risk Committee on audit reporting matters. As required by the Public Sector Internal Audit Standards (PSIAS) an External Quality Assessment (EQA) of the Internal Audit service provided by EFIA was completed in year. From 1 April 2022 the provision of internal audit services for the NLF transferred to the Government Internal Audit Agency (GIAA) in line with the services it provides across the core HM Treasury group.

1.15 For the NLF, an annual risk-based internal audit programme is agreed with the Treasury Accountant (or, in their absence, one of their managers) in advance of the ARC's approval. The work programme always includes a review of the receipts and payments process, due to the very high value of payments made by the NLF. The ARC reviews the work programme and is kept informed of progress and amendments.

EFIA Head of Internal Audit Report

On the basis of the work undertaken and discussions with EFA management, in my opinion the framework of governance, risk management and control for the NLF was adequate and effective during 2021-22. There were no matters arising from the work EFIA carried out in 2021-22 that would give rise to a separate comment in the governance statement nor areas of concern that I needed to bring to the specific attention of the Accounting Officer. This is the same level of assurance on the adequacy and effectiveness of governance, risk management and internal control that was issued to the Accounting Officer in 2020-21. Overall, the processes within EFA are well established and operating effectively, with a high standard of controls in place and record keeping that supports the transactions undertaken.

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

The planned internal audit programme was reviewed and endorsed by HM Treasury's ARC and Accounting Officer. EFIA has delivered a programme of internal audit engagements throughout 2021-22 including a review of all types of payments and receipts across the NLF including gilt coupon and redemption payments, the controls over access to the ACME system used by EFA and its Risk Management processes.

Throughout the year, EFIA has continued to liaise with the EFA team and attend the HMT ARC meetings.

Malcolm Copeman
Head of Internal Audit
Exchequer Funds Internal Audit

Management of the National Loans Fund

1.16 The NLF is managed by the Treasury Accountant and their managers within the Exchequer Funds and Accounts (EFA) team of HM Treasury. The EFA team reports any matters concerning the NLF directly to me.

2. Risk Management

Treasury Risk management and reporting to the Treasury's Boards

2.1 HM Treasury's approach to risk management is informed by principles set out in The Orange Book . In line with the guidance, risk management forms an integral part of the department's governance, leadership and activities. The department has a sound system in place to consider the risks faced, challenge the assumptions made and, where appropriate, offer advice on how best to mitigate them. Within this structure some key positions hold specific accountabilities.

2.2 A risk management framework operates across the Treasury, including the NLF and other Exchequer Funds ensuring the effective identification, assessment and management of operational risks, ensuring that they can be escalated as appropriate. The Framework is underpinned by Directors, Risk Groups and the Operations Committee, who are responsible for monitoring, challenging and reporting on performance against and risks to the Treasury's objectives. This year the department has further strengthened its risk reporting by reviewing its risk appetite and refreshing internal guidance in line with this. This has improved the consistency of risk reporting and escalation across the organisation and, by focusing senior attention on risks that exceed our appetite, drives informed decision making on mitigations.

2.3 The key updates on performance and risk for the Executive Management Board (EMB) and Treasury Board (Sub-Committee) (TB(SC)) are shared via the Quarterly Performance and Risk Report (QPRR), escalating critical issues and risks that exceed the department's risk appetite to enable senior managers to respond appropriately. As a risk owner, the Treasury Accountant feeds into the quarterly risk return for the Fiscal Group and also provides a biannual risk return specifically for the NLF. Both returns feed into QPRR presented to EMB and the Treasury Board (Sub-Committee).

2.4 The Chair of the ARC is invited to report concerns or issues to the TB(SC) and is a non-executive member of the Treasury Board.

National Loans Fund Risk management

2.5 EFA is managed within the Treasury's risk management framework as set out in the Treasury's Annual Report and Accounts. The Treasury Accountant has overall responsibility on a day-to-day basis for risk management of those Funds managed by EFA, and for ensuring that my financial, regularity and propriety responsibilities as Accounting Officer of the NLF are discharged appropriately. They are supported by members of EFA management who are responsible for ensuring that the tasks in their areas are compliant with operational policies and procedures, and legislation. In addition, a Central Funds Risks and Controls Review Panel comprising directors from both Treasury and the Debt Management Office provides me with additional assurance on EFA operations and risk management. The panel, chaired by the Fiscal Group Director, reviews the quarterly controls report and accompanying risk register produced by EFA management in advance of submission to me, providing challenge and input across the range of controls.

2.6 Risk management is key to all processes within EFA, including business continuity resilience planning for those public funds for which EFA is responsible. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and to identify appropriate mitigating actions. Significant risk issues are recorded in a risk register and are assessed by likelihood and impact. A risk owner, who is responsible for managing the risk, is assigned to each risk. The risk register is reviewed quarterly by EFA management and as noted above is circulated to me alongside the quarterly risks and controls report.

2.7 During 2021-22, as restrictions related to COVID-19 were eased, EFA transitioned to a hybrid-working model in line with the rest of the department. There have been no significant changes to the internal control environment as a result of these transitions and a risk assessment undertaken did not identify any new risks or changes to risk status arising as a result of the moves to remote or hybrid working.

2.8 The Treasury Accountant is also chair of the Public Finance Business Continuity group, a network that links relevant teams across the Treasury, the Bank of England, Debt Management Office, NAO, HMRC and Government Banking to ensure business continuity risks are adequately and consistently addressed across all operational partners in the stewardship of Exchequer funds. Annual certificates of assurance are received from all member organisations.

2.9 EFA management ensures that staff members working on the NLF are trained and equipped to manage risk in a way appropriate to their authority and duties. Cross-training in operational procedures is embedded across the team to increase resilience. Technical training is also provided to staff to build the team's capability and to increase its resilience further. EFA team members are encouraged to obtain professional qualifications in areas that are relevant to their roles.

3. The system of internal control

3.1 As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the NLF's policies, aims and objectives, whilst safeguarding the public funds and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

3.2 The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the NLF's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

3.3 The system of internal control has been in place throughout the year ended 31 March 2022 and up to the date of approval of the financial statements, and accords with Treasury guidance. During the year, there were no significant changes to the control environment.

4. Risk profile

4.1 The NLF is managed generally within the framework of the Treasury's system of internal control. This framework includes resourcing the administration of the NLF, security and the management of risks across the Treasury's business.

4.2 The key risks in managing the NLF and their associated controls are:

- **Irregularity of transactions, including fraudulent or erroneous payments:** Clear separation of duties is enforced by appropriate user permissions within the accounting system and payment approval panels. Payment instructions are computer-generated and are derived from underlying transaction records, minimising the risk of keying errors. Separately, in accordance with legislation the Comptroller and Auditor General, through the NAO Exchequer Section, approves the regularity of NLF payments in advance and reconciles NLF transactions on a daily basis. This is not part of the internal control environment but provides additional assurance to Parliament as to the legality of payments made.

- **Incorrect accounting:** Application controls exist within the IT system used to manage financial transactions and account for receipts and payments in the NLF. Monthly management accounts for the NLF are also produced and reviewed by the Treasury Accountant and are provided to me. The accounting for any unusual transactions is suitably considered.

- **Failure of IT systems:** Data centre provider NTT provides dual data centres which offer a high level of resilience in terms of platform availability and network connectivity. EFA also has its own contingency plans in place. During 2021-22 the Treasury migrated all applications, including the EFA Treasury

Management System, to the MS Azure environment. This migration has improved resilience and strengthened business continuity arrangements.

- **Failure to provide an effective service in adverse circumstances, including disaster situations:** To ensure operational resilience in key areas in the event of a threat to business continuity, staff within EFA are trained to provide cover for times when other staff members are absent. Measures are in place to facilitate the NAO Exchequer Section's normal payments approval process in the event of disruption to enable essential payments operations to continue. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan and facilities.

- **Failure of principal counterparties to provide agreed services:** Well-developed Service Level Agreements (SLAs) for the provision of services from all principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe. Regular meetings are held with management representatives from principal counterparties where service levels and incidents are discussed.

- **Information risk:** Data and information risk are managed in accordance with the Treasury's policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption and physical and IT security. HM Treasury adheres to Cabinet Office guidelines[11]. EFA's own Data Handling Policy identifies risks specific to EFA.

- **Financial risk:** Adverse results of the Debt Management Account and the Exchange Equalisation Account will affect the NLF's results; therefore, all financial risks inherent in these accounts are also inherent in the NLF. Responsibility for risk management and the system of internal control is clearly delegated to the Accounting Officers of those accounts, which have their own control frameworks in place.

5. Review of effectiveness

5.1 In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of EFIA who provided positive assurance as to the management and control of the NLF in 2021-22, and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Group ARC, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. Information about the effectiveness of the Treasury's overall system of governance including board effectiveness, attendance, compliance with the Corporate Governance Code and quality of management information reviewed, is reported in the Treasury's Annual Report and Accounts.

5.2 The ARC considered the 2021-22 accounts in draft and provided me with its views before I formally signed the accounts.

5.3 No significant internal control issues, including data related incidents, have been identified in 2021-22, and no significant new risks specific to the operational management and performance of the NLF have been identified in the year. No ministerial directions relating to the NLF's operations have been given in 2021-22.

5.4 In my opinion, the system of internal control was effective throughout the financial year and remains so on the date I sign this report.

[11] Available at https://www.gov.uk/government/publications/security-policy-framework

Parliamentary accountability and audit report

Regularity of expenditure

The expenditure and income of the NLF were applied to the purposes intended by Parliament.

The borrowings, investments and lending of the NLF were applied to the purposes intended by Parliament.

The above statements have been audited.

Losses and special payments

Currency losses from transactions with the IMF are disclosed within the financial statements.

The above statement has been audited.

Fees and charges

The NLF does not have any fees or charges.

The above statement has been audited.

Remote contingent liabilities

The NLF has two contingent liabilities which fall outside the scope of IAS 37 as the possibility of an outflow of resources is remote. Disclosure of these liabilities is necessary however under Parliamentary reporting requirements.

i) Under the National Loans Act 1968 section 9(3), the NLF has a contingent liability to the Bank of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This liability would only crystallise if government securities were insufficient to meet demand from holders of notes to exchange them for another instrument. The contingent liability was £85,299 million at 31 March 2022 (£83,922 million at 31 March 2021). No obligations crystallised or expired in 2021-22 (2020-21: none).

ii) The NLF has a contingent liability to the Commissioners for the Reduction of the National Debt (CRND) in respect of unclaimed dividends received in previous years. This represents old uncleared amounts surrendered by the gilts registrar to CRND and then onto the NLF and stood at £31.9 million at 31 March 2022 (£32.0 million at 31 March 2021). This contingent liability would crystallise if holders of gilts requested amounts owed to them in excess of an amount for settlement retained by CRND. No obligations crystallised or expired in 2021-22 (2020-21: none).

The above statements have been audited.

Catherine Little
Accounting Officer
HM Treasury

10 October 2022

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2022 under the National Loans Act 1968.

The financial statements comprise the National Loans Fund's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the National Loans Fund's affairs as at 31 March 2022 and its total comprehensive net expenditure for the year then ended; and
- have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the National Loans Fund in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the National Loans Fund's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the National Loans Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the National Loans Fund is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Performance Report and Accountability Report, but does not include the financial statements nor my auditor's certificate and report. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with the National Loans Act 1968; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the National Loans Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report and Accountability Report.

- I have nothing to report in respect of the following matters which I report to you if, in my opinion:
- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the National Loans Fund or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;

- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the National Loans Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the National Loans Fund will not continue to be provided in the future.

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 National Loans Act 1968.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the National Loans Fund's accounting policies.
- Inquiring of management, the National Loans Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the National Loans Fund's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the National Loans Fund's controls relating to the National Loans Fund's compliance with the National Loans Act 1968, statutory limits and legislation in respect of the National Loans Fund's loans and Managing Public Money.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the National Loans Fund for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the National Loans Fund's framework of authority as well as other legal and regulatory frameworks in which the National Loans Fund operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the National Loans Fund. The key laws and regulations I considered in this context included the National Loans Act 1968, statutory limits and legislation in respect of the National Loans Fund's loans and Managing Public Money.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management and the Audit and Risk Committee concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

13 October 2022

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Statement of Comprehensive Net Expenditure for the year ended 31 March 2022

	Note	**2021-22 £m**	2020-21 £m
Finance costs of borrowing	2	**69,010**	41,655
Income from lending operations	3	**(3,240)**	(3,210)
(Gains) / losses on foreign exchange transactions	4	**(125)**	367
Other expenditure	5	**108**	4,638
Other income	5	**(6,148)**	(3,792)
Total comprehensive net expenditure		**59,605**	39,658

The notes on pages 24 to 44 form part of this Account.

Statement of Financial Position as at 31 March 2022

	Note	**At 31 March 2022 £m**	At 31 March 2021 £m
Assets			
Advances	6	**172,250**	197,981
Loans	7	**3,980**	3,717
Other assets	8	**99,717**	93,878
IMF Quota Subscription & Lending	9	**21,425**	21,031
Total assets		**297,372**	316,607
Liabilities			
Gilt-edged stock	10	**2,231,483**	2,103,052
National Savings and Investments products	11	**207,627**	202,964
Other debt:			
FLS Treasury Bills	12	**-**	252
Other	12	**102,930**	98,188
Liabilities to the IMF	9	**15,869**	15,979
Total liabilities		**2,557,909**	2,420,435
Net liabilities		**2,260,537**	2,103,828
Liability of the Consolidated Fund to the National Loans Fund		**2,260,537**	2,103,828

The notes on pages 24 to 44 form part of this Account.

Catherine Little
Accounting Officer
HM Treasury

10 October 2022

Statement of Cash Flows for the year ended 31 March 2022

	2021-22 £m	2020-21 £m
Cash flows from operating activities		
Interest received	**3,413**	3,207
Other receipts / (payments)	**18**	(3)
Interest paid	**(41,419)**	(41,803)
Other inflows / (outflows)	**932**	(442)
Transfer from the Consolidated Fund for the cost of debt servicing	**37,056**	39,041
Net cash flow from investing activities	**-**	-
Cash flows from investing activities		
Net decrease / (increase) in advance to the Debt Management Account	**30,000**	(45,000)
Net increase in advance to the Public Works Loan Board	**(4,742)**	(161)
Net (increase) / decrease in loans	**(176)**	69
Net decrease in advance to the Exchange Equalisation Account	**300**	400
Net cash inflow / (outflow) from investing activities	**25,382**	(44,692)
Cash flows from financing activities		
Net issuance of government stock	**102,286**	387,493
Net redemption of Treasury Bills for Funding for Lending	**(252)**	(2,915)
Net receipt of cash from National Savings	**3,442**	21,914
Net increase in other sterling borrowing	**4,704**	10,131
Net transfers of IMF non-interest bearing securities	**(1,402)**	(57)
Net transfers to the Consolidated Fund	**(134,160)**	(371,874)
Net cash (outflow) / inflow from financing activities	**(25,382)**	44,692
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning and end of year	**-**	-

The notes on pages 24 to 44 form part of this Account.

Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund for the year ended 31 March 2022

	2021-22 £m	2020-21 £m
Liability of the Consolidated Fund to the National Loans Fund at 1 April	**2,103,828**	1,731,337
Net cash paid to the Consolidated Fund	**134,160**	371,874
Payment from the Consolidated Fund for the cost of debt servicing during the year	**(37,056)**	(39,041)
Total comprehensive net expenditure	**59,605**	39,658
Liability of the Consolidated Fund to the National Loans Fund at 31 March	**2,260,537**	2,103,828

The notes on pages 24 to 44 form part of this Account.

Notes to the Account

1 Accounting Policies

i Accounting convention

The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending which were until then accounted for as part of the Consolidated Fund (CF). The NLF Account has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context and relevant requirements of the Government Financial Reporting Manual in so far as they are relevant to transactions and balances within the NLF.

ii New accounting standards and applicable accounting standards and interpretations issued but not yet adopted

The accounting policies are consistent with the prior financial year. There are no accounting standards in issue or revised but not yet effective that would impact on the NLF.

iii Basis of presentation

The NLF Account is stated in millions of pounds sterling (£m). This Account presents the results and transactions of the NLF. The Statement of Financial Position is presented in order of liquidity. The NLF is the government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts.

iv Recognition of finance income and costs

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

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

v Recognition of finance income – Special Drawing Rights (SDR)

The IMF remunerates the UK in SDRs on its Reserve Tranche Position (RTP) for balances in excess of SDR 700 million and on its bilateral loans. Under section 3(2) of the Exchange Equalisation Act 1979 any SDRs received by the Government must be treated as assets of the EEA, therefore all SDR income is accounted for in the EEA and not the NLF.

vi Financial assets and liabilities

The assets and liabilities of the NLF are all accounted for as financial assets and liabilities except for those arising from the net assets of the EEA and the DMA which are accounted for as explained in accounting policy ix. In accordance with IFRS 9 all financial assets and liabilities are initially recognised at fair value.

The NLF's financial assets are all designated as debt instruments at amortised cost as defined in IFRS 9. The classification is based on both the entity's business model for managing the financial assets (determined as held to collect contractual cashflows) and the contractual cash flow characteristics of the financial assets (being solely payment of principal and interest). Subsequent measurement is therefore at amortised cost using the effective interest rate method.

The NLF's financial liabilities are not held for trading and are therefore also subsequently measured at amortised cost using the effective interest rate method in accordance with IFRS 9. If gilts are issued by a syndication process, the syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written off as incurred.

The distinction between loans and advances derives from the legislation that governs the operation of the NLF. On loans, interest must be charged at a rate that at least covers the cost that the Fund would have to bear if it were to borrow the same sum for the period of the loan, plus the Treasury's own administration costs. There is no such requirement for advances, although interest is charged at Bank Rate on advances to the DMA. No interest is charged on advances to the EEA. The NLF does not charge interest on its advances to PWLB but interest on loans by the PWLB to local authorities financed by NLF advances is paid to the NLF under section 3(3) of the National Loans Act 1968.

As required by IFRS 7 *Financial Instruments: Disclosures*, the fair values of the financial assets and liabilities are disclosed in note 14. They are calculated by reference to market prices where instruments are traded on an active quoted market or, where this is not the case, as the net present value of future cash flows.

Impairment of financial assets

Per IFRS 9, impairment of financial assets held at amortised cost is based on an expected credit loss (ECL) model. This requires impairment to be based on the deterioration of credit risk since initial recognition. If the credit risk has not increased significantly (Stage 1), IFRS 9 requires allowances based on 12 month expected losses. If the credit risk has increased significantly (Stage 2) and if the loan is 'credit impaired' (Stage 3), the standard requires allowances based on lifetime expected losses.

The FReM includes an exemption from recognising stage 1 and stage 2 losses on balances with other Government Exchequer Funds or Government Departments and also on assets held by Government Exchequer Funds (which includes the NLF) where repayment is ensured by primary legislation.

For all assets not covered by the above exemptions, Exchequer Funds and Accounts (EFA) assesses at the end of each reporting period whether there is any objective evidence of a deterioration of credit risk since initial recognition in accordance with IFRS 9. This will include consideration of any financial difficulties experienced by the borrower and breach of loan conditions such as a default or delinquency in interest or principal payments. No impairment losses have been recognised during the year.

vii Foreign currencies

The financial statements of the NLF are presented in sterling which is the Fund's functional currency, being the currency of the primary economic environment in which it operates. Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are reported at the rates of exchange prevailing at that date. Liabilities to the IMF are denominated in sterling but are subject to a revaluation adjustment reflecting movement in the SDR to sterling exchange rate.

viii Administration expenditure

These financial statements reflect activity through, and the financial position of, the NLF. The costs of gilts registration, listing fees and foreign currency debt issuance are met by the NLF. Administration costs such as departmental staff costs and bank charges are borne by the appropriate body and accounted for through their respective accounts.

ix Exchange Equalisation Account and Debt Management Account

Under section 11 of Schedule 5A to the National Loans Act 1968, any excess of the assets of the DMA over its liabilities shall be a liability of the DMA to the NLF. Over time, the NLF has advanced sterling to the EEA in order to finance the UK's reserves of gold, foreign currency assets and IMF Special Drawing Rights. As a result, having been derived from initial NLF financing, the EEA's net assets are ultimately due to the NLF. Annual financial statements are prepared for both the DMA and the EEA. The net assets of the DMA and EEA are reported in Other Assets (note 8) and the total comprehensive net expenditure or income recognised in the Statement of Comprehensive Net Expenditure as Other Expenditure or Other Income (note 5). These NLF assets and net income or expenditure are the result of activity in the EEA and DMA during the year and the various accounting policies applied by them to that activity.

x Critical accounting judgements and key sources of estimation uncertainty

The NLF's accounting policy for impairment losses arising on financial assets is described in vi above. No impairment losses have been recognised in the year. There are no other areas of the financial statements which are reliant on management's judgement in the process of applying the Fund's accounting policies. Fair values are included for disclosure purposes only. Their calculation is described in note 14. As mentioned in accounting policy iv, the majority of the NLF's financial assets have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Note 16 applies various assumptions to demonstrate the sensitivity of NLF's assets and liabilities to changes in interest rates, inflation and foreign currency exchange rates.

2 Finance costs of borrowing

	2021-22 £m	2020-21 £m
Gilt-edged stock	**66,395**	39,368
National Savings and Investments products	**2,532**	2,237
Treasury Bills (FLS)	**-**	7
Other finance costs	**83**	43
Total finance costs of borrowing	**69,010**	41,655

3 Income from lending operations

	2021-22 £m	2020-21 £m
Interest on loans advanced by the National Loans Fund to:		
Public corporations	**34**	36
Central government bodies	**67**	69
	101	105
Interest on loans by the Public Works Loan Board financed by National Loans Fund advances	**3,075**	3,079
Interest on funding advanced to the Debt Management Account	**64**	26
Total income from lending operations	**3,240**	3,210

4 Gains and losses on foreign exchange transactions

	Note	**2021-22 £m**	2020-21 £m
(Gain) / loss on Reserve Tranche Position at the IMF	9	**(119)**	336
(Gain) / loss on lending to the IMF	9	**(6)**	31
Net (gain) / loss on foreign currency transactions		**(125)**	367

5 Other income and expenditure

	2021-22 £m	2020-21 £m
Other expenditure		
EEA total comprehensive net expenditure [1]	**-**	4,539
Expenditure in respect of depreciation of Issue Department Assets [2]	**104**	96
Miscellaneous expenditure	**4**	3
Total: Other expenditure	**108**	4,638
Other income		
EEA total comprehensive net income [1]	**(2,111)**	-
DMA total comprehensive net income	**(3,915)**	(3,697)
Profits of the Bank of England Issue Department [2]	**(122)**	(85)
Income in respect of appreciation of Issue Department Assets [2]	**-**	(8)
Miscellaneous receipts	**-**	(2)
Total: Other income	**(6,148)**	(3,792)
Net total	**(6,040)**	846

[1] The EEA made a gain of £2,111 million (2020-21: £4,539 million loss). Of the £2,111 million net income from the EEA, £5 million (2020-21: £4 million) relates to interest income from the IMF Reserve Tranche Position and bilateral loans to the IMF in line with accounting policy v.

[2] Under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the NLF. In addition, the Bank of England Issue Department is required by the Currency and Bank Notes Act 1928 to hold investments equal to the value of bank notes in issue. These investments are revalued to market value quarterly. If the market value is less than the value of notes in issue, legislation requires the NLF to pay an amount equal to the deficiency to the Issue Department to finance the purchase of additional investments. Conversely, if the market value of the assets exceeds the value of notes in issue, the Issue Department sells investments to the value of the surplus and pays the proceeds to the NLF.

6 Advances

	Public Works Loan Board		Debt Management Account		Exchange Equalisation Account		Total	
	£m 2021-22	£m 2020-21	**£m 2021-22**	£m 2020-21	**£m 2021-22**	£m 2020-21	**£m 2021-22**	£m 2020-21
Principal outstanding at 1 April	**85,948**	85,787	**45,000**	-	**66,247**	66,647	**197,195**	152,434
Advances	**8,398**	2,861	**80,000**	85,000	**4,900**	6,800	**93,298**	94,661
Advances repaid	**(3,656)**	(2,700)	**(110,000)**	(40,000)	**(5,200)**	(7,200)	**(118,856)**	(49,900)
Principal outstanding at 31 March	**90,690**	85,948	**15,000**	45,000	**65,947**	66,247	**171,637**	197,195
Accrued interest	**597**	782	**16**	4	**-**	-	**613**	786
Total advances outstanding	**91,287**	86,730	**15,016**	45,004	**65,947**	66,247	**172,250**	197,981

7 Loans and commitments to lend

Loans			**2021-22**			2020-21
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Principal outstanding at 1 April	**555**	**3,144**	**3,699**	601	2,939	3,540
Loans advanced	**174**	**549**	**723**	275	407	682
Loans repaid	**(228)**	**(232)**	**(460)**	(321)	(202)	(523)
Principal outstanding at 31 March	**501**	**3,461**	**3,962**	555	3,144	3,699
Accrued interest	**7**	**11**	**18**	7	11	18
Total loans outstanding	**508**	**3,472**	**3,980**	562	3,155	3,717

Commitments to lend			**At 31 March 2022**			At 31 March 2021
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Undrawn commitments to lend	**17**	**250**	**267**	13	250	263

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made either for a fixed period or have no specific maturity but are cancellable by the lender. The NLF does not have any loans or commitments to lend to financial institutions classified as 'Public Financial Corporations' following the banking crisis. In addition to the above, the NLF has loans and a loan commitment to the IMF which is explained in note 9.

8 Other assets

	At 31 March 2022 £m	At 31 March 2021 £m
Exchange Equalisation Account net assets	**37,532**	35,421
Debt Management Account net assets	**59,739**	55,824
Cash held by National Savings and Investments	**2,392**	2,579
Sterling balances at Bank of England advanced to IMF	**54**	54
Total other assets	**99,717**	93,878

9 IMF Reserve Tranche Position and Lending to the IMF

The United Kingdom's financial relationship with the International Monetary Fund (IMF) is accounted for in the NLF and the EEA. The UK's quota subscription to the IMF, 20,155 million Special Drawing Rights (SDRs) - equivalent to £21,227 million[12] at 31 March 2022 (£20,752 million at 31 March 2021) - was paid from the NLF and is recognised as an NLF asset. Part of the subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS) which totalled £15,499 million at 31 March 2022 (£16,901 million at 31 March 2021). NIBS represent a liability of the NLF to the IMF. There is a remaining small liability of £54 million (£54 million at 31 March 2021) against which an equal amount of sterling cash is made available in an account at the Bank of England for drawdown by the IMF.

The difference between the gross quota subscription and the NLF's sterling liability to the IMF is the UK's reserve tranche position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value in SDR terms of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May. The cumulative valuation adjustment at 31 March 2022 was £316 million gain (£976 million gain at 31 March 2021). The table below sets out the composition of the RTP and the make-up of changes over the year.

[12] The GBP/SDR exchange rate at 31 March 2022 was 0.949472 (31 March 2021: 0.971206)

NLF Assets and Liabilities: Composition of the Reserve Tranche Position and Lending[13] to the IMF

	Asset	Liabilities				Reserve Tranche Position
	IMF Quota Subscription	**Non-interest-bearing securities**	**Other quota liability**	**Valuation adjustment**	**Total liabilities**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Balances at 31 March 2021	20,752	(16,901)	(54)	976	(15,979)	4,773
Exchange rate gains for the year on the Quota subscription	475				-	475
Change in year-end valuation adjustment				(1,292)	(1,292)	(1,292)
Change in loan notes as a result of the valuation settlement		936			936	936
Change in cash on No 1 account			-		-	-
Net increase in loan notes		466			466	466
Balances at 31 March 2022	**21,227**	**(15,499)**	**(54)**	**(316)**	**(15,869)**	**5,358**

Lending to the IMF	**£m**
Lending as at 31 March 2021	279
Loans advanced in 2021-22	-
Loans repaid in 2021-22	(87)
Gain on foreign exchange	6
Lending as at 31 March 2022	**198**
IMF Quota Subscription and Lending	**21,425**

The RTP is a net asset of the NLF. It represents an SDR asset that can be drawn on by the UK if needed and is considered part of the UK's foreign exchange reserves. Sterling transactions by the IMF impact on the level of non-interest-bearing securities (NIBS) and hence on the RTP. Under current policy, changes in the RTP lead to adjustments in the composition of other reserve assets (held in the EEA) in order to keep the portfolio composition of the reserves in line with plan. Interest is payable by the IMF on the RTP balance in excess of SDR 700 million. This interest is retained in the EEA.

Separately, the EEA also holds the UK's allocation of SDRs (SDR 29,451 million at 31 March 2022) as a liability to the IMF and retains an asset in the form of the UK's holdings of SDRs (SDR 29,513 million at 31 March 2022). In August 2021, the IMF conducted a general allocation of SDRs, allocating the UK SDR 19,318 million. This

[13] Lending includes both loans made under the New Arrangements to Borrow (NAB) and the bilateral loan facility

increased the UK's existing allocation of SDRs (SDR 10,134 million as at 31 March 2021) to the current SDR 29,451 million.

During 2021-22 a net payment was made from quota of £466 million to the IMF in support of funding programmes (a net payment to the IMF of £498 million was made in 2020-21).

Aside from the UK's quota subscription to the IMF of 20,155 million Special Drawing Rights (SDRs) - equivalent to £21,227 million at 31 March 2022, the UK partakes in several IMF borrowing arrangements which increase the NLF's overall exposure to the IMF:

1. The New Arrangements to Borrow (NAB): The NAB acts as a second line of defence to IMF resources should quotas be exhausted. It requires creditor consent to activate, by an 85% supermajority based on total NAB shareholdings. In 2019, through the IMF's 15th General Review of Quotas (GRQ), it was agreed that IMF quotas would remain the same but the NAB would double in size. This came into effect on the 1 January 2021, with the UK's NAB commitment increasing to SDR 18,958 million (£19,967 million as of 31 March 2022 exchange rate). This required an increase to the limit of lending under the International Monetary Fund Act 1979, and the Statutory Instrument to implement this increase was made on 29 September 2020.
2. Bilateral Borrowing Agreements (BBAs): BBAs serve as a third line of defence after quotas and the NAB. Following the IMF's 15th GRQ, the UK's bilateral borrowing agreement decreased to SDR 3,954 million (£4,164 million at the 31 March 2022 exchange rate) in January 2021. Overall therefore, alongside the doubling of the UK's NAB contribution, the results of the 15th GRQ represented a net increase of UK commitments to borrowed resources (NAB and BBAs) of SDR 4,255 (£4,481 million at the 31 March 2022 exchange rate).
3. Poverty Reduction and Growth Trust (PRGT): In October 2021, HMG announced that the UK will seek to increase its loan to the IMF's concessional financing facility, the PRGT, by an additional SDR 1,000 million (£1,053 million), which will be effectuated in due course following discussions with the IMF. This will take the UK's total contribution to the PRGT to SDR 5,000 million (£5,245 million at the 31 March 2022 exchange rate) from its current SDR 4,000 million (£4,213 million as of 31 March 2022 exchange rate). The UK's PRGT loan is made with UK holdings of IMF Special Drawing Rights (SDR), held as part of the UK's foreign reserves, and is funded out of the Exchange Equalisation Account (EEA) as opposed to the National Loans Fund (NLF).

UK's total commitment to the IMF's general resources

		At 31 March 2022			At 31 March 2021	
	Total commitment	**Total drawn**	**Total undrawn**	Total commitment	Total drawn	Total undrawn
Quota (SDRm)	**20,155**	**5,088**	**15,067**	20,155	4,637	15,518
Loans (SDRm)	**22,912**	**188**	**22,724**	22,912	271	22,641
Total (SDRm)	**43,067**	**5,276**	**37,791**	43,067	4,908	38,159
Quota (£m)	**21,227**	**5,358**	**15,869**	20,752	4,773	15,979
Loans (£m)	**24,131**	**198**	**23,933**	23,592	279	23,313
Total (£m)	**45,358**	**5,556**	**39,802**	44,344	5,052	39,292

Changes to the UK's quota subscription and loans to the IMF are subject to Parliamentary-approved limits.

10 Gilt-edged stock

	Conventional £m	Index-Linked £m	Total £m
At 1 April 2021	1,582,625	520,427	2,103,052
Receipts from gilt issuance	168,801	26,338	195,139
Payments for gilt redemption	(92,853)	-	(92,853)
Amortisation of premiums and discounts	(4,271)	(4,055)	(8,326)
Change in accrued interest	(533)	35,004	34,471
At 31 March 2022	**1,653,769**	**577,714**	**2,231,483**

The NLF issues gilts directly to the DMA for use by the Debt Management Office in its money market activities managing the Exchequer's daily cash requirement. These gilts do not contribute directly to Exchequer financing. All other gilts are sold into the primary gilt market to meet government financing needs.

The analysis below shows two large holdings of the gilt liability by UK public sector entities, the DMA and Bank of England. [14]

	At 31 March 2022 £m	At 31 March 2021 £m
Debt Management Account (DMA)	**105,877**	119,306
Bank of England (for quantitative easing)	**765,260**	692,139
Other investors	**1,360,346**	1,291,607
Total gilt-edged stock	**2,231,483**	2,103,052

Syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written off as incurred. Total syndication fees for the year were £70.3 million (2020-21: £96.3 million).

11 National Savings and Investments (NS&I) products

	2021-22 £m	2020-21 £m
Principal outstanding at 1 April	**202,502**	178,572
Cash repayments from the National Loans Fund	**(40,831)**	(63,232)
Principal cash received in the National Loans Fund	**44,273**	85,146
Capitalised interest and other returns to savers	**841**	1,191
Change in cash holdings for principal	**(189)**	825
Principal outstanding at 31 March	**206,596**	202,502
Accrued interest and other returns to savers	**1,031**	462
Total principal and accrued interest outstanding	**207,627**	202,964

NS&I provides more detail on this liability in a set of Product Accounts which are published with the NS&I resource accounts on the NS&I website[15].

[14] This analysis is based on the proportion of the total nominal value of each gilt held by the respective entities. Figures will differ from the value shown in the accounts of the other entities if an alternative valuation method is applied by those entities.
[15] https://www.gov.uk/government/collections/national-savings-and-investments-annual-report-and-accounts

12 Other debt

	At 31 March 2022 £m	At 31 March 2021 £m
FLS Treasury Bills	**-**	252
Other:		
Debt Management Account	**30,302**	24,199
Bank of England Issue Department	**370**	370
Balances from government accounts at the Government Banking Service	**54,366**	61,381
Deposits from public sector bodies	**17,476**	11,791
Other	**416**	447
	102,930	98,188
Total other debt payable	**102,930**	98,440

Treasury Bills were issued by the NLF to the DMA in connection with the Bank of England's Funding for Lending Scheme (FLS). Further information on the scheme is provided in the Performance report. The next two items reflect deficit funding from the DMA and the Issue Department of the Bank of England. The fourth item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at Government Banking. Deposits from public sector bodies represents deposits by public sector bodies which are directly held with the NLF. "Other" comprises mostly certificates of tax deposit held by the NLF. From 23 Nov 2017, the CTD scheme has been closed for new purchases, but existing certificates will continue to be honoured until 23 November 2023.

At 31 March 2022, there was no foreign currency debt outstanding in the NLF.

13 Reconciliation of liabilities arising from financing activities

	Liability at 31 March 2021	**Interest paid (cashflow from operating activities)**	**Cashflow from financing activities**	**Finance costs of borrowing (Note 2)**	**Exchange rate gains (Note 9)**	**Movement in cash held by third parties on behalf of the NLF**	**Liability at 31 March 2022**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gilt-edged stock	2,103,052	(40,250)	102,286	66,395	-	-	**2,231,483**
National Savings and Investments products	202,964	(1,124)	3,442	2,532	-	(187)	**207,627**
Other debt:							
FLS Treasury Bills	252	-	(252)	-	-	-	**-**
Other	98,188	(45)	4,704	83	-	-	**102,930**
Liabilities to the IMF	15,979	-	(1,402)	-	1,292	-	**15,869**
Total	**2,420,435**	**(41,419)**	**108,778**	**69,010**	**1,292**	**(187)**	**2,557,909**

14 Fair Values

Carrying Value and Fair Value of NLF assets and liabilities

	At 31 March 2022		At 31 March 2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value (restated)
Assets	**£m**	**£m**	£m	£m
Advances:				
Public Works Loan Board[16]	**90,690**	**100,897**	85,948	105,361
Debt Management Account	**15,000**	**15,000**	45,000	45,000
Exchange Equalisation Account	**65,947**	**65,947**	66,247	66,247
Accrued interest	**613**	**613**	786	786
Loans:				
Principal	**3,962**	**4,286**	3,699	4,118
Accrued interest	**18**	**18**	18	18
Other assets	**99,717**	**99,717**	93,878	93,878
IMF quota subscription & lending	**21,425**	**21,425**	21,031	21,031
Total assets	**297,372**	**307,903**	316,607	336,439
Liabilities				
Gilts	**2,231,483**	**2,577,502**	2,103,052	2,570,828
National Savings & Investments:				
Principal	**206,596**	**206,503**	202,502	202,723
Accrued interest	**1,031**	**1,030**	462	464
IMF liabilities	**15,869**	**15,869**	15,979	15,979
Other debt:				
Treasury Bills (Funding for Lending)	**-**	**-**	252	252
Debt Management Account	**30,302**	**30,302**	24,199	24,199
Issue Department of Bank of England	**370**	**370**	370	370
Government balances	**54,366**	**54,366**	61,381	61,381
Deposits from public sector bodies	**17,476**	**17,476**	11,791	11,791
Foreign currency debt	**-**	**-**	-	-
Other	**416**	**416**	447	447
Total liabilities	**2,557,909**	**2,903,834**	2,420,435	2,888,434

The NLF's assets are classified as financial assets except for the net assets of the EEA (£37,532 million, 2020-21: £35,421 million) and DMA (£59,739 million, 2020-21: £55,824 million), reported in Other Assets (note 8). The carrying value of financial assets is £200,101 million (2020-21: £225,362 million) and their fair value is £210,632 million (2020-21: £264,602 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to market prices where instruments

[16] During the year the discount rate used to calculate the fair value of PWLB loans changed from the PWLB's premature repayment rates to the PWLB's new loan interest rates, as this is now considered to be more representative of the fair value. The results from the previous year have been recalculated according to this technique to ensure comparability.

are traded on an active quoted market or, where this is not the case, as the net present value of future cash flows.

The fair value of advances to the PWLB is calculated as the net present value of future cash flows. Loans by the PWLB are usually at a fixed rate of interest and so their fair value increases or decreases according to changes in the difference between the fixed rate of interest earned on the loan and current market values. Differences between the fair and book value will not be realised as the PWLB loans are not traded by the NLF.

The fair value of gilts and Treasury Bills are calculated by reference to their market prices. They will generally be redeemed at their book values so any difference between their fair value and book value will not normally be realised in the NLF accounts.

15 Maturity of assets and liabilities

The following table shows the split between current and non-current assets and liabilities based on contract date of maturity or expected maturity if there is no contract date.

			At 31 March 2022			At 31 March 2021
	Current	**Non-current**	**Total**	Current	Non-current	Total
	£m	**£m**	**£m**	£m	£m	£m
Assets						
Advances	**3,347**	**168,903**	**172,250**	3,889	194,092	197,981
Loans	**348**	**3,632**	**3,980**	323	3,394	3,717
Other assets	**2,446**	**97,271**	**99,717**	2,632	91,246	93,878
IMF quota subscription (SDR) & lending	**-**	**21,425**	**21,425**	-	21,031	21,031
Total assets	**6,141**	**291,231**	**297,372**	6,844	309,763	316,607
Liabilities						
Gilts						
Conventional	**100,526**	**1,553,243**	**1,653,769**	101,117	1,481,508	1,582,625
Index-linked	**25,315**	**552,399**	**577,714**	850	519,577	520,427
Gilt-edged stock	**125,841**	**2,105,642**	**2,231,483**	101,967	2,001,085	2,103,052
National Savings and Investments	**201,885**	**5,742**	**207,627**	198,103	4,861	202,964
IMF liabilities	**-**	**15,869**	**15,869**	-	15,979	15,979
Treasury Bills for FLS	**-**	**-**	**-**	252	-	252
Other debt payable	**102,430**	**500**	**102,930**	98,188	-	98,188
Total liabilities	**430,156**	**2,127,753**	**2,557,909**	398,510	2,021,925	2,420,435

All National Savings and Investments products are payable on demand and therefore classified as current liabilities except for investments in Guaranteed Bonds made on or after 1 May 2019 and Green Savings Bonds, which repay at maturity.

The following table shows an analysis of current and non-current assets and liabilities by type of counterparty.

	At 31 March 2022			At 31 March 2021		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	£m	**£m**	**£m**	£m	£m	£m
Assets						
Balances with:						
Other central government bodies	**6,030**	**269,356**	**275,386**	6,711	288,250	294,961
NHS Trusts	**-**	**-**	**-**	-	-	-
Public corporations and trading funds	**111**	**450**	**561**	133	481	614
Total intra government balances	**6,141**	**269,806**	**275,947**	6,844	288,731	295,575
Balances with bodies external to government	**-**	**21,425**	**21,425**	-	21,032	21,032
Total assets	**6,141**	**291,231**	**297,372**	6,844	309,763	316,607
Liabilities						
Balances with:						
Other central government bodies	**89,240**	**103,045**	**192,285**	97,856	104,986	202,842
NHS Trusts	**15,299**	**-**	**15,299**	13,639	-	13,639
Public corporations and trading funds	**14,695**	**767,416**	**782,111**	57,150	649,849	706,999
Total intra government balances	**119,234**	**870,461**	**989,695**	168,645	754,835	923,480
Balances with bodies external to government	**310,922**	**1,257,292**	**1,568,214**	229,865	1,267,090	1,496,955
Total liabilities	**430,156**	**2,127,753**	**2,557,909**	398,510	2,021,925	2,420,435

16 Financial risks related to the NLF

The Government's debt management objective is set out in the annual Debt and Reserves Management Report:

> *to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy.*

This is achieved by:

- meeting the principles of openness, transparency and predictability;
- developing a liquid and efficient gilt market;
- issuing gilts that achieve a benchmark premium;

- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments.

For cash management, the aggregate balance on government accounts is swept daily to the National Loans Fund and then to the DMA. The Debt Management Office deals with the financial markets to manage the daily cash surplus or deficit on the DMA relative to its target overnight balance, lending when there is a surplus and borrowing when there is a deficit.

The NLF's liabilities include conventional and index-linked gilt-edged securities, NS&I product liabilities, certificates of tax deposit, Treasury Bills issued to the DMA for the Funding for Lending scheme, deposits from other public sector accounts and liabilities to the IMF. There is a wide spread of maturities.

NLF assets include advances to the DMA, PWLB and EEA, loans to UK public bodies, net assets of the DMA and EEA, NS&I product-related cash holdings and the UK's gross Quota Subscription and lending to the IMF, denominated in SDRs.

Set out below are certain risk factors that could affect the NLF's operations.

Interest rate and inflation risk

The NLF is exposed to cash flow interest rate risk on its floating rate borrowing and lending due to the risk that future interest rates will fluctuate. It is not exposed to fair value interest rate risk as its financial assets and liabilities are measured at amortised cost and not fair value. Some of the NLF's assets and liabilities have no associated interest income or expense (are "zero-rated") and are therefore not exposed to changes in interest rates.

Inflation risk arises because interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in the UK Retail Prices Index (RPI) since the initial issue of each stock.

The table below analyses the NLF's interest rate and inflation risk by indicating the timeframe in which the risk could crystallise. Assets and liabilities are included at carrying amount and are shown at the earlier of contractual re-pricing or maturity dates.

Interest rate and inflation risk analysis by time horizon as at 31 March 2022

	Up to 1 month/ repayable on demand £m	1-12 months £m	1-5 years £m	Over 5 years £m	Zero-rated £m	Total carrying value £m	Fixed rate £m	Floating rate £m
Assets								
Advances	15,539	2,594	9,646	77,910	66,561	**172,250**	90,289	15,400
Loans	19	311	1,413	2,219	18	**3,980**	3,962	-
Other assets	-	-	-	-	99,717	**99,717**	-	-
IMF quota subscription	-	-	-	-	21,227	**21,227**	-	-
IMF loans	-	-	-	-	198	**198**	-	-
Total	**15,558**	**2,905**	**11,059**	**80,129**	**187,721**	**297,372**	**94,251**	**15,400**
Liabilities								
Gilts								
Conventional	-	92,781	412,331	1,140,912	7,745	**1,653,769**	1,646,024	-
Index-linked	576,886	-	-	-	828	**577,714**	-	576,886
Gilt-edged stock	576,886	92,781	412,331	1,140,912	8,573	**2,231,483**	1,646,024	576,886
National Savings and Investments	195,512	3,352	7,667	-	1,096	**207,627**	11,379	195,152

IMF liabilities	-	-	-	-	15,869	**15,869**	-	-
Treasury Bills for FLS	-	-	-	-	-	**-**	-	-
Other debt payable	50,704	14,115	500	-	37,611	**102,930**	17,463	47,856
Total	**823,102**	**110,248**	**420,498**	**1,140,912**	**63,149**	**2,557,909**	**1,674,866**	**819,894**
Period gap	**807,544**	**107,343**	**409,439**	**1,060,783**	**(124,572)**	**2,260,537**		
Cumulative gap	**807,544**	**914,887**	**1,324,326**	**2,385,109**	**2,260,537**			

Interest rate and inflation risk analysis by time horizon as at 31 March 2021

	Up to 1 month/ repayable on demand £m	1-12 months £m	1-5 years £m	Over 5 years £m	Zero-rated £m	**Total carrying value £m**	Fixed rate £m	Floating rate £m
Assets								
Advances	45,487	2,801	9,312	73,197	67,184	**197,981**	85,312	45,485
Loans	23	282	1,156	2,238	18	**3,717**	3,699	-
Other assets	-	-	-	-	93,878	**93,878**	-	-
IMF quota subscription	-	-	-	-	20,752	**20,752**	-	-
IMF loans	-	-	-	-	279	**279**	-	-
Total	**45,510**	**3,083**	**10,468**	**75,435**	**182,111**	**316,607**	**89,011**	**45,485**
Liabilities								
Gilts								
Conventional	-	92,838	410,399	1,071,109	8,279	**1,582,625**	1,574,346	-
Index-linked	519,658	-	-	-	769	**520,427**	-	519,658
Gilt-edged stock	519,658	92,838	410,399	1,071,109	9,048	**2,103,052**	1,574,346	519,658
National Savings and Investments	188,486	6,139	7,819	-	520	**202,964**	15,341	187,103
IMF liabilities	-	-	-	-	15,979	**15,979**	-	-
Treasury Bills for FLS	-	252	-	-	-	**252**	252	-
Other debt payable	43,964	9,816	-	-	44,408	**98,188**	11,791	41,989
Total	**752,108**	**109,045**	**418,218**	**1,071,109**	**69,955**	**2,420,435**	**1,601,730**	**748,750**
Period gap	**706,598**	**105,962**	**407,750**	**995,674**	**(112,156)**	**2,103,828**		
Cumulative gap	**706,598**	**812,560**	**1,220,310**	**2,215,984**	**2,103,828**			

Foreign currency risk

The NLF is exposed to foreign exchange risk through transactions with the IMF as the reserve tranche position (quota subscription less UK liability) and lending to the IMF are denominated in SDRs (note 9). In addition to the risk of unrealised revaluations of the assets and liability, foreign exchange gains and losses are realised as the NLF transacts with the IMF on the UK liability and loans. As it is not possible to predict the size and timing of these transactions with any certainty it has not been deemed cost-effective to attempt to mitigate this risk through hedging arrangements.

Sensitivity analysis

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the NLF's financial assets and liabilities to changes in UK interest rates, the UK Retail Prices Index and the SDR to sterling exchange rates. The sensitivity analysis has been calculated on the basis that the components of financial assets and liabilities, the amount of instruments held at fixed, floating and zero interest rates and the amount of instruments held in SDRs are all constant and are as at the end of the reporting period.

The following assumptions have been made in calculating sensitivity:

- All sensitivities impact the Statement of Comprehensive Net Expenditure and thereby the net liability of the CF to the NLF.
- Finance income and costs and the net liability of the CF to the NLF will be affected by changes in interest rates on floating rate instruments.
- All instruments are held at amortised cost and are therefore not subject to changes in fair value as a result of interest rate changes.
- No sensitivity is provided for interest accruals where these are based on pre-agreed interest rates and are therefore not susceptible to further rate changes.
- 100 basis points and 10 percent have been used as a basis for a reasonably possible change in interest, RPI and FX rates at the end of the reporting period. This is not a forecast.

Using the above assumptions, the following table shows the illustrative impact on the Statement of Comprehensive Net Expenditure that would result from an increase in UK interest rates and the UK Retail Prices Index and if the SDR to sterling exchange rate was to strengthen.

	2021-22 Statement of Comprehensive Net Expenditure	2020-21 Statement of Comprehensive Net Expenditure
	£m	£m
UK interest rates + 100bp expense	2,276	1,836
UK Retail Prices Index + 100bp expense	5,769	5,197
SDR exchange rate + 10% income	(**556)**	(505)

An equal, but opposite effect would result if there were a decrease in UK interest rates and the UK Retail Prices Index, and if the SDR to sterling exchange rates was to weaken.

Liquidity risk

Liquidity risk is the risk that the NLF will encounter difficulty in meeting obligations associated with financial liabilities. Its exposure to liquidity risk arises because of its fundamental purpose of being the Government's main borrowing account. NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments, and thus liquidity risk, across a wide time period into the future. The longest stock in existence at 31 March 2022 matures in 2073. Deposits in the NLF have a shorter maturity profile since they can change on demand. However, in practice, balances change only slowly due to re-investment. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing and redemption of the NLF's liabilities are expected to be met over the long term mainly through future tax revenue receipts. Whilst the level of receipts in any year is subject to tax policy changes and, relatedly the UK's economic position, the level of debt required to meet government expenditure, including the servicing of debt, can be maintained by the issuance or reissuance of further debt, the demand for which remains robust. Therefore, in accordance with the Government Financial Reporting Manual, it has been concluded as appropriate to adopt the going concern basis of preparation for the NLF Accounts. Most of the NLF's borrowing needs are met through borrowing on its behalf by the DMO and NS&I.

Contractual undiscounted cash flows of financial liabilities

The following table shows the contractual undiscounted cash flows of the NLF's liabilities. The amounts shown are the cash flows arising from the NLF's financial liabilities during the period up to and including maturity. This is in contrast to the basis on which the Statement of Financial Position amounts are calculated. As described in note 1, items on the Statement of Financial Position are valued at fair value upon initial recognition and subsequently held at amortised cost. Therefore, totals in the following table will not agree to the Statement of Financial Position.

The treatment of coupon payments is of particular significance. The table includes contractual coupon payments for the period to maturity based on coupon rates and, in the case of index-linked gilts, the Retail Prices Index at 31 March 2022. Because of the many coupon payments to be made for longer dated gilts the table below reports coupon cash flows of £619,397 million (£629,316 million at 31 March 2021) whereas the gilts liability in the Statement of Financial Position contains coupon accruals to the end of the reporting period of £8,660 million (£9,127 million at 31 March 2021).

The cash flows reported in the table will be funded by replacement debt issues, the proceeds of assets or by finance from the Consolidated Fund.

At 31 March 2022

	0-12 months	**1-2 years**	**2-5 years**	**Over 5 years**	**Undated**	**Total**
Liabilities	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Conventional Gilts:						
Principal	92,765	103,116	304,933	1,092,318	**-**	**1,593,133**
Coupons	33,941	33,042	88,650	416,522	**-**	**572,154**
Index-Linked Gilts:					**-**	
Principal	24,320	19,978	37,889	427,916	**-**	**510,103**
Coupons	3,768	3,312	8,508	31,654	**-**	**47,243**
Total Gilts	**154,794**	**159,449**	**439,980**	**1,968,410**	**-**	**2,722,632**
National Savings and Investments	201,821	3,650	2,092	**-**	**65**	**207,627**
IMF	15,869	-	-	**-**	**-**	**15,869**
Treasury Bills For FLS	-	-	-	**-**	**-**	**-**
Temporary Deposits	17,015	-	-	**-**	**-**	**17,015**
Other debt payable	85,456	2	504	**-**	**-**	**85,962**
	474,955	**163,100**	**442,576**	**1,968,410**	**65**	**3,049,105**

The cash flow analysis after five years is:

	5-10 years	**10-20 years**	**20-30 years**	**30-40 years**	**Over 40 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Conventional Gilts:						
Principal	331,983	294,158	245,213	153,873	67,092	**1,092,318**
Coupons	121,703	165,446	84,813	33,961	10,599	**416,522**
Index-Linked Gilts:						
Principal	83,194	134,709	127,144	55,792	27,076	**427,916**
Coupons	11,657	12,141	5,706	1,965	185	**31,654**
	548,536	**606,454**	**462,876**	**245,592**	**104,952**	**1,968,410**

At 31 March 2021

	0-12 months	1-2 years	2-5 years	Over 5 years	Undated	Total
Liabilities	£m	£m	£m	£m	£m	£m
Conventional Gilts:						
Principal	92,367	92,765	312,979	1,015,806	-	1,513,917
Coupons	36,190	32,779	90,296	422,756	-	582,021
Index-Linked Gilts:						
Principal	-	22,554	54,424	383,077	-	460,055
Coupons	3,523	3,523	8,483	31,766	-	47,295
Total Gilts	132,080	151,621	466,182	1,853,405	-	2,603,288
National Savings and Investments	198,048	629	4,230	-	57	202,964
IMF	15,979	-	-	-	-	15,979
Treasury Bills For FLS	252	-	-	-	-	252
Temporary Deposits	11,791	-	-	-	-	11,791
Other debt payable	86,397	-	-	-	-	86,397
	444,547	152,250	470,412	1,853,405	57	2,920,671

The cash flow analysis after five years is:

	5-10 years	10-20 years	20-30 years	30-40 years	Over 40 years	Total
	£m	£m	£m	£m	£m	£m
Conventional Gilts:						
Principal	318,861	249,906	248,162	127,882	70,995	1,015,806
Coupons	123,278	166,856	86,313	35,876	10,433	422,756
Index-Linked Gilts:						
Principal	70,165	109,651	113,365	50,812	39,084	383,077
Coupons	11,588	12,253	5,625	2,057	243	31,766
	523,892	538,666	453,465	216,627	120,755	1,853,405

Credit risk

The NLF makes loans to UK public corporations and central government entities, advances to other UK central Exchequer Funds and subscribes to the IMF. The NLF also lends to the IMF. As a result, the NLF is not exposed to significant credit risk. Details of this can be found in notes 6, 7 and 9. Total loans and advances stand at £176,230 million (2020-21: £201,698 million) and gross IMF exposure stands at £21,425 million (2020-21: £21,031 million).

In respect of loans financed by the NLF, the financial relationship with the borrower is managed by the department responsible for the relevant public corporation. The sponsoring department performs due diligence on the borrower and proposes the loan. The Treasury reviews the proposal and, if the proposal is approved, the NLF will make the loan. The NLF is not allowed to accept losses on its loans. Any such losses can only be written off by primary legislation; however, in 1990 the Treasury gave an undertaking to the Public Accounts Committee that it would not seek Parliament's approval to such a course except as part of a reconstruction of the borrower's finances prior to privatisation. In other cases, the Treasury would look to the borrower's sponsor department to cover any losses from its resource account.

In the case of advances to the PWLB for loans to Local Authorities, the PWLB manages the financial relationship with the borrower though the credit risk is borne by the NLF.

In the context of NLF loans issued to trading organisations at market rates, under the Treasury's Commercial Lending policy, the terms and interest rates are designed to reflect the terms on which a private sector lender, such as a commercial bank would lend to the borrower if the borrower were a wholly private sector body rather than a government body.

Ceilings on total lending from the NLF to specific bodies are prescribed in the statutes governing each loan. The PWLB is allowed to lend up to an aggregate amount of £95 billion. For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

The IMF maintains precautionary balances (comprising retained earnings) as prudential cover in order to ensure the continued security and liquidity of its members' claims. Other factors that help safeguard the Fund's resources include the conditionality associated with lending by the IMF and the IMF's status as a creditor with preferential right to receive payment.

None of the NLF's financial assets are past due or impaired.

Derivatives and hedging

The NLF itself does not use derivatives or undertake hedging. However, some of the risks on the NLF are offset by the activities of the EEA. The Exchange Equalisation Account Act 1979 constrains how the EEA may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold by the NLF to the EEA for sterling. While the NLF remains exposed to the interest and exchange rate risks from the foreign currency debt it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps. There was no foreign currency debt outstanding in the NLF at 31 March 2022.

17 Related Parties

The Treasury is the ultimate controlling party of the NLF. There have been no direct transactions between the Treasury and the NLF in 2021-22. As at 31 March 2022 £500 million proceeds of debt issuance from Treasury Group is deposited with the NLF.

The main related parties of the NLF are the CF, DMA, EEA, PWLB, Bank of England and NS&I. The relationship between the NLF and CF is explained in the Overview within the Performance report. The NLF has provided finance in the year to the DMA, EEA, PWLB and to various statutory public sector bodies. The NLF has also transacted with the Bank of England and NS&I. Transactions with these bodies are all disclosed in these accounts. The NLF has also had a significant number of transactions with other government bodies via its temporary borrowing of balances in various Government Banking bank accounts.

During the year, there have been no transactions between key management personnel at the Treasury and the NLF.

18 Events after the Reporting Period

On Friday 23 September, the Chancellor of the Exchequer, the Rt Hon Kwasi Kwarteng MP, set out how the government would fulfil its commitment to cut taxes for people and businesses and announced wider supply side policies to grow the economy. On the same day a revision to the DMO's Net Financing Requirement was announced, increasing in-year borrowing by £72.4 billion to £234.1 billion, to be funded largely through gilt sales. This increase in gilt issuance will be reflected in liabilities recognised in the 2022-23 NLF accounts.

The Chancellor has announced that he will shortly set out his Medium-Term Fiscal Plan which will include further details on the government's fiscal rules, including ensuring that debt falls as a share of GDP in the medium term.

Financial market movements are determined by a wide range of international and domestic factors. Since 31 March 2022, there has been significant repricing across asset classes in global financial markets. Gilts are an example of one such asset that has been affected by this repricing. The fair value of the gilts held by the NLF is impacted by market movements but as gilts are held at amortised cost, repricing does not impact the value of gilts recognised in the Statement of Financial Position. Changes to pricing within the market affects the NLF's future operations; increases in market yields mean the effective rate of government borrowing is higher and higher levels of nominal gilt issuance are required to raise a given level of cash. However, the overall financial effect is not quantifiable as it is subject to change depending on future market movements and economic conditions. DMO operations have nonetheless continued to be oversubscribed/fully covered in the current market conditions.

19 Date of Authorisation for Issue of Account

These financial statements have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Certificate and Report.

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